

CHAPTER 1 INTRODUCTION

1.1 Background of Malaysia Financial Landscape

Today, the changing economic and business environment coupled with rapid technological advancement over the last decade has significantly impacted on the development of the financial system, domestically and globally. Barnes(1985) showed that the complex environment, frequent changes in income and estate taxes, and new and varied ways to invest money have caused people to seek professional financial advice.

In order to bring in greater innovation, flexibility and dynamism into the Malaysian financial system, Bank Negara Malaysia in March 2001 has launched the Malaysia Financial Sector Master Plan(FSMP). The FSMP charts a 10-year road map for the development of a competitive and dynamic financial sector that will be resilient to the challenges of the new and more globalised environment. In order to achieve that, the FSMP made a number of recommendations to be implemented over the Plan's period. In Phase 1 of the FSMP, in order to build the capabilities of domestic insurers, insurers will be allowed greater operational and management flexibilities to develop and optimize on skills, scale and technology. Hence recommendation 4.9 of the FSMP states that insurers are allowed to leverage on distribution channel such as Independent Financial Advisers. Bank Negara Malaysia through its Governor Statement by Tan Sri Dr Zeti Akhtar Aziz released on 1 March 2001, assert a measure planned for implementation in 2002, where the introduction of the Independent Financial Advisers (IFAs) is aimed to enable Malaysian consumers to obtain professional independent advice on financial options, including insurance that would most effectively meet their financial needs.

According to Bank Negara Malaysia, Independent Financial Adviser (IFA) is an individual or firm that provides advice on financial products. In the United Kingdom, IFA Promotion (IFAP), an industry body that was established in 1989 to promote the benefits and accessibility of independent financial advice to consumers and businesses, defines an IFA as the only type of adviser that is able to select from all the products available in the marketplace whom are bound to the Financial Services Authority rules, which obliges them to provide advice most suited to the client's personal requirements and their risk outlook. Unlike tied agents who are financial services representatives that recommend products from his or her employer, IFAs are not committed to sell the products of any one financial institution and can therefore given advice on products from a range of competing financial institutions. IFA are professionals who offer unbiased advice on financial matters to their clients and recommend suitable financial products for the whole of the market. According to Forbes, these independent advisors have the flexibility to choose the products they offer and the freedom to act unencumbered by corporate policies or the needs of shareholders.

1.2 Problem Statement

Malaysia is a developing nation with a population of approximately 28million. According to the Labour Force Survey, Department of Statistics Malaysia, in July 2010 the total labour force in Malaysia is 11,780.2 million. The labour force participation rate which comprises of the citizens from the age of 15-64 years comes to a total of 11,386.3 million or 63.4 percent of the total population. With this significant number of labour force, the amount of the money in circulation through savings, spending and investment are colossal, even with the modest size of the Malaysian population. In 2008, Bank Negara reports showed that the total investment for insurance premium, unit trust, savings and deposits through banking services has exceeded 193 billion and has recorded a growth of 11% per annum for the past ten years despite the economy slowdown in 1998 and 2005.

Most of Malaysian working populations contribute to the Employee Provident Fund (EPF), a social security institution formed according to the Laws of Malaysia, Employees Provident Fund Act 1991(Act 452). The EPF which has 12.35 million members as of Dec 2009 was established to provide retirement benefits for members through management of their savings in an efficient and reliable manner. Up to October 2009, the EPF is managing RM256 billion worth of accumulated contributions. As EPF's main objective is to provide for retirement benefit, its main principal for investment is to ensure that the return of the money is more important than the return on the money where it explicitly expressed that it ensures that the members savings are secure and receive reasonable dividends. For the record, the EPF guarantees a minimum of 2.5 percent dividend annually. What this means is it could not afford to provide a higher return to its members

due to the higher associated risk. Hence, the funds are invested mostly in low risk places such as the Malaysian Government Securities, Money Market Instruments and Bond. From the EPF website, although EPF guarantees a minimum dividend of 2.5 percent annually, judging from the average dividends of 5.22 percent per annum from 2005-2010, it barely keeps up with the average inflation of 2.77 percent per annum over the same period. Although it is good to have some form of security and certainty over retirement, the EPF members could as well benefit from some additional return on their money that would compound over time. At present, the EPF members are allowed to withdraw their accumulated money in their accounts for housing, medical purposes and even investment in approved unit trust scheme. The combined effect of minimal return and the existence of avenue for withdrawal could potentially negate the main objective of EPF, which is to provide sufficient money for retirement. Unless the withdrawal for whichever reason is properly managed, the retiree might soon find themselves in a dire predicament as espoused by a study by EPF where most retiree spent all their retirement money within the first six years of retirement.

In item 1.25.2 from the Bank Negara Malaysia (BNM) Monthly Statistical Bulletin for July 2010, the fixed deposit kept at the banks amounted to RM255,917 million while the money kept in the savings account totaled to RM99,494 million. In the same bulletin, item 1.8 shows that the insurance industry total assets is valued at RM 25,996 million. This huge sum of money in all three financial vehicles saved in a secure and low risk financial vehicle could be the indicator on Malaysian adverse attitude towards risk. This trait although extrinsically seems as a natural consequence and option due to risk adversity, it could also be due to the lack of financial knowledge and access to good

quality advice. This is where IFA could play their role in dispersing sound financial advice to educate the public on the risk-return effect, the significant consequence of the public's financial choice towards his or her future and the better way to manage their finance.

The BNM July 2010 Bulletin on item 2.30 shows that as of January 2010, the credit card facility which is extended to the working adults, comes to a figure of 10.4 millions in circulation for both the principal and supplementary card. The same item also states that the total monthly spending for January 2010 using the credit card on average is 6.17 billion. This colossal amount of credit spending shows that the Malaysian working adults are depending heavily on credit to sustain their lifestyle. This dependency leads to pervasive bankruptcy issue where the population group under 30 years old is the leading age group for people declared bankrupt due to credit card debt. This is as identified by the Ando, A., and Modigliani(1963) study that states that younger people tend to have consumption needs that exceed their income. Their needs tend to be mainly for housing and education, and therefore they have little savings. According to the Department of Insolvency Malaysia, 3,548 people were declared bankrupt by credit card in 2009. From those bankrupts, 1,774 or a staggering 50 percent belong to age 30 and below. This worrying trend could be caused by the lack of financial awareness and knowledge as well as the high tendency to spend on credit.

In April 2006, Bank Negara Malaysia set up Credit Counseling and Debt Management Agency (AKPK) to promote financial wellness among Malaysians by empowering them to be financially savvy through comprehensive consumer educational programme. AKPK headquarter is located in Maju Junction Mall Kuala Lumpur and has 10 branches

nationwide. AKPK also provides professional credit counseling and debt management programmes to enable Malaysian to regain control of their finance. Up until 31st December 2009, over 110,000 people from all walks of life had come for counseling services and from that number, over 35,000 customers have been enrolled in its Debt Management Program. In most cases, consumers who approached AKPK for assistance are in dire situation due to their indebtedness and inability to repay financial obligations stemming from poor financial planning, ignorance and lack of financial discipline to live within their means. There are also others who have been affected by unforeseen circumstances like health problems, death of a breadwinner, loss of employment and business failure. Although AKPK exist and is actively playing its role, it needs the support and cooperation from all other financial intermediaries to play their part, including the IFA. This gives validity to the need for an IFA where the IFA, through their formal and professional education, could contribute to deliver holistic, sound and quality financial service to the public on how to better manage their finance and leverage on their resources so that prudent actions are taken based on available resources. In Malaysia, most of the so-called financial advisers are in fact tied agents. Tied agents can only advise on the products of one provider where they have contractual obligations to. Tied agents are obligated to a single financial service provider such as an insurance or unit trust company where their advise are more often than not are biased and skewed towards the company that they represent. Although there could be no malicious intent on the agent's behalf, their advice at best could only be catered through a narrowed and single out option and at worst there is also a high probability where the product with the most commission is being pushed to suit the agent's interest as the agents are compensated

through commission from the product that they sell. The financial institutions such as the insurance and the unit trust companies are mostly single-product oriented, which means their advice could be biased towards their products, focusing more on promoting and selling which absolve the independence factor crucial for unbiased advice.

This is where IFA differs from the tied agents. The IFA contributes to the public where the IFA take the holistic approach of the financial matter. The IFA independency of financial products or companies means they can provide comprehensive and professional advice on more complex solutions that requires expertise on all range of financial products such as real estate, mortgages, insurance, pensions and investments. In addition, the IFA whose representation of financial service providers are not limited mean they have more options for the financial solution given that would be in the best interest of the customer. Furthermore, the IFA are not compelled to sell or push a certain product as they are remunerated by fee through the financial advice that they give.

In the United States, the industry's regulator, the Financial Services Authority (FSA), requires all IFAs to provide consumers with the option to pay for advice by fees. The other method could be in the form of commission or a combination of fee and commission.

Amid the financial sector liberalization, more sophisticated and need-based products are expected to make their way into the market. In terms of product choice or pricing, this may benefit the consumer. However, with the increased products and services offerings, one could also expect the number of complaint to also increase. Among the Malaysian consumer, they have been long exposed and are more familiar to financial channels such

as banks through its branches and internet banking, insurance companies through its insurance agents and bancassurance, unit trust agents and share brokers.

There is very little academic research examining the preference criteria of the Malaysian public towards the engagement of an independent financial adviser. 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 career in the developed nations. Although the market is laden with the retail financial institutions engaging different forms of channels to market and disseminate their financial products and services (such as through internet banking, personalized service centers, branches and agents), it is important to understand how IFA fits into the financial landscape.

According to Financial Planning Association Malaysia (FPAM) statistics, there are less than 8000 qualified financial planners who are able to advice clients professionally in the area of personal financial planning as of December 2008. Comparing this to the slightly over 11 million working population in Malaysia, the financial planning industry is seriously under ratio.

1.3 Objective of the study

The objective of this study is to identify the key criteria for the Malaysian public to engage the service of an IFA for decisions involving their finance. In order to achieve that objective, the questionnaire was designed to uncover answers to what do consumers in Malaysia want from a financial adviser. The objectives are:

1. To establish the consumer preference for the IFA service offerings
2. To investigate the preference for the IFA engagement from the demographic perspective
3. To identify the key criteria critical for the IFA engagement by the Malaysian consumer.
4. To rank the criteria based on their level of importance to the Malaysian consumer.
5. To discover the preference for the IFA engagement according to selected demographic profile which are the gender, education and income.

1.4 Purpose of the Study

The research on the financial adviser, roles and impacts to the financial industry are aplenty, with most studies discussed on the happenings and events at the other side of the globe such as the United Kingdom and the United States, where IFA originated and are widely accepted. For developing nations such as Malaysia, this study would contribute towards the knowledge on the Malaysian public acceptance factors for selecting an IFA and the success of the implementation of the IFA and ultimately the FSMP. Through this understanding, it would enable smooth introduction and acceptance of the IFA in the

market and allowing the IFA to focus on the key areas that contributes the most to their success and ultimately the Malaysian Government vision of the FSMP. Crucial recommendations could help the IFA to develop suitable marketing campaigns and product offerings to be developed to suit the Malaysian public. Consequently, it would result in the objective of the Malaysian Government in the FSMP to be achieved.

1.5 Significance of the study

Bernheim (1994a, 1994b, 1994c) had analyzed some survey on financial planning that was sponsored by financial institutions. It was found out that people's financial planning method are fairly rudimentary, that their financial knowledge is generally poor and their self-described saving plan are inconsistent with the predictions of standard saving models. Through a survey conducted by the Edge magazine in July 2007 and December 2008, it found that many Malaysian have lesser time to track and plan their own financial records. Thus, the respondents indicated that they need some form of financial advice pertaining to risk management, retirement planning, estate planning, tax planning and investment planning. Some of the respondents also indicated that they are willing to pay a fee to a professional that could sort out their finance effectively. According to Gitman and Joehnk (2005), individual needs and goals change when he or she moves through different stages of life, therefore, making financial planning a dynamic process.

The introduction of IFA as one of the recommendation under the Malaysian Financial Sector Master Plan (FSMP) is one of the keys to support and realize the objective of the FSMP; that is to develop a more resilient, competitive and dynamics financial system with best practices that supports and contributes positively towards the growth of the

economy. The findings of this study would be very useful for the IFAs, the financial institution and the regulatory bodies to make the right approach to introduce and position the IFA as a solid channel for financial advice that could function effectively in the multicultural and diverse Malaysian market. As the success of the IFA is based on the understanding of what the public wants in an IFA, this inevitably would benefit the IFA as the public's acceptance would be healthier and more positive. This understanding concurrently creates the ripple effect in term of better financial plans provided to the consumer thus resolving much of the malady of the poor and inconsistencies in the financial plan.

1.6 Scope of the study

This is an exploratory study focusing on the key criteria that lead toward the Malaysian acceptance towards the IFA in Malaysia. The data for this study was collected through questionnaire distributed to the Malaysian public in Klang Valley. The data was collected in the second half of the year 2010. The respondents for this study were not limited to any income range, education level, occupational type or ethnicity.

1.7 Limitations

There are several limitations to the study. Time and economic factor are the prime limitations in which the survey could not be performed in a more comprehensive manner. Also, the vast geographical areas between the major cities in Malaysia resulted in the outreach of the survey to be limited to the respondents in Klang Valley. While the results

could not be generalized to the wider population, the views of the consumer living in the most developed part of the nation shall give a good indication on where the educated and financially stable individuals stand with regards to the IFA. Also, the study focuses on a few selected factors deemed important for the decision making of selecting an IFA and in order to focus into that, other criteria such as trust and relationship were omitted.

1.8 Organization of the Study

The following chapters consist of the explanation of the findings and highlight of this study. Chapter 2 contains the literature review on the Independent Financial Adviser from numerous prior researches. The review provides the framework for the basis of this research where the key factors for the IFA engagement were identified. It also covers the previous findings on matters related to the selection of the service provider. Chapter 3 explains on the research methodology that covers the selection of measure, sampling design, data collection procedure and data analysis technique employed in this research. That leads to the findings of the research in Chapter 4 where the results and its explanation are presented. The last chapter, Chapter 5 concludes and summarizes the whole research whilst giving suggestions for future research and the implication of this research's findings to related parties.

CHAPTER 2 LITERATURE REVIEW

Various studies exist on the consumer preference for financial service. Most of these studies were focused on the banking sector with concentration on market segmentation, attitudes, intention, preferences, bank loyalty, bank selection decisions, bank image, bank service quality, satisfaction and multiple bank users as summarized by Safiek(2008).

As a relatively new service in the Malaysia marketplace, Independent Financial Adviser (IFA) is not widely known to the Malaysian public at large. Limited information is known about the Malaysian consumer acceptance towards the IFA and little attempt has been made to ascertain the selection criteria for an Independent Financial Adviser.

Murphy, David and Scott(2010), in their research that studied on the personal financial planning attitudes of MBA student in USA, found that the participants indicated a strong preference for professional financial planning advice. The study also found that the students preferred to seek advice from certified financial planner.

2.2 Independent Financial Adviser Selection Criteria

2.2.1 Characteristic

The Governor of Bank Negara Malaysia, Tan Sri Dr Zeti Akhtar Aziz in her Governor's Statement on March 1st 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. A study by Sung and James(1997) has found out that personal characteristics of a financial planner are very important to influence the customer's choice. According to their survey, the personal

characteristics in the order of their importance are honesty as being the most important and followed in subsequent order by competence, objectivity, ability to communicate and confidentiality. The other characteristics such as reliability, accessibility, courtesy and openness about compensation were regarded as less important.

2.2.2 Service Attribute

The identification of popular product attributes is important because attributes are criteria that consumers use when evaluating alternative products that are part of their evoked set as mentioned by Schiffman and Kanuk(2007). IFAs are unique in the sense that they are differentiated from the single-tied or multi-tied financial planner or adviser by their service attributes. The IFA service attributes are different because they are independent, which means they can offer unbiased advice and choose from multitudes of products from any financial institutions in the marketplace. The IFA fee structure was included as it is different from the ordinary financial planner fee structure and as Andrea and Andrew(2008) in their consumer research found out, consumers who planned to pay by fee were more inclined to view the cost of advice as important, although it was still of secondary importance. The IFA are also bound to the Fiduciary Oath, the oath taken to adhere to the strictest code of conducts and ethics. At the same time, the IFAs are working in affiliation with the other professionals such as lawyers and accountants to ensure the best advises are given. As they are independent, the IFA also has the freedom of choice on the financial institution that they are affiliated with. The service attributes adopted in this study were derived from Comprehensive Financial Adviser Checklist by

National Association of Personal Financial Advisors(NAPFA) from the United States, a checklist entitle Insights to Choosing a Financial Planner by Financial Planning Association of Malaysia (FPAM) and the Client-Research Questionnaire by The Independent Financial Advisers Association(AIFA) from the United Kingdom.

2.2.3 Credential

Credential is one of the main criteria that influence the selection for a service provider and this is no exception to an IFA. Day and Barksdale(1992) specifically examined and identified the buyer's dimensions for selection of a professional service and among the dimension identified were perceived experience, expertise and competence of the provider. According to Andrea and Andrew(2008), perceptions of higher educational attainment, professional qualifications and the knowledge that these occupations all deal with large sums of money associates these occupations with being trustworthy and professional. The Wall Street Journal in its article published in 1 July 2009 advised the consumers to check on the adviser's credentials to find an adviser with specific skills, experience and comply with ethical standards that require them to put a client's interests ahead of their own. Similarly, Comprehensive Financial Adviser Checklist was provided by the National Association of Personal Financial Adviser (NAPFA). Having taken all these into consideration, the credentials for an IFA were established based on the features which are professional license from the regulatory, experience in the financial service industry, professional qualification and compliance with the governing body.

2.2.4 Area of Competence

Andrea and Andrew(2008) found that the scope of advice was important - the wider the scope, the more likely advisers were to be seen as independent and offer unbiased advice. They established that consumers made a connection between independence and trust, which is if an adviser was thought of as independent then they were more likely to be trusted to give unbiased advice. 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 financial planner are sought for advice mainly on retirement planning, retirement growth and reducing tax. To investigate the area of competence deemed important for the Malaysian public, this research adopts the area of competence from the European Financial Adviser Core Competence Framework. This framework provides the specification for a competent adviser across Europe, in which the financial advisory service is being well accepted and has reached maturity.

2.3 Research Framework

The research framework is adopted based on the Standardized Model of Service Provider Selection for Different Service Type: a Consumer-oriented Approach by Ramune (2005). This standardized model framework was derived from several frameworks from prior studies that help marketers to systematically analyze customer's choice behavior.

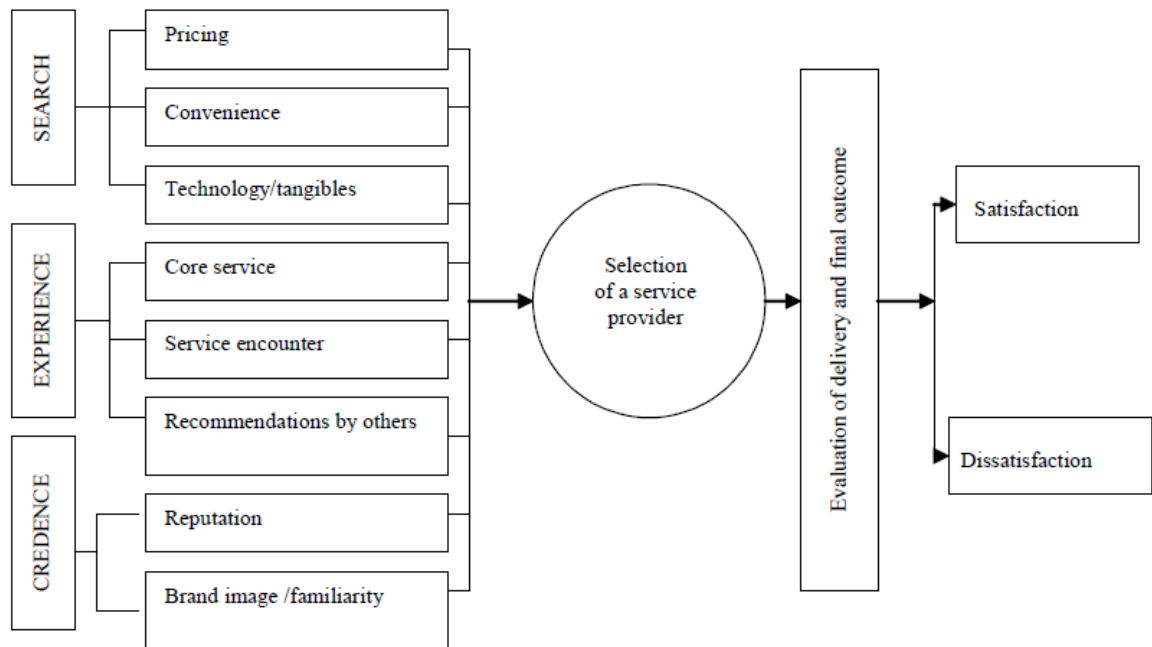


Figure 1 Modified Model of Service Provider Selection Criteria, Ramune(2005)

Based on the model, a new model was proposed where the selection criteria are divided into four broad areas. The hypotheses to test the influence of these broad criteria namely Characteristic, Service Attribute, Credential and Area of Competence on the engagement of an IFA are discussed in the following chapter.

Research Framework

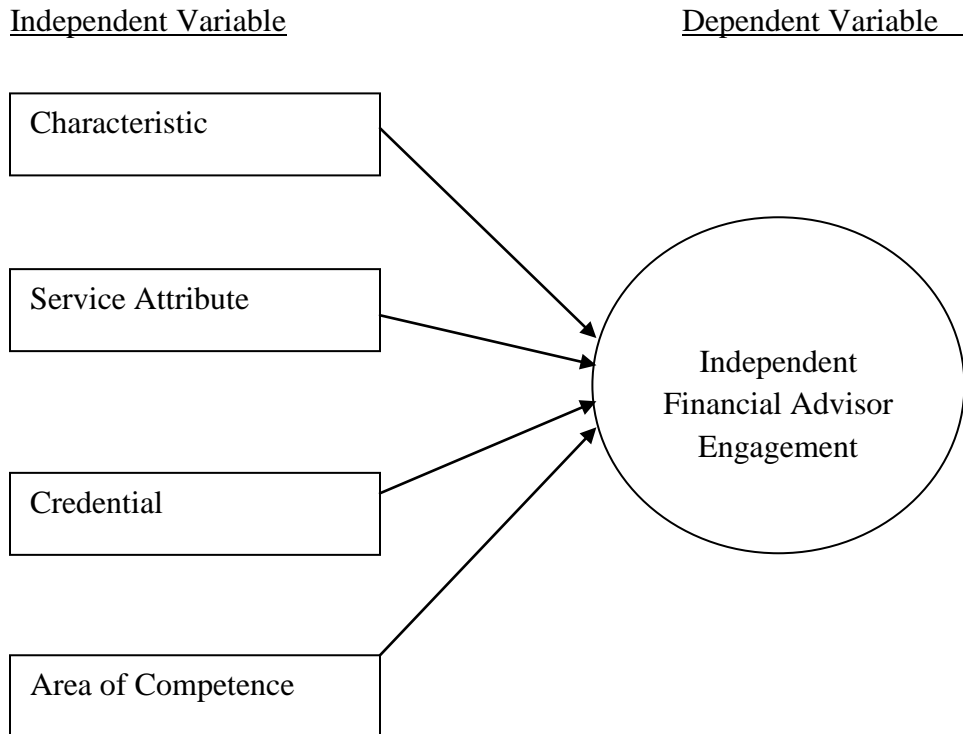


Figure 2 Proposed Model for Key Engagement Factor For Selection of an IFA in Malaysia

There are four independent variables namely Characteristic, Service Attribute, Credential and Area of Competence of the IFA. The single dependent variable is the decision to engage the IFA.

CHAPTER 3 RESEARCH METHODOLOGY

3.1 Development of Hypotheses

The hypotheses were derived from the research model as discussed in the earlier part of this research. The hypotheses objective are to find out whether the four selected factors which are Characteristic, Attribute, Credential and Area of Competence have an influence of the engagement of the IFA by the Malaysian public. The following are the four hypotheses for this research.

H1: The personal characteristic of the IFA has a positive influence on the IFA engagement by the consumer.

H2: The service attribute of the IFA has a positive influence on the IFA engagement by the consumer.

H3: The credential of the IFA has a positive influence on the IFA engagement by the consumer.

H4: The area of competence of the IFA has a positive influence on the IFA engagement by the consumer.

3.2 Selection of Measures

Based on the review of literatures and an investigation of instruments used to evaluate an IFA, there is no prior study that investigates the selection of an IFA in the dimensions as chosen in this research. Hence the selection of measures such as the personal characteristics, service attributes, credential and area of competence undertaken in this research were based on the amalgamation of several previous researches and surveys

conducted in the USA and Europe. The researches, survey and checklist used are What Consumers Look For In Financial Planners by Sung C. Bae and James P. Sandager(1997), Core Competence Framework for the European Financial Adviser funded under the European Union Leonardo Da Vinci Programme, the Client-Research Questionnaire by The Independent Financial Advisers Association(AIFA) United Kingdom, Comprehensive Financial Adviser Checklist by National Association of Personal Financial Advisors(NAPFA) United States and a checklist entitled Insights to Choosing a Financial Planner by Financial Planning Association of Malaysia (FPAM).

Each measure was supported by elements extracted from the aforementioned researches. Each measure for this research has 4 to 9 statements and a pre-test was made to check on the clarity and conciseness with the objective of achieving the desired result. This was performed by distributing the pre-test questionnaire to 10 random individuals in Klang Valley, Malaysia. Slight rewording and rearrangement were made based on the feedback to enhance clarity and understanding.

Measure of Independent Variable (Key Factors for IFA Engagement)

Measure	Description of Measure	Reference
Personal Characteristic	<p>I prefer the IFA is he/she is</p> <ul style="list-style-type: none"> • responsive • competent • accessible • courteous • able to communicate • honest • credible • confidential • objective • open about compensation 	<p>What Consumers Look For In Financial Planners by Sung C. Bae and James P. Sandager(1997)</p>
Service Attribute	<p>I prefer to engage an IFA due to his/her</p> <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 	<p>Comprehensive Financial Adviser Checklist by National Association of Personal Financial Advisors(NAPFA)</p> <p>Insights to Choosing a Financial Planner by Financial Planning Association of Malaysia (FPAM)</p> <p>Client-Research Questionnaire by The Independent Financial Advisers Association(AIFA)</p>
Credential	<p>I prefer the IFA to have the</p> <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 	<p>Comprehensive Financial Adviser Checklist by National Association of Personal Financial Advisors(NAPFA)</p> <p>Insights to Choosing a Financial Planner by Financial</p>

		Planning Association of Malaysia (FPAM)
Area of Competence	<p>I prefer the IFA to have the necessary skills and knowledge on</p> <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. • 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. 	Core Competence Framework for the European Financial Adviser by the European Union Leonardo Da Vinci Programme

3.3 Sampling Design

Due to time and economic constraint, convenience method was used to gather the response from the Malaysia public working in Klang Valley. To reach the target audience, self-administered questionnaire were distributed to the University Malaya MBA students before the evening class and the completed forms were collected after the

class. Responses through online questionnaire were also solicited by sending emails to the University of Malaya MBA students as well as the employees of several organizations based in Klang Valley. The MBA students were chosen as they would give healthy composition of working adults in Klang Valley and based on the assumption that working people would have a steady income stream that enables them to engage in some form of financial planning.

3.4 Data Collection Procedure

This study was conducted via questionnaires that were self administered and distributed online to the University Malaya MBA students and the employees of several organizations based in Klang Valley. Prior to the actual data collection process, a pre-test was conducted through an initial questionnaire distributed over a period of four days to a total of 10 respondents in Klang Valley, Malaysia in August 2010. Based on the pre-test, minor amendment were made to the questionnaire to enhance clarity and correct the spelling and grammatical mistake.

The final survey was self-administered and distributed online over a period of 21 days on a sample of 150 Malaysian public who are working in Klang Valley, Malaysia. Out of the 150 distributed questionnaires, a total of 133 replies were deemed usable for the analysis. Five replies were invalid for the analysis as the respondents selected more than one answer to questions that require a single answer. The remaining twelve respondents who were invited to answer the questionnaire online did not participate at all. The questionnaire was divided into three main sections. The respondents were asked to give their response according to the instruction preceding each section.

The first section was a series of objective questions concerning the Malaysian engagement, awareness and knowledge towards various attribute and feature of Independent Financial Adviser. The section consists of a combination of questions from Comprehensive Financial Adviser Checklist by National Association of Personal Financial Advisors(NAPFA), the checklist entitled the Insights to Choosing a Financial Planner by Financial Planning Association of Malaysia (FPAM) and the Client-Research Questionnaire by The Independent Financial Advisers Association(AIFA).

The second section was a series of 7-point Likert scale questions that outlines the choice criteria for selection of an IFA which consist of the elements grouped into four factors namely the 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”.

As for the demographic characteristics section in the third and last section, the questionnaire included social-demographic variables concerning gender, age, race, occupation, education level, marital status and income.

Prior to and after the questionnaire has been completed, the respondents were given the assurance of their anonymity and that their reply will be treated with the strictest form of confidentiality. Furthermore, as the questionnaires were distributed, the respondents were reminded that the reply is required only from Malaysians who are working in Klang Valley.

3.5 Data Analysis Technique

The data that has been collected were analyzed using SPSS, a software application widely accepted and used to perform statistical analysis in social science. Before the analysis is performed, data normality was confirmed and multicollinearity among elements used in Part B of the survey form was tested using Pearson Correlation. According to Hair, Black, Babin, Anderson and Tatham(2006), normality test is required for statistical test that is done on the significance of the factor. They also recommended for the degree of multicollinearity among the elements to be investigated if the objective of the study is to identify the interrelated sets of variables. Based on their recommendation, normality and multicollinearity test were performed before proceeding with the Factor Analysis test.

Secondly, factor analysis was conducted to seek to reduce the number of variables and to detect structure in the relationships between elements in an analysis. The data collected were sufficient for factor analysis as the minimum number according to Hair, Black, Babin, Anderson and Tatham(2006) is fifty. As commented by the researchers, factor analysis is suitable as it provides the tool for analyzing the structure of relationship (correlation) among a large number of variables by defining sets of variables that are highly interrelated known as factors. For this reason, factor analysis was carried out as it suits the purpose where it defines set of measures consisting of elements that are highly interrelated using a list of elements. In this research, the elements were grouped to define the four factors for IFA engagement by Malaysian.

Thirdly, component analysis was performed as it summaries most of the elements in a minimum factors for prediction purpose while the reliability of the defined measure is verified through Cronbach Alpha. Sekaran(2005) mentioned that Cronbach Alpha is used

to test both consistency and stability where consistency indicates how well the items measure a concept put together as a set.

Finally, multiple regression was carried out to understand which among the four factors most significant towards the decision making of Malaysian to engage the service of an IFA. Hair, Black, Babin, Anderson and Tatham(2006) suggest a sample not less than 100 in order to conduct multiple regression test. This research's sample size off 133 fulfills the condition.

CHAPTER 4 RESEARCH RESULT

4.1 Introduction

This section presents the outcome of the analysis. It includes the descriptive analysis on the profile of the respondents in which the demographics and the respondent's engagement, awareness and knowledge towards various attributes and features of Independent Financial Adviser were investigated. In addition, it explores further into the findings on the four factors for engaging an IFA which are the personal characteristics of the IFA, the service attributes of the IFA, the professional and formal credential of the IFA and the competency of the IFA in key areas of the financial products. These factors were identified for their significance as a selection factor and ranked according to the level of importance based on the respondent's feedback.

4.2 Descriptive Statistics

The descriptive statistics section contains three parts, where the first part tables out the demographic profile of the respondents. The demographic profiles presented are the gender, age, race, occupation, education, income and marital status. The second part presents the findings on the respondent's engagement of an IFA. It also identifies the respondent's source of advice for financial related matter and their awareness of the IFA. Further, it also shows the breadth of the respondent's preference on various attributes and features of an IFA such as the level of qualification, type of remuneration and the type of service offered by the IFA. The third part tabulates the respondent's interest to engage the IFA based on their demographic profiles which are gender, age, income and marital status.

4.2.1 Demographic Profile of Respondent

Table 4.1 The Characteristics of Respondents

N=133

		Frequency	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 kid	96	72.18%
	Married without kid	8	6.02%

A total of 133 respondents participated in the research. From the 133 respondents, a rather fair distribution of replies were obtained from both genders where the male respondents constitutes 54.9% while the female 45.1%. Most of the respondents came from the age group of 31-40 years old with a high percentage of 66.9%. The second leading number of respondents came from the age group of 21-30 years old with 19.5%. The total number of both age groups combined made up 86.4% of the total respondents and this highly significant proportion was expected as the questionnaires were distributed to respondents who mostly are employees doing their MBA on a part time basis. The MBA students are mostly in their mid career, hence the large representation from the age group, the age group who seeks higher education for career advancement and knowledge enhancement. In term of race, Malays formed the highest number of respondents, represented 57.9% from the total respondent, followed by the Chinese at 25.6% and the Indian at 16.5%. The majority of the respondents came from the middle management with 51.1% and this was followed by the low-level management at 22.6%. Most of the respondents were professionals having degree and postgraduate for their qualifications. The majority of them were earning 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 Ming Lai and Khong Tan(2009) who had found out that self-employed and employed respondents showed statistically significant higher in their mean values as compared to unemployed respondents. They further states that employed and self-employed respondents appear to be more positive and active in money management, insurance, and investment planning. Based on that, it is safe to deduce that the majority of the respondents have a certain degree of knowledge on finance and financial related

matters through personal finance, career exposure and business experience. The professionals are also more familiar to various financial areas as they have the needs to manage their income through vehicles such as savings, insurance, property and investment. As for the marital status, it was found that a large percentage of 72% of the respondents are married with kid. This was followed by the singles at 18% and the last two respondent groups; those who are married without kid at 6.02% and divorcees at 3.01%.

4.2.2 Independent Financial Adviser (IFA) Service Preference and Awareness

This section comprises of the respondents reply to Section A of the questionnaire which consists of eleven questions. Section A hosted a series of objective questions with the purpose of soliciting the Malaysian engagement, awareness and knowledge towards various attributes and features of an Independent Financial Adviser. In the questionnaire, the section outlaid a combination of questions from Comprehensive Financial Adviser Checklist by National Association of Personal Financial Advisors(NAPFA), the checklist entitled the Insights to Choosing a Financial Planner by Financial Planning Association of Malaysia(FPAM) and the Client-Research Questionnaire by The Independent Financial Advisers Association(AIFA). Eleven questions were presented to the respondents where they were required to select only one answer from each question. Prior to beginning to answer the questionnaire, the respondents were shown the definitions of some financial jargons that they would come across in the questionnaire. The definitions that were given in the second page of the questionnaire were meant to assist them to comprehend the questions and enable them to answer accurately.

Table 4.2 Consumer engagement status of an IFA

1. Are you a currently engaging the service of an IFA?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	26	19.5	19.5	19.5
	No	107	80.5	80.5	100.0
	Total	133	100.0	100.0	

A total of 133 respondents participated in the survey. For the first question, the participants were asked whether they are currently engaging the service of an IFA. Based on the response, a very large number or 80.50% of them are not using the service of an IFA. Only a small number of the respondents which represents 19.50% from the total respondents are using the service of an IFA. Ming Lain and Khong Tan(2009) mentioned that the lack of active involvement in personal financial planning by individuals implies that there is a great need of awareness of well-planned and sophisticated financial planning. This could be due to the public lackadaisical attitude towards financial planning and unawareness on how the IFA can add value to their financial plan. The IFA also do not market their service to the public the way the insurance and unit trust agents are doing. IFA is still a niche where according to the Malaysian Securities Commission website, as of September 2010, there are only 10 individuals and 34 corporate bodies registered as license holders for Financial Planning.

Table 4.3 Client duration of engagement of an IFA

2. How long have you been a client of your IFA?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	8-11	3	2.3	11.5	11.5
	0-3	23	17.3	88.5	100.0
	Total	26	19.6	100.0	
Missing	System	107	80.4		
Total		133	100.0		

The second questions asked the respondents for the duration of them being a client of their IFA. For 88.50% out of the total respondents who are a client of an IFA, their duration of being a client of the IFA is very short where their duration of engagement is less than 3 years. The longest engagement period for an IFA by the respondents is within 8-11 years, where this only represents 11.50% of the respondents who are using the service of an IFA, which is indeed a very small number. From the above findings, it could be said that the figure shows that the Malaysian public are still in its infancy stage of engagement and acceptance of the IFA. This is a point of concern as although the majority of the respondents were professionals earning RM3000 to RM9000 per month, they are not currently engaging the service of an IFA even as they have the means and capacity to do so.

Table 4.4 Consumer awareness of an IFA

3. Have you ever heard of an IFA?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	51	38.3	38.3	38.3
	Yes	82	61.7	61.7	100.0
	Total	133	100.0	100.0	

The third question attempts to find out whether the respondents have ever heard of an IFA. A majority of them, 61.66% replied positively which means they are aware of the presence of the IFA. Demographically, the majority of the respondents are professionals which mean they may have heard or come across an IFA through their business or personal deals for loans, insurance, tax or unit trust investment. 38.35% or slightly more than a third of the respondents have never heard of an IFA. They may have engaged the service of a tied agent such as the unit trust or insurance agent but not an independent financial adviser. Although 61.66% forms the majority of the respondents who have heard of an IFA, the engagement of the IFA service is still low at 19.50% as shown in previously in Table 4.2.

Table 4.5 Consumer level of interest to engage the service of an IFA

4. Would you be interested to engage the service of an IFA?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Very Interested	0	0.0	0.0	0.0
Not Interested At All	16	12.0	12.0	12.0
Less Interested	24	18.0	18.0	30.1
Neither	38	28.6	28.6	58.6
Interested	55	41.4	41.4	100.0
Total	133	100.0	100.0	100.0

The fourth question measured the level of interest of the respondents to engage the service of an IFA. Five levels were presented to the respondents ranging from most interested to not interested at all. None of the respondents selected very interested as their answer. However most of the respondents, 41.35% replied positively by answering interested. Those who were neutral about engaging the service of an IFA forms 28.6% of the respondents. This group might not have enough knowledge on IFA and the service offerings to make an informed decision. There are also respondents who are less interested and not interested to engage the service of an IFA and they form 18.05% and 12.03% of the total number of respondents respectively. In combination, almost a third of the respondents have no interest to engage the service of an IFA. The underlying reasons for their lack of interest are something that needs to be investigated further so that it could be addressed for the mutual benefit of the consumer and the IFA.

Table 4.6 Consumer source of financial advice

5. I sought financial advice mainly from _____

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Banks	9	6.8	6.8	6.8
Others	10	7.5	7.5	14.3
Books/Magazines	14	10.5	10.5	24.8
The Internet	17	12.8	12.8	37.6
Insurance or Unit trust company/agent	20	15.0	15.0	52.6
Friends and family	63	47.4	47.4	100.0
Total	133	100.0	100.0	

Respondents were also asked on their source of advice with matters related to finance. 47.40% of them sought advice from friends and families. This could be due to the close relationship and bond that Asian have among them where close relations plays a major part in their lives. This is in line with the findings by Andrea and Andrew (2008) in their consumer research where they mentioned that when consumers choose a financial adviser they tend to ask friends, family and in some cases colleagues for a recommendation. Consumers considered this an effective way of making choices about which financial adviser to choose because it saves them the hassle of looking for an adviser and then 'going in blind'. In their view, friends and family would not recommend an adviser that would give them a bad deal or product. The second most sought after sources are the insurance and unit trust companies or agents. The public could be having these agents as their resource for financial advice due to having bought an insurance or unit trust from them and the agent's foray in the financial arena may give them the perceived credibility to give out such advice. Internet is the third in the source of advice where it's advantage

of having a plethora of information available anytime makes it a viable source for advice. 10.50% of the respondents also resorted to books and magazines. The readily available information from the libraries, publications, financial magazines and text books enables the respondents to seek out financial information that are of interest to them. 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. From the demographic variable where income is concern, most of the respondents are employed which means they would have at least be a customer of a bank for their salary deposit. Although unexplained in the study, the basis that they put bank as the second lowest in term of source for advice could be due to the respondents having a negative perception towards the banks stemming from past dealings. The customer may have the perception that the bank's product selections and advice are biased and skewed towards up-selling and cross-selling their products to the customers. This is truer especially in the competitive and demanding economic landscape where financial institutions are literally fighting for the market share. Justifiably, the banks could not be impartial in disposing financial advice.

Table 4.7 Consumer reasons for engagement of an IFA

6. I prefer to use an IFA primarily due to my lack of _____

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Interest	8	6.0	6.0	6.0
Others	14	10.5	10.5	16.5
Time	35	26.3	26.3	42.9
Knowledge	76	57.1	57.1	100.0
Total	133	100.0	100.0	

When asked about their reason for seeking an advice from an IFA, the respondents gave their lack of knowledge as the main reason where an overwhelming 57.14% of the respondents replied affirmatively. The IFA, through his or her formal and professional trainings, would and should be competent to dispose sound financial information and advice to the client. This is similar to Sung and James(1997) findings where one of the conclusion that they came about mentioned that a majority of respondents would use a financial planner due to lack of knowledge and to the personal assurance that the financial planner would provide. A total of 26.32% of the respondents also replied their lack of time as the second reason. Time is a scarce commodity especially to the working adults and more so to those with family. To dig for information and navigate through the vast maze of financial full of jargons and technicalities would consume a lot of time, money and energy and these are the luxuries the majority do not have. The lack of interest in finance was selected as the last reason for engaging an IFA. It must be admitted that finance is not an area that interest everybody hence engaging an IFA is an option to them.

Table 4.8 IFA product selections

7. I prefer the IFA who can _____

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid offer me a product from just one company.	0	0.0	0.0	0.0
offer me a product from a short-list of companies.	27	20.3	20.3	20.3
offer me any product from across the whole of the market.	106	79.7	79.7	100.0
Total	133	100.0	100.0	

Question seven asked the respondents on three types of IFA based on the IFA product selection ability. A very significant majority or 79.7% replied that they would prefer the IFA to be able to offer them any product from across the whole market. This means the IFA who has the liberty of choice for any products from any financial institution competing in the market will be at an advantage. 20.30% of the respondents replied affirmatively to preference to choose IFA who can offer them product form a short-list of companies. Although the selection may not be comprehensive, the respondents do not mind as long as they have a certain degree of selection from limited number of products and financial institutions. It is interesting to note that none of the respondents had chosen the third option, which is the ability of the IFA to offer them a product from just one company. This is surprising since the majority of the financial agents, whether they are from unit trust or insurance companies, are tied to a single provider which mean they can only offer products from the financial institution that they are associated with. Tied agents are also known as commissioned agents and although this is the practice and the

norm in the market, the respondents answer shows that they would select the IFA who has at least some product selections from different companies. This also means that the IFA do not offer product selections are at a great disadvantage.

Table 4.9 IFA qualification

8. I prefer to work with an IFA who has the minimum qualification of a _____

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	5	3.8	3.8	3.8
Degree	9	6.8	6.8	10.5
The level of qualification held by the IFA is irrelevant	12	9.0	9.0	19.5
Professional certification i.e. Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC) and etc.	107	80.5	80.5	100.0
Total	133	100.0	100.0	

For the IFA qualification, the respondents were asked on the minimum qualification that they want their IFA to have. Again the majority of the respondents or 80.45% of them prefer their IFA to be qualified with the formal and professional qualification in the financial industry where these qualifications could come in the form such as Certified Financial Planner(CFP) or Chartered Financial Consultant(ChFC) to name a few. This indicates that the respondents are more confident on the quality of advice and service of the IFA who are competent, professionally trained and qualified to dispense financial advice. This findings is consistent with the finding by Sung and James(1997) where they had found out almost half (45%) of the respondents preferred the financial planner to have an MBA degree or a degree equivalent, and 92% of the respondents preferred the financial planner to have the CFP designation. The respondents who answered that level

of qualification of the IFA is irrelevant are second on the list with 9.02%. This could be due to the respondent's lack of awareness on monumental task that ought to be done by the IFA and the criticality to get good quality advice from trained professionals. This is followed closely by the number of respondents who selected degree as the minimum qualification for the IFA. The remaining 3.70% of the respondents would settle for IFA who has a minimum qualification of diploma. None had chosen SPM or lower as the minimum qualification of the IFA. Overall, the finding shows that the respondents preferred the IFA to be fully qualified formally and professionally rather than having the minimal qualification of having a degree or less. The IFA who possesses all the required qualifications will have a competitive advantage over others who do not.

Table 4.10 IFA remuneration

9. I prefer the IFA to be remunerated by _____

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Fee-based; Charge me a fee for the advice delivered, but they also receive payments(commission) from products sold.	26	19.5	19.5	19.5
Fee-only; Charge me a fee for their service (payable upfront).	43	32.3	32.3	51.9
Commission; Receive payment from the company whose product I buy, which is included in the product.	64	48.1	48.1	100.0
Total	133	100.0	100.0	

In term of the IFA remuneration, the respondents were asked their preferred mode of remuneration for the IFA. The definition of the remuneration mode is given on the second page of the questionnaire. Those who had chosen commission as the preferred mode formed the largest group with 48.12%. A commission is a payment made by a company to a sales agent, usually expressed as a percentage of premiums. The reason why the majority had chosen commission could be due to the public familiarity with commissioned-based agents since all along the public are very used to paying commissions to their financial agents for insurance or unit trust products. They might neither have the familiarity nor sufficient knowledge on the unique benefits such as the independence and impartiality of advice that could be reaped from engaging IFA who charge on fee-only. Nevertheless, 32.33% of the respondents chose the second option

which is fee-only IFA. A Fee-Only financial adviser only charges for his or her advice with or without ongoing management. No other financial reward is provided by any other institution, which means they do not receive commissions on the actions they take on the clients' behalf. A fee-only IFA is compensated based on an hourly rate, a percent of assets managed or a flat fee also known as a retainer. The remaining 19% of the respondents selected fee-based IFA. Fee-based is often confused with fee-only. They are distinctly different where fee-based advisers charge clients a fee for the advice delivered and they also receive payments from the products sold. This finding is somewhat different from the previous study by Sung and James where they found the only 20% of the respondents preferred a financial planner to be compensated by commissions from sales exclusively while most of the respondents showed desire to pay fees and not commissions.

To relate this to the present situation in Malaysia, BNM introduces a measure to promote the development of financial advisers by facilitating the transformation of the tied agency force into financial advisers' representatives. This permits the tied agents to continue receiving renewal commissions during the transition period of five years from the date of the transition. The measure reflects Bank Negara Malaysia's serious effort and commitment to continuously promote the development of financial advisers as a new distribution channel for financial products and services.

Table 4.11 Fee-only IFA method of compensation

10. For IFA that charges based on fee-only, I prefer _____ as the method of compensation.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Hourly rate planning; Charge based on the time spent working on the client's unique financial situation.	22	16.5	16.5	16.5
Assets Under Management (AUM); Charge a percentage based on the size of the client's asset that is being managed.	45	33.8	33.8	50.4
Retainer or Flat Fee; Charge a predetermined fee for work done during a fixed period of time or a specific project.	66	49.6	49.6	100.0
Total	133	100.0	100.0	

There are three types of compensation for fee-only IFA. Namely they are hourly rate planning fee, retainer fee and Asset Under Management (AUM) fee. A total of 39.89% of the respondents answered affirmatively to giving the IFA a Retainer or Flat Fee. A retainer or flat fee approach means the client pays a predetermined fee for work done during a fixed period of time or for a specific project. The contract that the client signs indicate the type of services that are included which can be comprehensive planning or a smaller project. A third or 33.83% of the respondents opted for the fee to be based on

Assets Under Management (AUM). AUM is a fee determined as a percentage of the value of the client portfolio. Although this is a simple way to calculate fee, the client needs to check the contract to be sure if financial planning services outside of portfolio management are included. The remaining 16.54% of the respondents opted for hourly rate planning. Hourly rate planning is where the customer pays for the hour or time spent working together. The IFA may also bill for doing research or analysis on the customer's unique situation. The rate charged will vary by expertise and overhead.

Table 4.12 IFA service delivery methods

11. In term of providing service, I prefer the IFA to

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid provide me assistance with the implementation plan.	20	15.0	15.0	15.0
provide a written analysis on my financial situation.	26	19.5	19.5	34.6
provide recommendation on my financial situation.	41	30.8	30.8	65.4
provide ongoing advice on my financial affairs.	46	34.6	34.6	100.0
Total	133	100.0	100.0	

The final question asked on the method in which the IFA provides the service to the clients. To this question, most of or 34.59% of the respondents prefer the IFA to provide ongoing advice to them on their financial affairs. By opting for ongoing advice, the respondents were implying that they would like to have a long term relationship and stick to the same IFA to get continuous advice on their financial matters. This is closely followed by the next group of slightly over 30% of the respondents who preferred the IFA to provide recommendation on their financial situation. This is in congruent with Table 4.7 where the majority of the respondents cited the lack of knowledge as the reason to use the service of an IFA. Those who selected the IFA to provide a written analysis on their financial situation formed 19.55% of the respondents. The last group of respondents formed 15% of those who wants the IFA to provide them assistance with the implementation plan.

The third part of the analysis investigates the preference for engagement of the IFA according to selected respondent's demographic profile which are the gender, education and income.

Table 4.13 Gender. Crosstabulation

		4. Would you be interested to engage the service of an IFA?					Total
		Very Interested	Interested	Neither	Less Interested	Not Interested At All	
Male n=73	Count	0	30	18	14	11	73
	% within Gender	0%	41.1%	24.6%	19.2%	15.1%	100.0%
Female n=60	Count	0	25	20	10	5	60
	% within Gender	0%	41.7%	33.3%	16.7%	8.3%	100.0%

According to the result, the male and female preferences for the selection of the IFA are almost similar in percentile. This means that gender wise; there is no difference in the preference for the selection of the IFA. High percentages of positive answer were obtained from both genders. Those who rejected the idea of engaging the IFA numbered a few. Overall, the acceptance of the IFA from the gender perspective is positive.

Table 4.14 Education Level. Crosstabulation

		4. Would you be interested to engage the service of an IFA?					
		Very Interested	Interested	Neither	Less Interested	Not Interested At All	Total
Certificate/ Diploma n=3	Count	0	0	3	0	0	3
	% within Education	0%	.0%	100.0%	.0%	.0%	100.0%
Degree/ Professional Certificate n=93	Count	0	40	26	13	14	93
	% within Education	0%	43.0%	28.0%	14.0%	15.1%	100.0%
Postgraduate n=37	Count	0	15	9	11	2	37
	% within Education	0%	40.5%	24.3%	29.7%	5.4%	100.0%

From the education level perspective, the percentage of those having education level from undergraduate onwards shows high preference for engaging the service of an IFA. From the 93 and 37 respondents for degree and postgraduate holders respectively, in combination they showed a high preference for engaging an IFA. Although this percentage did not breach the 50% mark, the figure is still substantial as compared to those who are disinterested. It must be acknowledged that those who selected indifferent in their interest for engaging the service of and IFA are also quite high, which mean they could either use or not use the IFA service. Only a small percentage of the higher educated group rejected the idea of engaging the service of an IFA.

Table 4.15 Income. Crosstabulation

		4. Would you be interested to engage the service of an IFA?					Total
		Very Interested	Interested	Neither	Less Interested	Not Interested At All	
Less than RM1,500 n=4	Count	0	0	0	2	2	4
	% within Income	0%	0%	0%	50.0%	50.0%	100.0%
RM1,501 - RM3,000 n=13	Count	0	4	5	2	2	13
	% within Income	0%	30.8%	38.4%	15.4%	15.4%	100.0%
RM3,001 - RM5,000 n=36	Count	0	12	13	11	0	36
	% within Income	0%	33.3%	36.1%	30.6%	.0%	100.0%
RM5,001 - RM7,000 n=31	Count	0	12	12	5	2	31
	% within Income	0%	38.7%	38.7%	16.1%	6.5%	100.0%
RM7,001 - RM9,001 n=29	Count	0	18	6	0	5	29
	% within Income	0%	62.1%	20.7%	0%	17.2%	100.0%
More than RM9,001 n=20	Count	0	9	2	4	5	20
	% within Income	0%	45.0%	10.0%	20.0%	25.0%	100.0%

For the income perspective, the pattern is obvious where the higher the income the more likely the service of an IFA will be engaged. This can be seen from the steady increase of the affirmative answer to IFA selection as the income band increases. This shows that the more disposable income that the respondents have, the more receptive they are towards the IFA. It can also be said that the higher income group do not mind to spend money of IFA engagement as long as they have the access to quality and sound financial advice.

4.3 Analysis of Measures

Factor analysis was carried out to analyze the data for its mean, standard deviation, skewness and kurtosis. The findings are presented in Table 4.16 below.

Table 4.16 Mean, Standard Deviation, Skewness and Kurtosis for Factor Analysis Result

Factors	Mean	Std. Deviation	Skewness	Kurtosis
Characteristics	6.3609	.64447	-.804	-.269
Attribute	5.9787	.74066	-.085	-1.031
Credential	6.2180	.90423	-1.825	4.575
Competence	6.1024	.71722	-.294	-.931

The skewness and kurtosis values for the four measures derived from the factor analysis are within the accepted range of +2 skewness with the exception of Credential. On average, all four factors show a mean that is slightly over or close to 6, which means that the respondents rated all four factors as important on their reasons for selecting an IFA.

Table 4.17 Friedman Test Results

Test Statistics^a

N	133
Chi-Square	57.797
Df	3
Asymp. Sig.	.000

a. Friedman Test

The factors derived from Factor Analysis were ranked to determine which is the most important among them for the consumer to engage an IFA. As shown above by the Friedman Test in Table 4.17, the significance value p is within an acceptable range where p is equal to 0.000(which is less than 0.05).

Table 4.18 Ranking of Factors based on Importance

Ranks

	Mean Rank
Characteristics	2.87
Credential	2.84
Competence	2.28
Attribute	2.01

Based on the mean rank value shown in Table 4.18 above, the factors could be ranked starting from the most important to the least important according to the following sequence; Characteristics, Credential, Competence and Attribute.

4.4 Testing of Hypothesis

Multiple Regression was used to determine the significance of Characteristics, Service Attributes, Credentials and Competence on the decision to engage the service of an IFA.

Table 4.19 Multiple Regression Coefficient Result

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.554	.919		5.045	.000
	Characteristics	.121	.203	.075	.598	.051
	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?

The hypotheses as the followings were tested based on the result of the Multiple Regression.

For Hypothesis 1 which assumes that the personal characteristic of the IFA has a positive influence on the IFA engagement by the consumer, the hypothesis is accepted based on the positive coefficient result (0.012) and the significance value of 0.051. Based on Coakes, Steed and Ong (2010), a hypothesis cannot be rejected if the significance value is less than 0.05.

For Hypothesis 2 which assumes that the service attribute of the IFA has a positive influence on the IFA engagement by the consumer, the hypothesis is rejected given its

negative correlation of -0.273 and the significance value of 0.136 which is above the accepted value of p less than 0.05.

Similar to Hypothesis 2, Hypothesis 3 that states the credential of the IFA has a positive influence on the IFA engagement by the consumer is also rejected due to its negative correlation of -0.027 and the high significance of 0.541 which is above the accepted value of p less than 0.05.

The final hypothesis is Hypothesis 4 is also rejected. It states that the area of competence of the IFA has a positive influence on the IFA engagement by the consumer. This is rejected as the coefficient correlation is -0.248 and the significance value of 0.140 which is more than the 0.05 acceptable value.

4.5 Multiple Regression

Multiple Regression was performed to determine the factors that influence Malaysian to engage the service of an IFA. The regression was carried out on the four factors as analyzed in the factor analysis, which are Characteristic, Service Attributes, Credential and Key Area of Competence.

The findings from the Multiple Regression are presented in the Table 4.20 as the following.

Table 4.20 Multiple Regression R Square and Adjusted R Square result

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.295 ^a	.147	0.120	0.90983

a. Predictors: (Constant), Competence, Credential, Characteristics, Attribute

As shown in the table above, all four independent variables explain 14.7% of the variance (R Square) in engagement of an IFA. The R Square shows a low predictive power of the model in determining the key engagement factors for an IFA by the Malaysian public. The result only account for 14.7% of the significance for the factors to decide on the engagement of an IFA.

Table 4.21 Multiple Regression ANOVA Result

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.463	4	3.116	3.055	.019 ^a
	Residual	130.529	128	1.020		
	Total	142.992	132			

a. Predictors: (Constant), Competence, Credential, Characteristics, Attribute

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

The F Value or F ratio is the test statistic used to decide whether the sample means are within sampling variability of each other. This is to check whether the model as a whole has statistically significant predictive capability in the regression framework. The F ratio of 3.055 indicates that the model is statistically significant to predict the IFA engagement factor.

As shown previously in Table 4.19 Multiple Regression Coefficient Result, the constant value of 4.554 makes a substantive contribution in predicting the key engagement factors of an IFA by the Malaysian public as the constant is statistically significant (Sig. = 0.000). Looking at the coefficient of the four factors, all factors except Characteristics has negative coefficient.

The positive coefficient for Characteristics means the increase in the perception of this factor will have a positive impact on predicting the engagement of the IFA by the Malaysian public. In other words, the Malaysian public will more likely to engage the

service of an IFA is they perceived that the IFA has more positive characteristics. The other two factors which are Attribute and Competence have negative coefficient, which means the more of these factors that the IFA has the less likely that the public will engage them. For Credential which has negative but close to zero coefficient, it is likely that the public will be indifferent in the selection of the IFA should the more credential the IFA obtains.

Based on the significance value of each independent variable, only Characteristics can be used to predict the influence to engage the service of an IFA. This concurs with the findings by Sung and James(1997) that highlight the personal characteristic as very important for a financial planner. According to Hair, Black, Babin, Anderson and Tatham(2006), a factor is a predictor is the significance value p is less than 0.05. The p-value for Characteristics is 0.05.

Therefore based on the coefficient findings from Table 4.21 above, the equation for this study can be defined as the following:

Engagement Factor For and IFA = 5.554 + **0.121 Characteristics** + (-0.272) Attribute + (-0.027) Credential + (-0.248) Competence.

CHAPTER 5 CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion

The IFA is relatively new to Malaysian where they are more familiar with unit trust or insurance agents. Their preference for the selection of an IFA is still unknown and yet to be investigated. As choices are aplenty and their decision might be influenced by factors external 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, it is the objective of this study to find out what are the factors that influence the consumer's choice for an IFA. This finding will 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.

From the findings, a majority of the Malaysian are not using the service 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, still a large numbers are receptive and interested to engage the service of an IFA. Currently, many of the consumers are seeking financial advice from friends and family. In addition, most of the public cited their lack of knowledge as the primary and their lack of time as the secondary reason on why they would engage the service of an IFA. In term of product offerings, the majority of the public want the IFA to be able to offer them products from across the whole market, which is exactly where the independence factor of the IFA plays a major role. Qualification is also important as the public prefers the IFA to have formal

and professional training in financial planning in order to serve them better by dispensing sound and quality financial advice and service. A totally independent financial adviser works on fee-only compensation. However the public still prefers commission as the main method of compensation for the IFA. Nevertheless, fee-only where no commission is paid to the IFA is preferred as compared to fee-based (also known as fee and commission compensation). Those who selected fee-only compensation prefers it to be modeled as a charge based on predetermined fee for work done during a fixed period of time or a specific project. This model is also known as retainer or flat fee. For the service that the IFA is going to provide, the majority prefer to have a certain level of continuous relationship with the IFA through ongoing advice on their financial affairs. This is in order to enable the IFA to track and monitor the performance of the recommended solution and suggest for necessary actions based on changing circumstances.

The model that was proposed in this study consist of the four factors which are the personal characteristics of the IFA, the service attributes of the IFA, the credential in terms of personal qualification and experience of the IFA and the area of competence of the IFA. Through the analysis of the questionnaire administered to the MBA students and employees of several organizations within the Klang Valley, the criterion accepted for the selection of an IFA by the Malaysian public is the personal characteristics of the IFA. Of the four factors, the Malaysian public prefers the IFA to have the personal characteristics or traits such as confidentiality, honesty and reliability in discharging their service. This finding is in agreement with the previous study by Sung and James(1997). 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 statistically accepted in this study; they play a certain level of importance in the selection of an IFA. Other factors among others but not limited to trust and relationship also needs to be identified and tested empirically for their significance of the IFA selection by the public.

This study is limited in term of the scope of the target audience. It could be made more comprehensive using a larger sample size. This could include the population from diverse geographical location all over Malaysia. However the time and cost of obtaining a relatively large random sample was beyond the capacity of this study. As the study was limited to Klang Valley population, where the residents are more knowledgeable and exposed to the myriads of the financial products and services, the result could not be established as conclusive to those in the rural areas.

5.2 Suggestion for future research

There are other areas that warrant further research. For example, the influence of the relationship factor among the potential client and the IFA in the client's selection decision. Also, it would add to the area of knowledge by investigating whether clients are selecting the IFA based on race and marital status inclination.

For comparative purpose, the study could be replicated in other geographical areas of Malaysia and to be inclusive of the other target market such as the non professionals, government and the private sector. As the study was focused to Klang Valley, the finding has isolated those who are at the rural areas. By expanding the scope and replicating it on

a larger scale, comparisons can be made between subgroups of consumers thus enabling the IFA to position them better to different marketplace.

Should time and money factor are abundant, the study could be made more comprehensive in which qualitative questions could be asked by means of conducting observation, in-depth interviews or a case study. The qualitative questions would allow conclusive evidence to be derived on public's real life experience, their interpretation of the IFA and the financial industry and how this influences their actions.

The study could also be reversed to investigate from the perspective of the IFA. This is to identify and uncover their marketing strategies and the market that they are focusing on. This is important because as far as the FSMP initiative's success is concern, the preference of the IFA to a focused market needs to be recognized since highly specialized professionals such as the IFA regardless of their mode of fee would rationally serve a niche market, for instance the affluent.

5.3 Implications

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 its quest to become towards a high income nation in year 2020. The Malaysia Prime Minister, Datuk Seri Najib Tun Razak in his 2011 budget announcement projected the Gross National Income to increase close to RM1.7 trillion (US\$524 billion) in 2020 under the government's economic transformation programme from RM600 billion (US\$188 billion) in 2010. As a result, it would raise Malaysia's per capita income from

RM22,000 (US\$7,000) to at least RM49,500 (US\$15,000) in 2020. The increase in per capita income would be meaningless if the public do not accept and engage the service of qualified professionals such as the IFA. It is for this very reason this research would contribute to the success of the FSMP and the vision of the nation. By knowing what the public want and demand in the IFA, the IFA could be better prepared and positioned to offer their expertise to the marketplace and tailor their solutions not only to the affluent but also to the masses. The benefit would not only allow the IFA to prosper in their business but also the consumers. By having the strong support from the Government, the regulatory bodies and the financial institutions, with proper execution on the strategy by the IFA, more Malaysian would be able to benefit from the service of an independent financial adviser.