Sticking to the limit

David Maida | financialalert | 20 March 2014

The Financial Markets Authority (FMA) published a guidance note in December, allowing advisers to provide simplified financial advice to "lower value clients". The Guidance Note: Limited Personalised Advice describes how an adviser can give more than just simple class advice without providing a comprehensive financial plan. It's mostly aimed at advisers within Qualifying Financial Entities (QFEs), but it is also an issue for Authorised Financial Advisers (AFAs). We spoke to some advisers about how they handle lower value clients and the effect of the Guidance Note.

Deborah Carlyon, AFA with Stuart and Carlyon, told financialalert that their firm does not seek out clients wanting just limited personalised advice. "We insist on them completing our client information document and explain we cannot advise them without basic information about their circumstances. Interestingly, some clients may assume their request is limited, but as professionals, it's our job to inquire and assess that," she said.

Carlyon said she can see the need for limited personalised advice in some uncomplicated situations such as KiwiSaver but she still needs a lot of information about the client. "In my view, limited advice is for someone who doesn't want to tell you all about themselves."

FMA defines personalised financial advice as either financial advice around the product and investment planning service, or a Discretionary Investment Management Service (DIMS). Examples the FMA Guidance Note gives include KiwiSaver fund advice, retirement savings health check, some verbal advice on an IPO, or advice on a managed fund in some circumstances.

Carlyon gives the example of a client calling up and saying they have some money to invest and asks what they should do it. She said it's not professional to answer that as a simple question.

"Before proceeding, we outline the scope of service in an individual engagement letter that shows what we will be addressing and what areas will not be covered in the advice to be provided. Overall, I think the Guidance Note is a very clear explanation of the issues to consider with examples of how to deal with client inquiries."

Carlyon said what an adviser should be doing is helping someone understand the investment process, strategy, risk and what can be achieved. "You can't make any assessment and give any advice until someone's mapped out for you their situation and position."

Neville Caird, Dunedin director of New Zealand Financial Planning (NZFP), said he has some situations which call for limited advice and they have had processes in place for quite a long time to deal with it.

"Anyone who's come to us for limited advice - and it may well be KiwiSaver, insurance only, investment only - we have a process that we follow which does involve a scope of service."

Caird doesn't seek out limited advice clients but since NZFP is a comprehensive financial planning service, situations arise when it's necessary. He said they would never turn away a client just because they didn't want a full financial plan.

"We will get as much information as we can to feel that we are in a position to provide advice. We believe we are putting the client first by getting that right." This information is no different for limited advice clients than it is for full service clients.

Caird doesn't categorise limited advice clients as C-class because they may very well become A-class clients. Particularly if a young client comes in for advice on KiwiSaver, they will gain respect for what advisers do, Caird said. "When they have gone through employment and they have accumulated assets, we want to be part of that. It's important to do the lower value clients right. I sometimes think it's totally inappropriate to classify them as a C just because of where they are at today."

The ideal client for Caird is not necessarily someone with a massive amount of money but is someone who totally believes in their planner for the provision of advice. Caird doesn't believe that most advisers operate this way but NZFP aims to be a holistic practice.

He said the FMA Guidance Note doesn't really change what they're doing but just requires documents around their processes. "It just reminded us that in some cases we are giving limited advice but we also know what backs up that limited advice. We've got a process. We work through it. Nothing changes."

The FMA guidance note reads:

> "Depending on the scope of the advice, you can expand the level of enquiry to get more information that is relevant to your advice. Your client enquiries should be relevant and proportionate to the scope of your advice. This will help to ensure that it is clear to your client (and to us when we undertake our monitoring activities of your business) that you are providing limited personalised advice."

Caird said this is the approach they have taken well before the guideline came out. "With limited advice, it's purely in relation to the parameters that have been agreed upon. That's scope of service is a big part of it. We've been very clear that if it's a specific area then we both need to understand the parameters."

A lot depends on the business model of the individual practices, he thinks. "I don't see limited advice as any limitation on the business. It's just how you go about it."

Simon Hassan, director of financial planning firm, Hassan & Associates, said that he also gives limited financial advice on occasion although he offers full financial planning services.

"Sometimes, they say they just want this or that done. Someone might just have a KiwiSaver or someone might just have an interest in taking care of their grandchildren or something," he explained.

Hassan said limited personalised advice clients are less likely to expose him to as much risk and are not necessarily lower value clients.

Hassan said the need for limited advice often comes up because the cost of a full financial plan would not be worth it. "Where client has made it clear they either don't have the money or don't want to spend the money on anything more than advice on a certain limited area, we just state that very clearly and provide them the advice that they do want."

But, he also said that the situation does not happen very often and is sometimes done on a pro bono basis.

He also welcomes the references in the Guidance Note to the adviser using their own judgment and that the regulations allow limited financial advice in certain instances even though it may be rare. "If it affects how much they save for retirement or how they should invest some money, it's much harder to do limited [advice]."

David Greenslade, managing director of financial advisory support services provider, Strategi, told financialalert that the Guidance Note is meant to simplify things for advisers so that there are providing enough information but not so much as to overcomplicate things.

And, limited personalised advice might come up more often than most advisers are expecting, he argued.

"The moment you scope something out and you say 'I'm only going to do investment advice relating to KiwiSaver' or 'I am only going to give advice relating to the rollover or reinvestment of this maturing product' then that's limited advice," Greenslade noted.

Plus, he pointed out, while advisers may be giving comprehensive financial advice at the beginning of the advice process but then every time they talk to the client on components of the plan thereafter, that's limited advice. "Every time advisers go and look at something and say that we should move from product A product B, there are probably not going back and doing a comprehensive financial plan."

He says this may come as a surprise to some advisers. "Most advice that most advisers give is limited in some shape or form."

And, most of the advice that comes out of QFEs is limited, he argued, adding that it's mainly because most people go to their bank for a time-driven transactional event such as a home loan, insurance or maturing term deposit. The institutions are saving money by not having to train their advisers to provide comprehensive advice. The business model for most QFE's does not involve comprehensive financial plans, according to Greenslade - so this Guidance Note will outline the activity of an awful lot of advice that's going on in New Zealand.

"They can train them in a narrower range, be it either on insurance or on investment. Even within the QFEs, the AFAs are tending to limit their advice. So, for a QFE, it makes good business sense to only do limited advice in some shape or form."