One Plan, Four Pillars

Wealth management is about protecting, accumulating and preserving your wealth, before working out how best to pass it on. But have you forgotten that wealth protection, not accumulation, should be the foundation of your financial plan?

By Patrick Lim

With war being waged in Iraq, and SARS spreading to more than 20 countries around the world, you could be forgiven for being distracted from your finances, but the buzzwords 'wealth management' are still given regular exposure. There is even one advertisement loudly proclaiming that 'nobody is born poor'. Indeed, the post-war 'baby boomers' of today are relatively well off compared to our pilgrim forefathers, who toiled to plant the seeds that the present-day generations now harvest.

To do that properly, however, we still all need a financial plan. The four pillars of wealth management are protection, accumulation, preservation and distribution, but it is wealth protection, or the management of risk, that acts as the basis of financial planning. Wealth accumulation, meanwhile, deals with investment planning, wealth preservation is primarily concerned with estate and tax planning, and wealth distribution is about wills and trusts.

There are no short cuts to effective wealth management, nor is there a magic formula guaranteeing its success. Far too many seem to be preoccupied with wealth accumulation at the moment, but it is wealth protection that must form the starting point of any financial plan. Recent government initiatives to liberalise financing rules for big-ticket items like HDB property and cars have, however, complicated financial planning further.

Competition for home loans

At the start of the year, the HDB (Housing and Development Board) relinquished their market-rate loans to commercial banks, and we have doubtless all read about the HDB home-loan war that resulted, with lenders offering fixed rates of less than 2% for the first year, not to mention an assortment of freebies. As the majority of Singapore's population lives in public housing, this market is worth an estimated S$3.2 billion to S$3.5 billion, with the HDB still servicing a portfolio worth around S$12 billion.

Initial down payments of 20% can also now be made using money from members' CPF Ordinary Accounts, so consumers have a lot to think about. Lending rates for HDB properties might be fixed for the first couple of years, for example, but thereafter interest rates are subject to the commercial banks' board rates, or floating rates, which are unlikely to remain static. In fact, the chances are that they will move up, and as the typical loan tenure is 20 to 30 years in length, consumers should not focus too heavily on short-term payments at the expense of a longer-term view. Just ask those who took out private-property loans back in the early 1980s and had to live with double-digit interest payments of around 15%.

If your mortgage commitments have been calculated on the basis of an income from both you and your spouse, have you made any safety provisions in the event that one of you, or perhaps even both of you, becomes unemployed? That might be the worst-case scenario, but the idea of life-long employment and the 'iron rice bowl' mentality that can come with a job in the government sector were surely dispelled by the recent restructuring exercises at the PSA and HDB, when golden handshakes were extended to long-time employees.

These days, it seems like a mid-life crisis is to be expected when one is laid off in the midst of economic restructuring, so do not take being employed for granted. The government has admitted that retrenchments will henceforth not be the exception but rather the norm. The unemployment rate stood at 4.4% at the end of 2002, but has been projected to grow to 5.5% this year.

Credit controls

The creation of the Credit Bureau in October last year by the Association of Banks in Singapore came without any fanfare, but it will definitely have an impact on consumers. The CBS is basically a central depository for the repayment history of all loans that consumers have taken out, an initiative in line with the Monetary Authority of Singapore's bid to enhance the country's risk-management capabilities.

When a consumer applies for credit facilities, another loan, or even a credit card, information on their repayment history can be accessed electronically. The bureau tracks late payments and assigns each a grade from B to D (which is the lowest) to those who are more than 90 days late. Those grades stay with a person for at least 12 months, even if they have resumed prompt payment.

Should a consumer default on a loan, however, the information stays in the database for six years. The biggest danger posed by taking up HDB loans from commercial banks must surely be the real possibility of the flat being repossessed. Based on records from the HDB, beginning in 1997 when the data first started to be compiled, only two flats have been repossessed, but there have been 21,800 lessees who have defaulted on their mortgage payments for three months.

Be warned that the Housing and Development Act will not protect your flat from repossession if you fail to pay the home loan that you took from a commercial bank, a fact confirmed when the HDB told the *Straits Times* that "banks which grant loans based on the security of the flat are secured creditors, unlike third-party creditors who are unsecured creditors. As secured creditors, banks can exercise their mortgagee's power of sale."

This was reiterated by Leong Chok Keh, head of the policy and property section at the HDB, when he confirmed that, "The bank which has granted the mortgage loan can recall the loan and sell the flat if the loan agreement allows it to do so in the event of bankruptcy."

Although the director of the Association of Banks in Singapore, Ong-Ang Ai Boon, has stressed that banks will seek to help customers that encounter problems servicing their debt, whether by restructuring or extending loans, the last resort is still repossession. Her words came as a welcome reassurance, but banks remain commercial entities not charitable organisations in disguise.

As Singapore's economy continues to be restructured, there will inevitably be job losses, with low-value products and services being displaced and relocated to countries with lower costs. Although jobs will be created by sunrise industries like nanotechnology and photonics, the structurally unemployed will have to be retrained to acquire new skills.

It is because of theses changes – to the economy, the marketplace and the rules governing big-ticket items like cars and houses – that financial planning must become a pivotal focus in everyday living. So, sit down with your financial adviser, reassess the basics of your wealth-management blueprint to take into account the impact of the new rules, and do a thorough, periodic review whenever changes are implemented. We all know the saying about what happens to those who fail to plan. Si

Patrick Lim is a broking manager at PromiseLand Independent Pte Ltd. Mr Lim can be reached at patrick.lim@promiseland.com.sg