

# Module 1 – Fundamentals of Financial Planning

## RFP Programme

### Preface

Why study financial planning?

The growth and development of financial planning is very evident in the financial services environment. Almost all organizations involved in financial services including the Regulators have appreciated the benefits of financial planning and are rooting for its full integration in the provision of financial services. The benefits of financial planning is very apparent but to further make progress in this endeavor all parties must realize that financial planning is the way to go and is in the long term interest of all parties.

Traditionally companies in the financial services industry focused on single solutions or needs and harnessed every effort in catering for this single solution approach. They trained and set up a tied agency force to market and cater for this single need. Insurance companies focused on the insurance need and harnessed all their energies toward solving this very important need. Investment companies championed the formation of unit trusts and promoted unit trusts for general wealth accumulation. Wealth creation and accumulation is a very important part of financial management and so unit trust companies developed a singular focus in catering for this wealth accumulation need.

Risk protection and wealth creation is practically universal and of general importance to all individuals and their families. While this is commonly the main thrust in financial planning there is more to financial planning and it is imperative that financial services professionals understand the full dynamics of financial planning.

To the Financial Planner a basic human axiom is scarcity of resources and the need to make choices. A rational human being will realize that he has more wants than his resources will permit. He has to therefore learn to allocate efficiently his scarce resources. He also would realize that he has many goals and all seem important. But he knows he has to prioritize as there is a resource constraint. Resource allocation will require knowledge to achieve efficiency to fulfill all the objectives identified. If there is too much focus placed on protection and if wealth creation is ignored then the individual will have some glaring weakness in his life planning. If he had focused on wealth creation to the exclusion of protection then all plans can go awry with an unfortunate event. Therefore there is a need to balance all goals and objectives and allocate efficiently the scarce resources. Single solution providers with a passion for solving a single need will miss the big picture and leave a piece of the financial jigsaw untended.

People can only help themselves and start achieving their goals if they can generate surplus income and direct and channel their savings into these goals. Financial management especially cash flow management has become an important part of rebuilding or improving a person's financial life.

Therefore taking a look at a person's financial position and cash flow management is important to have a permanent solution to someone's financial well-being. Personal debt is swallowing up whatever little savings a person can muster. Getting a family out of consumer debt is a major effort in personal financial planning. All this means that to improve someone's personal finance there is a need to educate the person and bring to him an understanding of personal finance. This knowledge must be in the hands of the person who is providing financial solutions. A financial planner therefore equips himself with this knowledge so that he can bring a more permanent solution to his client.

Given the cost of living and the constant pressure of unlimited wants and needs it is very difficult to eke out a surplus from an already constrained budget. Therefore personal financial management is just as important as financial products to fulfill a person's many goals and objectives. Who should perform this task? All financial services professionals must equip themselves with personal finance knowledge to perform this important task. They need to provide a more comprehensive approach to provide the full benefit of financial planning to the client.

The presence of many financial services providers and products and the increasing sophistication in product offerings has made it necessary to have greater knowledge of the financial services and products environment. There is a need for financial services professionals to understand the financial environment and be educated on a wide front of products and services. There is a need to look at the whole fabric of what is available in the market. There is a duty of care to explain to clients what is available and what products suit the client best. While all products that are offered in the market are first approved by the relevant regulatory agencies there is no supervision as yet on how well the product suits the client. This is where ethics comes in. Any person involved in promoting a financial product must first make sure that the product in whatever form suggested is appropriate for the client's needs and will add value to his current financial position. This is where the client's interest becomes paramount. Client centric advice is important for this process. While all organizations mean well and are providing the best they can offer, the financial services professional advising the client is the final arbiter of what situation the client is in. If you have a family of five children with less than RM 1,000 income, what are the priorities for this family? Retirement planning is the furthest from his mind. Educating his children and hoping that at least one amongst his care will get into a good position may top his thinking. This therefore brings the question, "is financial planning only for the well to do?"

If financial planning is only for those who can afford it, it would not have taken the center stage as it does now. Specialists in financial planning are there to cater for the needs of the well to do but the development of financial planning amongst all those who are involved in financial products will improve the lives of many, many more.

A question that will surface is the financial success of the financial adviser. When you are a single solution provider the approach is very clear. Everyday is payday if you keep seeing people. You have a sales pitch and you see as many as you can. You hardly have time to do fact-finding and you certainly are not going to wonder if he has enough insurance if you are selling unit trusts or enough investments if you are selling insurance. The logic is simple, "everybody needs insurance and everybody needs investments". Your financial success depends on the number and volume of sales done.

However the approach for financial planning requires more time to be spent on fact finding the client, understanding the client and truly knowing the client. Will this extra time spent on the client

pay you back? Would you garner more sales ultimately for your principal company? These are questions too early to answer and would only involve an intelligent guess at this stage. It is a complex question that requires more study. Statistic coming from USA state that a qualified agent with financial planning credentials earns more income. But the majority of companies still derive more revenue from tied agents. How do we solve this puzzle?

The answer to some extent is critical mass. There is still a very small number who practice comprehensive financial planning. The majority are still single solution providers. It is therefore a question of critical mass and evolution. The real big question would be “whether the general public will demand to see a financial planner instead of a tied agent in the future”. Will this be the future scenario? We are confident that it would be the case. Once the general public demands more professionalism and more knowledge the demand for financial planners will rise. Only qualified financial planners will gain the right to see clients. Trust, knowledge, independence and integrity will be expected by the buying public. You would need the right credentials to fulfill this demand. The insurance and unit trust industry already see this trend and are equipping their agents with financial planning knowledge. Hence the Registered Financial Planner (RFP) designation.

Once you have made the commitment to become a financial planner and be ready for the future your next step would be to understand the financial planning process, the cornerstone of financial planning.

Wish you a pleasant journey of self discovery of this very worthwhile and useful discipline.

Quote from – National Endowment for Financial Education, USA

### ***Why People May Not Plan***

Many people may not do financial planning because they do not understand the process. They may feel that they don't have enough money to need financial planning. They may think that financial planning is only about picking investments or buying insurance. Some may not use the services of a financial planner because they think the fees will be too high. Perhaps people avoid planning out of fear. They may be afraid of what the planning process will uncover (this is similar to those who will not go to a doctor for fear of what he or she may tell them).

Perhaps the biggest reason many people will not do financial planning is procrastination. To borrow an old phrase, “people don't plan to fail, they simply fail to plan.” The financial planning process, in even a basic form takes some time and effort. People may feel they are too busy to find the time and invest the energy. The problem with this attitude is clear: failure to do financial planning very often means financial failure at some time in the future. As is the case with most important tasks, the best time to begin is now!