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**“Life begins at the end of your comfort zone”**

**Neale Donald Walsch**

### **Introduction**

This chapter draws together the many themes I have articulated during this series such as:

- The “mind-set” shift from prioritising the cost of a product to focusing on the value of your proposition
- Need for clear vision and a strategic approach
- Developing robust business models and business management skills
- Outsourcing in order to access expertise and release your capacity to add value
- Operating a single platform strategy where appropriate and remain Independent
- Removing the Restricted status label
- A compliance focus on value as opposed to pure cost
- Pricing for services properly
- Broader market impact
- Reasons why some firms won’t change
- Call to action

### **Mind-set shift**

The market’s traditional perception of value being based on products and the cost of products needs to be replaced by focus on the value clients derive from the overall proposition being delivered.

A Transactional offering may not require this shift, but it is a diminishing element of most firms’ offerings.

The Advisers themselves need to have a compelling story around the value of their proposition and believe in that value. To believe in that value they have to have the skills to develop broader and deeper financial planning relationships. For many years the focus has been on getting qualified to offer technical advice and be better technicians. There has been little promoted around the more important aspects of the client / adviser relationship that needs to be in place before any of the technical know-how can be applied.

With this mind-set shift must come a move from selling products to selling service propositions and being focussed on who those propositions are best suited to. The natural salesman often struggles to break with their natural inclination to spot any opportunity to sell a product. It has been engrained for many years after all. Equally it is hard to say “No” we can’t / won’t do it that way, or at that price.

The shift needs to therefore be incentivised as remuneration drives behaviour. The remuneration strategy needs to encourage the profitable selling and delivery of service propositions, rather than based on product related turnover.

### **Need for clear vision and strategic approach**

Many firms have evolved over time in an ad hoc and opportunistic fashion. Survival has often been achieved through hard work, fire-fighting and rising stress levels. Increasing layers of regulation have introduced more complexity and risk to the operational activities of advisory businesses. It is no wonder that many business owners feel they have insufficient control over their business.

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As a business owner, the first step towards regaining control is to take a step back and think through your goals, a vision for the kind of business you want to operate and the most effective strategy for achieving your aims. The exercise may result in work to make changes to the way things work in your business. However, a key reward for making this relatively short term effort is the avoidance of feeling you are at the mercy of perennial, externally imposed changes.

If a firm can point to a clear strategy for delivering quality outcomes for its clients at an agreed and profitable price, and delivery is taking place as promised, the FCA will have no cause for concern. Documented elements of the strategy could include the firm's rationale for its:

- investment principles and the process and solutions utilised to faithfully execute these principles
- single platform strategy benefitting all clients with lower overall risk and better value

Objective third party input to keep you focussed on your goals and strategies can be of enormous benefit. Also, engaging someone to manage the implementation of required changes in the business model may also ensure a more sustainable outcome, especially if as the owner you are also the key fee-earner.

### Developing robust business processes and change management skills

It may seem a statement of the blindingly obvious, but the prerequisite of running a successful, modern advisory business is the consistent application of processes and expertise which deliver a clearly articulated client advice, investment and service proposition.

However, Chapter 2 illustrated how a firm can easily sacrifice around 30% or more of its productivity and profitability through failure to remove inconsistency and variability from all levels within the business.

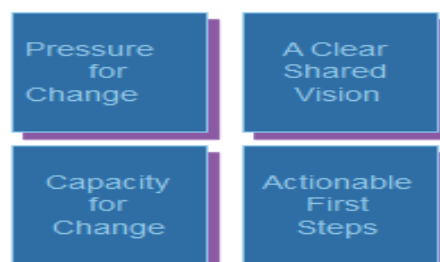
Often, the remedy for this shortfall requires a greater discipline towards the use of well thought through systems and processes and attention to monitoring detailed operations.

This doesn't mean a business has to operate in a straight-jacket or cannot tailor its expertise according to individual client needs. However, it does mean the business and its people will not waste time, effort and owner's cash by applying original thinking to routine situations.

A simple acid test of invisible inconsistency in a business is to examine how client-related data is logged onto the back office system by different people in the team. Variations here can make client bank analysis and segmentation more time-consuming than it needs to be at a later stage. It may also affect the on-time delivery of on-going service promises.

The use of a change management process and leadership skills are necessary to ensure staff can really buy into the reasons for and benefits of working in a different and more consistent fashion.

Taking four key steps helps to bring about effective promotion and implementation of change:



#### 1. What is the pressure for change?

Make it clear why change needs to happen. Most often change happens because it has to, rather than people wanting to change just for the sake of change. There needs to be a "burning platform" for change. Does everyone realise the current platform will soon be too hot to survive? Help people to see what threats or opportunities are just over the horizon and any impact they might have on the business. Getting

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people to explore the problems and pitfalls of the current way you operate in the light of impending events can be really useful. Gain clear appreciation of the consequences of standing still and the urgency of jumping from the current platform. Otherwise, any change will be low priority and slow to come about.

### 2. Where are we going next?

Before jumping off an existing platform, people need a clear picture of where they are jumping to and why it will be better. The business owners need to communicate a clear vision of their intended destination and what that will mean to clients and staff alike. Staff need to understand the thought process that went into the proposed changes and the rationale for the changes and what other options were considered, ruled out and why. Ideally, they would be involved in the shaping of the vision. Without a clear Vision of what you are trying to create and what it will mean, any change will get off to a false start and any initial momentum gained will fade fast.

### 3. Are we equipped to make a successful jump?

Before jumping from one place to another, a full exploration of personal and business development needs are required to ensure the business is equipped and ready to deliver what the vision promises. If the staff feel under-prepared or insufficiently equipped then frustration, anger and mistakes arise causing a rapid retrenchment to the old ways. Time needs to be spent coaching the team not only what they need to know and do, but also the skills required. Help them to see why these new skills and knowledge are of benefit to them and their clients, whose fees will be financing the business in future.

### 4. What do we do first, second and third?

Once the business is prepared, the first steps taken should be relatively small and easy ones. Achievement of short term, low goals helps to boost confidence and strangle cynicism. Load the dice for success. For example, if your change includes altering any aspect of your proposition which has an impact on your clients, you may decide to target clients you know are most likely to buy into your new idea – probably because these are the people who helped during research into your developments.

You may also find a way of managing down the expectations of unprofitable clients who have been used to a high maintenance relationship but who do not wish to pay the explicit fee now required to fund that approach. This will help the team to realise the importance of focusing resource and time where it is due and where it is profitable for all concerned.

So, this is not generally a time for trying to leap tall buildings in a single bound! But, the longer you leave it to make changes required, the taller the building will appear to you, your team and your clients, meaning some will not feel able to make the leap.

## Outsourcing to access expertise and release capacity to add value

Out-sourcing is a growing phenomenon in financial advisory circles. It can be a highly practical solution for firms that don't need a particular specialist expertise on a frequent basis or where owners choose not to employ staff to undertake tasks which can be delivered to a high and reliable standard by a third party.

Some firms are more comfortable out-sourcing tasks such as HR or payroll administration than those they see as an integral element of their advice process e.g. para-planning.

The most common areas of out-sourcing we see in the market include:

#### 1. Para-planning.

The need during a transitional phase from an old proposition to a new one may be high. Once clients have bought into a service proposition and their strategy is set, the need may diminish, at least in respect of existing client reviews.

A transactional business may have a greater on-going demand for this role.

#### 2. Multi-managers, DFM's & Outsourced Model Portfolios

An advisory business designing, monitoring and administering its own model portfolios has in effect,

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set up its own investment department. Therefore, it needs to run the department in line with strong and meaningful governance of every aspect of the investment process. The investment of resource, time and risk associated with undertaking this work should be factored into the fees clients pay and firms should confidently promote their approach and report portfolio performance against whatever benchmarks they use as comparators for the models they maintain.

For firms who do not have the expertise, resource or appetite for running their own investment department there is ample opportunity to delegate this aspect of their proposition. They retain accountability for the suitability of any out-sourced solution and must maintain due diligence across any investment partners with whom they choose to work. However, out-sourcing the execution of the investment philosophy in which they believe means they can devote in-house resource to creating financial plans for clients and maintain on-going relationships.

### 3. Platform adoption

Value lies in strong client relationships, service delivery, tax and trust planning and financial planning strategies. Advisers are increasingly confident in letting go of the feeling that they have to be seen to select the “best product”. Best product has always been a matter of opinion and the value of the exercise is becoming marginalised as products have become more homogenised.

Adopting fewer routes to the investment market enables a firm to deliver a faster, less risky, more efficient and better controlled and monitored investment proposition. A single platform approach would be the optimum operating approach. In any event, firms should use only enough platforms to meet the needs of their target market segment(s) without imagining that a finite number used will somehow compromise their Independent status.

### **The Restricted “label” does not help the market or clients achieve desired RDR outcomes**

Propositions offered by many post-RDR “Independent” firms may well, in effect, be more accurately viewed as Restricted. However, only a small minority of former IFA firms has adopted Restricted status.

The reason for this paradox may be down to owners’ concerns that clients may infer from the label that lower standards will be observed by Restricted advisers. This understandable concern prevents clear business-minded decisions being taken regarding the operating business model and regulatory status most appropriate for a firm and its core clientele.

There is a level playing field in respect of qualification and adviser-charging criteria. Therefore, the choice of regulatory status should be based upon delivery of a proposition designed and priced to meet the needs and preferences of the clients a firm believes can benefit most from its expertise.

The regulatory framework appears reasonable, but the consumer choice it aims to deliver is, I feel, hampered by a poor choice of labels.

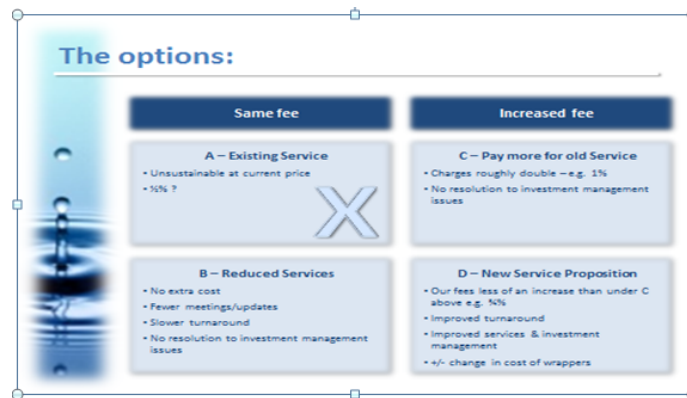
As an alternative suggestion, I think a more accurate set of labels to serve the interests of consumers assessing the market for advice would be simply change the label from Restricted to Tailored. In my mind, this better describes the reality that the various offerings through the non-independent route are in effect tailored to the needs of a target market. The ability, and obligation, to refer a client to a firm offering access to solutions not offered by a Tailored firm would remain.

### **Compliance focus on Value not Cost**

Compliance regimes should guard against fixation on cost and RIY measures as the sole arbiter of value. These measures have flaws and can be very difficult to compare accurately in any event. But, the biggest danger is that they assume more importance than the purpose of the overall proposition being offered and its value.

The problem is exacerbated when the cost of a new model of service is compared with a “cheaper”, but essentially unsustainable model. For instance, when an advisory business realises it is running on an unsustainable pricing basis for the delivery of its essential on-going services, it has 4 options to consider:

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- A. Attempt to deliver service on current basis, leading to risk of financial loss, staff reductions, eventual closure and clients left without a trusted adviser.  
Not really an option, something has to change!
- B. Reduce services to keep the same price.  
Less value for money compared to what clients received before but sustainable.
- C. Charge more (perhaps twice as much as currently paid) to retain the service.  
Nothing fundamentally new about the services offered, hence less value for money than before.
- D. Move to a new client service proposition that delivers better value than all the other options, maybe at a higher price than today in Option A but probably less than in Option C.

Option A is a flawed model which doesn't really bear comparison with the other options. Options B and C don't really represent a meaningful modernisation in the business model and services offered. Option D addresses the need to continuously improve services at a profitable price. Clearly, migration to a platform in respect of some assets may be inappropriate due to specific product features or significant exit penalties or creation of chargeable events. However, in principle, businesses should always seek to examine ways in which benefits can be enhanced without assuming clients will fail to see the value available, even at an increased price.

To demonstrate the value offered to clients, advisory firms need to develop a fully documented service proposition. Suitability reports need to highlight the limitations and risks of the current model if sustained with the way the new service and reviews can improve the overall value to them.

In the absence of a defined client proposition, all an auditor can evaluate is the differential between one tax wrapper and another. A bare proposal to simply move to a platform approach and increase service fees would send a message that the client is in effect paying more for a service that costs the adviser less. Alternatively, a clear client proposition featuring investment management on a platform can be regarded as effectively an upgrade in the better overall and long-term interests of the client - even if the price happens to be higher, within reasonable limits, than the previous proposition.

The move shouldn't be judged on cost reduction or increase, but on the basis of whether the new proposition enables the client and adviser to work more effectively on harnessing the client's resources to increase the probability of achieving the lifestyle they desire by way of a valued and reassuring service.

### Price properly – Advisory Firms & Networks

The value added by many advisers these days relates to more than just products sold or funds under management. Yet, those transactional elements still form the basis of pricing adopted by most advisers. It fails to relate value and price to the expertise an adviser brings to helping clients to discover their goals and implement a plan for achieving the lifestyle they desire.

The FCA has already raised concerns about pricing mechanisms which depend upon an investment deal of some description to generate an adviser's fee.

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A time-costed approach also has significant flaws in relation to certainty and clarity for clients and the need for detailed unequivocal time and task recording and accounting for firms.

Most firms do not take time to analyse the cost of what they do for clients. More work should be put in by most firms to understanding their costs, the value they add and their required margins to achieve the businesses objectives.

Cost and competitive pressures means product and platform providers have reduced or withdrawn many of the added value services advisory firms had come to regard as part of the financial services market landscape. Therefore, advisory firms need to create a budget for marketing, technical, personal development and business development needs. These aspects all add to the pricing equation.

### Broader Market Impact

Financial support from providers to networks is now restricted by regulation.

Networks member services will need to change along with the how and how much they charge for membership. Advisory firms buying in Compliance from Networks & some Service Providers could experience fee increases and this will need to be reflected in their own pricing.

We may see the Network model becoming a more tightly prescribed “Franchise” operation. In this model the systems, processes, controls and tools used are based on a central template. This helps to take some of the decision making away from Advisory Firms allowing them to focus purely on Client Relationships for which the higher fees may be appropriate.

If the Network Franchise doesn't get the balance right of value and price then we will see a significant move towards Directly Regulated firms.

Directly Regulated firms running tighter ships thanks to well-structured propositions, systems and processes delivering a defined service to an optimum number of clients where “product sales” is a minor element of what they do, should require less input from a Compliance perspective.

We will probably see some more specialist firms developing in the market, providing transactional advice direct to consumers on specific markets. These firms could also provide an out-sourced option to firms where relevant specialist solutions are not a regular issue for clients. This becomes increasingly likely with firms that position themselves as the “Agent” co-ordinating a client's strategy and affairs rather than the product technician. However, under current rules, Independent firms can only out-source a limited number of issues without prejudicing their regulatory status.

Product will be under continuous pressure to become more efficient and streamlined in order to remove any hindrance to minimising the cost of products / platforms.

We have seen a huge shift away from the provision of traditional products to platform wrappers. It is therefore more and more about either Wealth Management on platforms or “Niche / Specialist” products where Providers are concerned. Probably the biggest changes have already happened here apart from some further mergers and acquisitions.

The number of platform providers may well reduce as the price war gathers pace and acquisitions occur. The ultimate winners will be the ones that can properly integrate their platform with Back Office Systems, providing two-way connectivity and develop a broader Wrap service incorporating strong Cash and Loan options, particularly providing options such as offset Mortgages.

Fund management charges are under tremendous downward pressure. I believe the growth in advisers and therefore, clients buying into the passive investment approach will cause active management fund charges to come down irrespective of the pressures associated with greater transparency.

Greater numbers of DFMs will utilise platforms to manage client portfolios for fear of being “locked out” from firms who use platforms at the centre of their client offering. They will still need to demonstrate better than benchmark results for the fees charged or reduce fees to attract and retain client and advisor loyalty.

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### Given all the compelling reasons to change, why will some firms resist or risk delaying change?

- Firstly, the scale of the change required can appear daunting and can easily become subordinated by apparently more urgent issues. Tasks therefore need to be broken up into bite-size chunks within a clear project plan. It may even be worth seconding someone full time on a temporary basis into the role of developing the desired operating model.
- I quite often hear advisers say there are too few clients prepared to pay the level of fees required to make a proposition viable. I think I am actually hearing a lack of belief in the value these advisers feel they can offer in order to inspire their market! Every adviser not prepared to develop the skills required for the new market place presents an increased opportunity for those who can and do develop their personal proposition. Those who can't or won't change will experience pressure on profit margins and stresses on their staff until a crisis point is reached when they must change or close.
- Lack of confidence to ask for fees which is a by-product of the point above. If they lack self-belief they will lack confidence to ask.
- Business owners often avoid adjusting their adviser remuneration strategy as they think they will lose key fee earning advisers. Advisers who are given enough information to help them understand the commercial realities of aiming for profit rather than turnover tend to realise why remuneration needs to be re-based and focused on a fair and profitable approach to working with clients and fees.
- The need for new disciplines – time management / recording. Measuring can be seen as policing. However if Profit Related remuneration is used, then measurement can be seen as an essential means of establishing how resources are being spent in order to identify cost savings and should be more readily embraced as a tool to help, rather than as a stick with which to beat them.
- Fear of giving up “big ticket” cases which would have generated large commissions. A firm should be comfortable with lower income levels from the larger investment cases in isolation if its pricing strategy is based on being paid for a whole host of work that previously went unremunerated. Historically, revenue from large cases masked the low levels of income from numerous and unprofitable smaller cases. A fair, profitable and competitive pricing strategy means a firm can be brave enough to point out to clients how competitors still price high at the larger levels of wealth management activity. This could well be the key to opening up introductions to other like-minded higher net worth individuals.

### Call to action

This series of publications has

- illustrated the real value the UK financial advisory community offers its clients in the market
- emphasised how the FCA & compliance officers need to support the market by adopting a flexible approach to the different advice models being developed
- argued that the bad practices operated by the few should not be the benchmark by which the rest are judged. However, it is up to the professional “good guys” to articulate the true value their proposition delivers and make it really easy for any third party to understand their aims, strategies and processes.

My aim is to encourage firms and the UK regulatory regime to work together on a collaborative basis – the perception of gamekeeper and poacher may be a lazy allusion but one which often persists and does justice to neither party. A principles based regulatory framework brings flexibility. But, a reluctance to give clear guidance around detailed advice and investment practices means firms freeze in a state of confusion. This does not achieve the consumer related aims towards which all parties strive.

Whilst individual advice to clients can be very complex, the business processes and approach should and can be a lot simpler than they are now for most segments of clients.

A regulatory regime giving clear guidance to firms & compliance staff on what a good overall model looks like would provide at the very least a common benchmark for debate. Even better would be a situation wherein the Regulator, Compliance and Advisory Firms are all aligned behind a clear common purpose and strategy, rather than spending valuable time trying to interpret each other's language and intentions.

I hope these articles provide the basis of a sound operating model for the market to build on and work towards.

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If you feel these publications have real merit, even if you find some of my suggestions provocative, please encourage others to read them, whether they represent regulators, compliance teams officers, networks, service providers, the press, politicians or other advisory firms.

Finally, thanks for taking the time to read them and if you have any questions or comments drop me an e-mail to [teamtalk@12man.co.uk](mailto:teamtalk@12man.co.uk)