

RESEARCH ARTICLE

Key Factors for Engagement in Independent Financial Adviser (IFA) Services in Malaysia

Mahdzan NS^{*1}, Mohd-Any AA², WZ Abidin WA³

¹Department of Finance & Banking, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia.

²Department of Marketing, Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia.

³Faculty of Business and Accountancy, University of Malaya, Kuala Lumpur, Malaysia.

*Corresponding Author: Email: n_shahnaz@um.edu.my

Abstract

This paper investigates the engagement and selection criteria of Independent Financial Adviser (IFA) services by working professionals in Malaysia. From a sample of 133 MBA students, data was collected on the engagement of IFA services and four main attributes of IFA selection - personal characteristics, credential, competence and service attribute. Results suggest that although the engagement in IFA services is still at its infancy, respondents claimed that they were interested and willing to engage with IFAs. Characteristics of IFAs were found to be the sole significant attribute influencing the selection criteria of IFAs, while credentials, competence and service attribute were not important in the selection of IFAs.

Keywords: *Financial planning, Consumer engagement, Independent financial adviser, Malaysia.*

Introduction

Over the last decade, major changes in the business and economic environment coupled with rapid technological advancement have significantly impacted the development of the financial system, both at the national and international level. Barnes [1] showed that the increasingly complex financial environment, regular developments in income and estate taxes, and new and varied avenues for investment have caused people to seek for professionals that can offer them sound advice regarding their finances.

In order to bring in greater innovation and flexibility into the Malaysian financial landscape, the central bank of Malaysia, Bank Negara Malaysia, launched the Malaysia Financial Sector Master Plan (FSMP) in March 2001. The FSMP charts a 10-year road map for the development of a competitive and dynamic financial sector in Malaysia. Amongst the recommendations made in the FSMP include a proposal on the allowance of greater operational and management flexibilities by domestic insurers to develop and optimize on skills, scale and technology. Hence, insurers are allowed to leverage on distribution channel such as Independent Financial Advisers to reach out to Malaysian consumers.

Independent Financial Advisers (IFAs) are individuals or firms that provide advice on financial products. Unlike tied agents who are representatives of one particular financial institution, IFAs are not committed to sell products of any one financial institution and can thus give unbiased advice and recommend products from a range of financial services, such as real estate, mortgages, insurance, pensions and investments. IFAs are not compelled to promote any specific product as they are remunerated by fee through the financial advice that they give.

There is very few, if any, research in the area of IFA engagement in Malaysia. This could be attributed to the fact that the IFA is relatively new to the Malaysian public, although IFA as a profession is a matured, although niche, career in the developed nations. Although the market is laden with the retail financial institutions engaging different forms of channels to market their financial products and services, it is important to understand how IFA fits into the financial landscape.

Given the limited attention in the area of IFA despite its increasing significance amid the liberalization of the Malaysian financial sector,

this study is conducted to examine the preference criteria of the Malaysian consumers towards the engagement of an independent financial adviser. Specifically, the main objectives of this study are firstly, to determine the level of consumer engagement with IFA, and secondly, to investigate the determinants of consumer engagement with IFA.

The rest of this paper is structured in the following manner. The subsequent section reviews the literature on consumer engagement with IFAs. Next, the research framework and hypotheses are presented then the methodology undertaken is explained. This paper ends with the discussion of the results and overall conclusion.

Consumer Engagement with IFAs

As a relatively new service in Malaysia marketplace, the role of IFAs is not widely known to the Malaysian public at large. Not much is understood about the Malaysian consumer acceptance toward IFAs and little attempt has been made on the selection criteria for an Independent Financial Adviser. Nonetheless, a number of studies have been conducted on the consumer preference for financial service. Most of these studies focus on the banking sector with concentration on market segmentation, attitudes, intention, preferences, bank selection decisions, bank service quality, and satisfaction [2]. Meanwhile, Murphy and Yetmar [3] examined the personal financial planning attitudes of MBA students in USA and found that the participants indicated a strong preference for professional financial planning advice from certified financial planner.

Based on the review of literature, the following section discusses the factors of consumer engagement in IFAs.

Characteristics

The Governor of Bank Negara Malaysia in 2010 stated that in a more deregulated market envisaged under the FSMP, it is imperative for insurers to have a good image and preserve public confidence by subscribing to high ethical standards and moral values. Similarly, Bae and Sandager [4] found that personal characteristics such as honesty, competence, objectivity, ability to communicate and confidentiality are very important to influence the customer's selection of a financial planner. Other characteristics such as courtesy, reliability, accessibility and openness about compensation were regarded as less significant.

Service Attribute

The identification of popular product attributes is important when evaluating a range of products that are part of their evoked set [5]. IFAs are unique in the sense that they are differentiated from single-tied or multi-tied financial planners by their service attributes. The IFA service attributes are different because they are independent, meaning that they can offer unbiased advice and choose from multitudes of products from any financial institutions in the marketplace. The IFA fee structure is different from the ordinary financial planner fee structure, whereby consumers who choose to pay by fee tend to consider the cost of gaining financial advice as crucial, although it is still of secondary importance [6]. At the same time, IFAs work in affiliation with the other professionals such as lawyers and accountants to ensure the best advice is given.

Credential

Credentials have been found to influence the selection for service providers. Day and Barksdale [7] specifically examined and identified the buyer's dimensions for selection of a professional service and among the dimensions identified were *perceived experience*, *expertise* and *competence* of the provider. Perceptions of professional qualifications, educational attainment, and knowledge on financial matters are viewed as important in the selection of a professional financial adviser. Consumers to first examine the adviser's credentials to ensure that the adviser has the specific skill, experience and comply with ethical standards. Similarly, the National Association of Personal Financial Advisors (NAFPA) suggested that consumers should have a comprehensive financial adviser checklist before engaging in their services. Having taken all these into consideration, the credentials for an IFA are made up of the features such as professional licensing, experience, professional qualification and compliance with the governing body.

Area of Competence

Lowings and Thomas [6] found that the scope of advice given by professionals was important - the wider the scope, the more likely advisers were to be seen as unbiased and able to provide impartial advice, and hence, gain trust from consumers. In 1994, Certified Financial Planner (CFP) Survey of Trends in Financial Planning and the International Association for Financial Planner (IAFP) Survey of Financial Advisers found that

consumer expect financial planners to give advice on retirement planning, monetary growth and ways to reduce tax. having discussed the main attribute factors of IFA engagement, the following section discusses the research framework and hypotheses to be tested.

Research Framework and Hypotheses

To study the level of engagement in IFA services, respondents are asked a series of questions regarding their current engagement, awareness, and interest to engage in services of an IFA. This research objective will be examined via descriptive analyses. For the second research objective, four key dimensions of IFA attribute are posited to influence IFA engagement as suggested by past literature. The research framework is illustrated in Fig. 1.

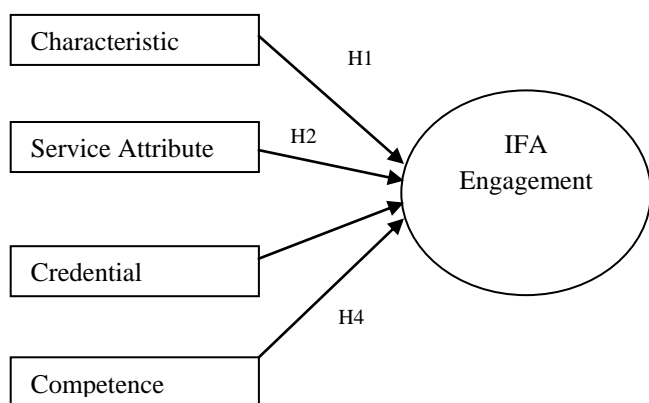


Fig.1: Model for IFA key engagement factors

As shown in Fig. 1, four main relationships are posited. The dependent variable is Independent Financial Adviser (IFA) engagement, while the independent variables are characteristic, service attribute, credential, and area of competence. The hypotheses to be tested are as follows:

- H1: The personal characteristic of the IFA is significantly related to IFA engagement.
- H2: The service attribute of the IFA is significantly related to IFA engagement.
- H3: The credential of the IFA is significantly related to IFA engagement.
- H4: The area of competence of the IFA is significantly related to IFA engagement.

Methodology

Sampling Design

The sample was selected using a convenience sampling of MBA students from a leading university in Kuala Lumpur, Malaysia. The

respondents were selected as they would give a healthy composition of working adults in Klang Valley and based on the assumption that working people would have a steady income stream that allows them to engage in some form of financial planning services. Furthermore, studies have shown that the use of student samples has been common in many disciplines such as social psychology, marketing and consumer research [8]. Other researchers also found that “between 20 and 33 percent of articles reporting consumer research findings employed student subjects” [9] and 75 percent involved college students in published social psychology research [10]. In fact, Lynch [11] for example established the fact that student samples provide better results than adult participants. Hence, the use of student subjects in this research is deemed appropriate.

Data Collection Procedure

Prior to the actual data collection, a pre-test was conducted on 10 respondents. Based on the, minor amendments were made to the questionnaire to enhance clarity and conciseness of questions. The final draft of the questionnaire was then distributed to 200 respondents via hardcopy of the questionnaire. Online questionnaires were also distributed to the respondents’ mailing list. From the total of 200 distributed questionnaires, 152 responses were obtained but only 133 replies were deemed usable for the analysis, giving a response rate of 67%.

Questionnaire

The questionnaire was divided into three main sections. The first section was a series of questions concerning the engagement, awareness and knowledge towards various attribute and feature of IFAs. The second section was a series of 7-point Likert scale questions that outlines the choice criteria for selection of an IFA comprising personal characteristics, service attributes, credentials and area of competence. Respondents were requested to indicate the importance of each element for each of the four factors where the scale of 1 is equal to “Never Important” up to the scale of 7 which equals to “Very Important”. Finally, the third section included social-demographic variables concerning gender, age, race, occupation, education level, marital status and income.

Selection of Measures

The measures such as the personal characteristics, service attributes, credential and area of competence are derived from the amalgamation of several previous researches and surveys conducted in Malaysia, USA and Europe

Table 1: Key factors for IFA engagement

Measure [Source]	Description of Measure
Personal Characteristic [12]	I prefer the IFA is he/she is <ul style="list-style-type: none"> • responsive • competent • accessible • courteous • able to communicate • honest • credible • confidential • objective • open about compensation
Service Attribute [13,15]	I prefer to engage an IFA due to his/her <ul style="list-style-type: none"> • unlimited product selection; present the whole range of products available rather than on a limited number of financial products or provider companies • unbiased advise; independent of any commercial relationships which may restrict the advice they give. • fee structure; no financial stake in the course of action that he/she recommends to the client • Fudiciary Oath: exercise his/her best efforts to act in good faith and in the best interests of the client • Affiliation with other professionals such as attorney, lawyers, accountants and etc. • affiliation with wide range of financial institutions
Credential [1314]	I prefer the IFA to have the <ul style="list-style-type: none"> • license from the Malaysia Securities Commission (SC) • in-depth experience in financial planning industry • qualification in professional or financial planning • compliance with the professional or regulatory governing body
Area of Competence	I prefer the IFA to have the necessary skills and knowledge on <ul style="list-style-type: none"> • Insurance; Advise on basic insurance, life insurance and insurance product. • Pension and retirement planning; Advise on annuities such as retirement, savings and other fund intended for future use. • Investment and investment risk; Advise on the concept behind the formulae and strategies of investment solution. • Law, regulations and ethics; Advise on solutions to various legal problems in relation to the relevant financial advising. • Real Estate; Advise on the fundamentals of real estate inclusive of the real estate laws and regulation. • Funds; Advise on the fundamentals of mutual fund, its organization, structure and regulation. <ul style="list-style-type: none"> • Portfolio assessment; Advise on portfolio based on risk and return together with diversification concept • The Financial Advice Process; Assessing client needs • Advice on financial solutions tailored to specific needs and circumstances of the client.

along with existing research and surveys in Financial Planning [12-14]. Each measure was supported by elements extracted from the aforementioned studies and comprised of four to nine statements. Table 1 summarizes the measures used in this study.

Results

Profile of Respondents

The socio demographic profile of the 133 respondents is shown in Table 2. About two-thirds of respondents were between the age of 31-40. The Malays formed the highest number of respondents (57.9%), followed by the Chinese (25.6%) and Indian (16.5%). Slightly more than half of the respondents were from the middle management followed by the low-level management (22.6%), and held a Bachelor's degree. Majority of them earned incomes in the range of RM3000 to RM9000 monthly. This shows that the respondents are a good subject for the research where this is consistent with Lai and Tan . Almost three-quarters of the respondents were married with children.

Consumer Engagement with IFA

The respondents were asked several questions pertaining to their engagement, awareness and knowledge towards various attributes and features of an IFA. For the first question, the participants were asked whether they engaged the service of an IFA. The results show that only 20% of the respondents used the services of an IFA, while the majority did not engage in IFA services. This could be due to the public ignorance towards financial planning and/or the services of an IFA, and also the lack of IFAs in the Malaysian market. The large percentage of non-participation in IFA services suggest that there is plenty of room for more sophisticated financial planning in the market, as also suggested by Ming Lain and Khong Tan [16].

The second question asked the respondents for the duration of them being a client of their IFA. For 90.60% of the respondents who are using the IFA service, their durations of being a client of the IFA are also very short where their durations of engagement are less than 3 years. The longest engagement period for an IFA by the respondents is within 8-11 years, as reported by 9.40% of the respondents. This small percentage suggests that the Malaysian public engagement with and acceptance of IFA is still in its infancy stage.

Table 2: Demographic profile of respondents

		Frequency (n=133)	Percent (%)
Gender	Male	73	54.89
	Female	60	45.11
Age	21-30	26	19.55
	31-40	89	66.92
	41-50	15	11.28
	51 and above	3	2.26
Race	Malay	77	57.89
	Chinese	34	25.56
	Indian	22	16.54
Occupation	Unemployed (Student, Housewife, Retiree, etc)	4	3.01
	Top Management (CEO, MD, GM)	8	6.02
	Middle Management (Manager)	68	51.13
	Low Management(Executive)	30	22.56
	Nonmanagerial	16	12.03
	Business owner	7	5.26
Education	Certificate/Diploma	3	2.26
	Degree/Professional Certificate	93	69.92
	Postgraduate	37	27.82
Income	Less than RM1,500	4	3.01
	RM1,501 - RM3,000	13	9.77
	RM3,001 - RM5,000	36	27.07
	RM5,001 - RM7,000	31	23.31
	RM7,001 - RM9,001	29	21.80
	More than RM9,001	20	15.04
Marital Status	Single	25	18.80
	Divorced	4	3.01
	Married with children	96	72.18
	Married without children	8	6.02

The third question asked the respondents if they have ever heard of an IFA. A majority of them (61.66%) replied positively, suggesting that most of them were aware of the presence of IFAs. Such results also imply that the majority of the respondents who are professionals have heard or come across an IFA through their business or personal deals for loans, insurance, tax or unit trust investment as. Slightly more than a third of the respondents (38.35%) had never heard of an IFA.

The fourth question asked respondents on their interest to engage the services of IFAs. Five levels were presented to the respondents ranging from most interested to not interested at all. Most of the respondents, 41.35% replied positively. In combination, almost a third of the respondents showed no interest to engage the service of an IFA.

Respondents were also asked on their source of advice with matter related to finance. Almost half of them claimed to seek financial advice from friends and families. This result is similar to Lowings and Thomas [6] and may be explained by the notion that Asians have close ties with their

family members. The second most sought after sources are the insurance and unit trust companies or agents, while Internet is the third most popular source of financial information. The respondents also resorted to books and magazines for financial advice. It is interesting to note that although banks are offering free consultation for financial advice, it is ranked second lowest as the source for financial advice.

When asked about their reason for seeking an advice from an IFA, the respondents claimed lack of knowledge, as indicated by 57.14% of the respondents. The IFA, through his or her formal and professional trainings would be able to dispose sound financial information and advice to the client. A total of 26.32% of the respondents also replied that lack of time to search for appropriate financial products to meet their needs as the second reason. To conduct own research on the wide range of financial services would certainly consume a lot of time. Table 3 summarizes the above findings.

Determinants of IFA Engagement

A multiple regression analysis was conducted to determine the significance of *characteristics*,

Table 3: Consumer engagement with IFA

IFA engagement		Frequency (n=133)	Percent (%)
1	Consumer engagement status of an IFA		
	Yes	26	19.5
	No	107	80.5
2	Client duration of engagement of an IFA		
	8-11	3	2.3
	0-3	29	21.8
3	Consumer awareness of an IFA		
	Yes	82	61.7
	No	51	38.3
4	Consumer level of interest to engage the service of an IFA		%
	Very interested	0	0.0
	Less interested	24	18.0
	Neither	38	28.6
	Interested	55	41.4
	Not interested at all	16	12
5	Consumer source of financial advice		
	Banks	9	6.8
	Others	10	7.5
	Books/Magazines	14	10.5
	The Internet	17	12.8
	Insurance or Unit trust company/agent	20	15.0
	Friends and family	63	47.4
6	Consumer reasons for engagement of an IFA		
	Interest	8	6.0
	Time	35	10.5
	Knowledge	76	26.3
	Others	14	57.1

service attributes, credentials and competence on the decision to engage the service of an IFA. As shown in Table 4, the four independent variables explain 12.0% of the variance in engagement of an

IFA. Hence, the adjusted R-Square shows a low predictive power of the model in determining the key engagement factors for an IFA by the Malaysian public. Although the R-Square value is low, the overall model is significant ($p=0.02$) indicating the goodness of the model.

Table 4: IFA attributes and engagement in IFA services

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.554	.919		5.045	.000
	Characteristic	.121	.203	.075	.598	.050
	Service Attribute	-.273	.182	-.194	-1.500	.136
	Credential	-.027	.136	-.024	-.201	.541
	Competence	-.248	.167	-.171	-1.487	.140

a. Dependent Variable: 4. Would you be interested to engage the service of an IFA?

Model Summary: R=0.295, R-Square=0.147, Adj R-square=0.120, SE=0.90983, Sig. from ANOVA=0.02

For Hypothesis 1 which tests the influence of personal characteristics on IFA engagement by consumers, the hypothesis is accepted based on the significant positive coefficient result ($t=0.598$, $p=0.05$). Hypotheses 2, 3 and 4 respectively, were rejected given the low t -value and insignificant p -value. The positive coefficient for Characteristics

suggests that this factor has a positive impact on predicting the engagement of the IFA by the Malaysian public. Hence, based on the significance value of each independent variable, only Characteristics can be concluded to influence the engagement in IFA services. This concurs with the findings by Bae and Sandager [12] that

highlighted personal characteristics as very important for a financial planner.

Conclusion

The IFA is relatively new to Malaysian consumers where they are more familiar with unit trust or insurance agents. Their preference for selection of an IFA is still uncertain and has rarely been investigated. As choices are aplenty and their decision might be influenced by external factors to the IFA such as the banks, unit trust or insurance companies, it is important to identify what the consumer wants most in their IFA. Therefore, this study aimed to investigate what the consumer desires in the selection of an IFA. This would support one of the key initiatives of the FSMP which is to build the capabilities of domestic insurers where the insurers will be allowed greater operational and management flexibilities by leveraging on distribution channel such as Independent Financial Advisers.

The findings suggest that a majority of Malaysians do not engage in the services of an IFA. The percentage of those who are currently engaging the service of an IFA is still very low although many claimed to have heard about an IFA. Nevertheless, many appear to be receptive and seem interested to engage the service of an IFA. Currently, many of them are seeking for financial advice from friends and family. Many cited the lack of knowledge as the primary reason and the lack of time as the secondary reason for engaging the service of an IFA. In terms of product offerings, the majority of the public want the IFA to be able to offer them product from across the whole market, which is exactly where the independence factor of the IFA plays a major role. Qualification also is important as the public prefers the IFA to have formal and professional training in financial planning in order to serve them better through sound and quality financial advice and service.

In addition, the main factor for engagement in IFA is the personal characteristics of the IFA. This attribute includes personal traits such as

confidentiality, honesty and reliability in discharging their service, consistent with Bae and Sandager [12]. The other three factors that are service attributes, credence, and area of competence are not significant enough to be accepted as the key engagement factor of the IFA. This needs to be investigated further as the other factors although not accepted but they play a certain level of importance in the selection of an IFA.

The findings from this research have important implications in order to oversee the success and materialize the initiative of the FSMP as the catalyst to move Malaysia towards becoming a high income nation in year 2020. The targeted increase in per capita income would be less meaningful if the public do not accept and engage the service of qualified professionals such as the IFA to provide advice on their personal finances. By understanding the public needs and demand, the IFA could better prepared and positioned to offer their expertise to the consumer and tailor their solutions not only to the affluent but also to the masses.

From this study, there are other areas that warrant further investigation. For example, a more comprehensive study in which qualitative questions can be asked through participant observation, in-depth interviews or case studies. Such qualitative studies would enable more in-depth evidence to be gathered on consumer's experiences on financial services.

The study could also be reversed to investigate customer criteria selection from the perspective of IFAs. This is to identify and uncover their marketing strategies and their target market. This is important because as far as the FSMP success is concerned, the preference of IFAs toward a particular target market needs to be recognized since highly specialized professionals such as the IFA regardless of their mode of fee would definitely serve as a niche market, for instance, the affluent.

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