More tinkering or a planned rejig?

David Greenslade | Strategi | 06 February 2014

There is growing evidence that many financial advice firms will need to fundamentally rejig their way of doing business.

The majority of New Zealand's financial advice firms, networks, and advice divisions of QFEs are run by highly successful advice practitioners. They are in this role because they were, or still are, very good at financial advising and either ended up owning the firm, starting their own firm, or becoming the manager - usually because they were the best sales person at that time. However, being a fantastic financial adviser does not always directly translate into being a fantastic owner or manager of a financial advice business. Different skill sets are often required.

One skill set we have seen lacking amongst many in the financial advice sector in recent years has been the ability to think strategically and then implement change on a tactical basis. Too frequently, we see financial advisers and larger corporates just tinker with their business in response to regulatory and consumer changes.

This results in common issues such as:

- Compliance becoming an administrative nightmare - the legal teams (within corporates) seem to be dictating the advice that can be given; Statements of Advice (SoAs) become bigger, more unwieldy, and take longer to produce; and, there is either confusion or ignorance around many aspects of compliance. The result - unhappy advisers and reduced productivity.
- An increasing trend to limited advice in an attempt to reduce workloads, make life simpler, and operate within the adviser's comfort zone of knowledge, competence and skill. The result? Many adviser practices are leaving potential dollars on the table and are unwittingly setting themselves up to compete directly with banks and online product sellers. They are missing out on generating thousands of additional dollars of revenue per adviser and winning happy clients who will willingly refer the adviser and firm.
- Underuse of technology resources - Many adviser businesses have spent thousands on new hardware and software since 2010 but have not up-skilled their staff on how to best use these tools to gain economic advantage for the business and better service outcomes for clients. Basic things like becoming a competent touch typist, using all the tools on your smart phone, really harnessing the power of your CRM system, using integrated insurance application tools, and moving client investments into model portfolios either via a wrap platform or using multi-asset class products,

just do not seem to be happening consistently across the entire industry.

- Increasing frustration and loss of motivation of an aging adviser force – These advisers feel as if they are becoming trapped by regulation, new technology, the speed of change, and the inability to hire smart young advisers who are happy to work on a percentage of revenue generated and have the ability to cover their costs and make a profit in year one. The result? They stop thinking strategically and start to let the business wind down, telling their spouse "I am thinking of selling the business, but probably not just yet, perhaps one more year."
- Falling EBIT despite 2013 being a bumper year for investing – this is probably due to rapidly increasing costs and reduced productivity with no corresponding focus on dramatically increasing revenue.

Tinkering costs money in terms of opportunity cost, reduced productivity, increased operating costs and falling client satisfaction ratings. Many advisory firms seem to have only made changes to existing systems, processes and templates as regulatory changes became evident. Some made small pro-active changes while others needed a Financial Markets Authority wakeup call to get them to implement change. The end result is that those firm have not undertaken a fundamental reassessment of where they are at, what they want to achieve, and the best way is to get there. All they have done really is add to the old systems they might have followed prior to 2011.

However, it is not all doom and gloom.

There is a group of really smart operators in the market who have had a record 2013 from a revenue generation perspective. They are now sitting on good cash profits and want to benefit from the raft of changes that are currently hitting the industry. We are seeing pro-active businesses (big and small) reassessing what they do. Commonly, they are:

- Identifying the key industry strategic drivers for the next three years and deciding how to turn these to an opportunity – not treating these drivers as a threat.
- Reassessing their whole advice process and realising that the way they have used technology, face-to-face meetings and templates in the past, will just not cut it if all they do is tinker with templates in their efforts to meet the requirements of the Financial Markets Conduct Act (FMCA), the proposed new code, the AML/CFT regulations and the plethora of new FMA Guidance Notes issued in late 2013. If you add all of those things together, then the quantum change for some adviser businesses may be as large as the changes they made in 2011 when the Financial Advisers Act came into full force. Many advisers just added a compliance overlay onto existing procedures in 2011. Trying to do the same in 2014 will end up stretching the procedures to a level where they become confused and unwieldy.
- Significantly up-skilling advisers and staff so they can move to holistic advice and add value in the areas their clients most need it, and where the adviser has the biggest

potential to add the most value. It is a focus more on assisting the client to achieve their goals rather than focusing on selling them a product. Clients are becoming more sophisticated and have access to more product information than ever before. Clients are looking to financial advisers to provide them with the much needed direction/advice that websites and direct sales channels are unable to do.

- Taking an absolute strategic focus on recruiting young people into the business. The older greying adviser no longer just sends the keen young adviser out to get slaughtered then resign in disillusionment. Instead, these greying advisers focus on teaching the newbies everything they know and by doing so, the older adviser learns a few tricks themselves and seems to be reinvigorated with motivation. They pair up and become a formidable team which takes client service and satisfaction to new highs.

- They have swept away hang ups and preconceptions around the issue of Authorised Financial Adviser vs Registered Financial Adviser, and being an investment adviser or an insurance adviser. They realise that if they want to make serious money then they either need to: (1) become an absolute specialist in their chosen product sphere and be recognised as being the best in that area; or (2) become an AFA who is more like a general practitioner – that is, they look after a client's holistic wellbeing and add immense value over time, and can charge accordingly along the way. First and foremost, they sell advice and the product sale will then automatically come as will the remuneration.

What do you want to do in 2014 with your business?

There is a rapidly escalating wall of change on our doorstep – much of it driven by new legislation, regulation, code and FMA guidance. This needs to be embraced and dealt to.

Do you want to just tinker with what you already have and end up frustrating everyone over coming years? Or is 2014 a year for you to take a serious look at how you deliver advice and how you service clients? The choice is yours. 2014 could be the year you implement simpler, lower cost and more compliant processes than what you might already have in place. These could improve client retention, drive down costs and improve your bottom line.

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