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“Any intelligent fool can make things bigger and more complex. It takes a touch of genius and a lot of courage to move in the opposite direction” – Albert Einstein

Welcome to the first edition of a series of thought-provoking papers tackling a wide range of issues affecting the way highly valuable financial advice is delivered in our regulated environment.

Each paper will aim to prompt owners of, and staff within, advisory businesses, regulators, providers of retail investment products and politicians to consider how best we can, together, achieve the goal of delivering high quality financial planning outcomes for our mutual clients and constituents.

Fundamental to achievement of this goal will be the growth and longevity of a profitable advisory profession.

No matter what regulatory status a firm holds or to which professional or trade association its staff belong, the topics and proposals put forward in these papers will be timely and important. They will be relevant to firms seeking growth over the long term and those preparing for sale or transfer of ownership in the shorter term.

Topics covered will include ways of improving

- consumers’ trust in, and loyalty towards, advisers delivering great value at transparent prices
- the productivity and profitability of advice businesses
- aspects of regulation which could be reviewed or clarified to help bring about this virtuous cycle.

“When you’re up to your backside in crocodiles, it’s easy to forget your goal was to drain the swamp”

Many business owners in all professions tend to use this well-worn saying as an excuse for neglecting the longer term strategies declared when setting up the company.

Changes made by many participants in the financial services world have often been a short term, isolated reaction to events. Such reactive change leads to an increasingly complex and potentially dysfunctional business model. Consequently, business owners find themselves managing internal complexity and risk rather than directing their business towards a clear set of goals based on efficient and effective delivery of a clear and highly valued proposition.

During 2012, the impending RDR deadline was approached in broadly one of three ways by providers and advice business alike.

1. We are so busy with our “legacy” issues/clients we need to do the minimum possible in order to meet the deadline, we think we’ll be able to carry on pretty much as normal
2. RDR gives us a great opportunity to carry out the overhaul of our goals, strategy and business model that we’ve been putting off for quite some time
3. RDR represents change that we can accommodate within the target operating model we designed and have been reviewing on a regular basis

Achieving the minimum requirements of the RDR does not mean an advisory business will automatically deliver great value to its clients and make a fair profit, but some will be better positioned to do so than others.

As Winston Churchill might have put it.....
RDR readiness.....

“is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning”

Let us just for a moment consider the volume of change and events that have hit the Industry over the last 25 years or so:

Chapter 1 – Introducing the Springboard Series of Publications

CHANGE IN THE FINANCIAL ADVICE INDUSTRY SINCE 1988

<i>Regulation:</i>	Polarisation, De-polarisation, Commission Disclosure, Sandler, CP121, N2, Multi-Tie, TCF, RDR, Capacity for Loss, Platform Regulation
<i>Product issues:</i>	Endowment Review, Pension Review, Long Term Care, Payment Protection, With Profits, Stakeholder, Plummeting Annuities, Split Capital Trusts, development of online products, supermarkets and platforms
<i>Provider issues:</i>	Barings Bank and Nick Leeson, Equitable Life, numerous mergers and acquisitions, banking crisis initial and ongoing, Enron, Lehman Brothers, Northern Rock
<i>Market issues:</i>	Black Monday, Dot.com bubble, 9/11, 7/7, Maxwell
<i>Business expenses:</i>	Escalating PI costs, regulatory fees, FSCS levy, print and stationery, fuel, office, Capital Adequacy, VAT
<i>Consumer confidence:</i>	Impacted by market volatility, reputational damage, gloomy long-term outlook, Euro-crisis, property collapse
<i>Revenues:</i>	Dislike of commission – downward pressure on commissions since Sandler
<i>Technology:</i>	Boom in use of web, online tools, introduction of platforms
<i>Consumer:</i>	More financially aware, more demanding around service and price, higher expectations, more affluent but less time and more stress, living longer and needing more money

Is it any wonder that firms' structures and processes have become incredibly complicated and inefficient whilst trying to adapt to each and every change? It reminds me of the man who re-decorates his lounge walls by adding new layers of wall paper on top of the previous design, then wondering why the result isn't as smooth and elegant as expected.

Therefore, it is time for many businesses not to evolve but to undergo a fundamental metamorphosis if they are to survive and thrive. It is about stripping everything back and re-building a much simpler business model that better meets the needs of a fundamentally different market place.

Lessons from History

I have been involved in the Industry since 1985 and since 1995, as a Management Consultant working with many advisory businesses of all shapes and sizes. My colleagues and I have worked with hundreds of firms

attempting to adapt to an ever-changing environment. This experience led me to want to document the factors that I believe can lead to the emergence of a successful new breed of financial advisory business.

The advisory market is poorly understood, not only from without but also from within. Many advisers have even lost sight of the real value they are able to add and how to go about delivering that value at a fair price.

A maelstrom of media criticism, political pronouncements and increasing regulatory requirements has caused many decent, honest and hard-working advisers to question their own instincts of what represents fair treatment of the customer. The struggle they face is not so much doing the right thing by their clients, but understanding the requirements to demonstrate they have done the right thing.

A Point of Principle

Regulations which prevent or terminate the activities of anyone motivated to find ways to earn a living through unfair or foul means through the “sale” of financial products are a good thing.

Business owners and advisers tend not to like being told exactly what to do or how to run their business. The benefit of operating within a principle based regulatory environment is the flexibility available to interpret the rules. Conversely, the absence of clear rules and guidance means many practitioners adopt an unduly narrow set of interpretations to avoid the risk of later being considered by the regulator to have “got it wrong”. Therefore, fear of the potential consequences could hamper the productive, profitable, consistent and sustainable delivery of effective value to the end consumer.

Maybe the advisory profession need to find a strong and united voice to which the regulator will listen when there is a need to consider options for enabling clients to benefit in ways not catered for by the way the rules might be interpreted.

The Experiences Encountered by Many Business Owners

Many business owners were once employees who decided running their own show would give them greater control of their working life and the financial rewards of owning a company. Many may have envisaged a better work / life balance and believed they would be able to add better value to their clients.

Most people accept the lifestyle and income sacrifices often encountered in the early stages of a new start-up business. For many, the aim of running a business instead of being run by their business seems to remain tantalisingly out of reach. Others, however, do achieve the aim of working on their business instead of always working in their business.

What causes these different outcomes? In our team's experience, the owners we meet who feel and clearly exert the greater level of control are those who retain a sense of the goals the business needs to reach if it is to deliver the results and rewards they wish to achieve on a personal level. They will have a pragmatic plan to guide everyone in the business towards achievement of the goals agreed as being stretching but achievable.

Having a plan doesn't insulate anyone from having to make changes, sometimes very significant changes. However, the absence of a clear plan or path towards a goal makes it much harder to decide how best to deal with the pressure for change when it comes along. Inevitably, people working in such an environment end up feeling as though their business is always being driven by the requirements of the regulator

What Made us Create the Springboard Series?

The aim of these articles is to provide insightful perspective on attributes which would enable a business to thrive in the post-RDR market-place. This insight will be based on tried, tested and practical principles, ideas and techniques I and my colleagues have seen working for real advisers with real clients.

I hope these articles will encourage and help owners of advisory firms to assess whether they are running a business model arrived at by accident or by design. Financial services institutions and suppliers will also be able to consider whether they are doing all they can to support advisory business seeking to evolve or even revolutionise their operating model.

A Springboard, not a Sermon

During this series, I will highlight the fundamental shift in thinking required by providers, advisory firms, politicians and our regulator if this market place is to grow into a robust, respected industry that adds real value to the market it seeks to serve.

This series will not seek to claim there is only one way to run a business effectively. The only "ideal" model for an advisory firm is the one which enables the unique personality and skill set within it to achieve the best results possible. However, I do believe I will be sharing with you some key principles that combine to provide an effective framework within which unique talents can be harnessed.

Operating a business consciously designed to achieve desired goals means it is easier to refine its shape or its processes when circumstances change.

Through these publications I will propose a robust example of what good might look like. Who knows, it may even be a framework which acquires regulatory endorsement and then inspires confidence to follow?

During the series, I will take the liberty of challenging various existing and actually quite profitable models of adviser–charging. I hope the challenge will be taken in the spirit intended, which is to ask whether what exists is really the most effective way of achieving the legitimate goals of both you as business owner and your clients. If you give your model a good shake and it still remains stable, then at least my challenge would have helped you realise it.

Frameworks for the Future

There is a virtuous circle everyone involved in and dealing with the financial advice market would like to see. It comprises fund management institutions, financial product and platform providers and regulators supporting and enabling a range of advisory business models.

These models would be set up to deliver the best, compliant outcomes to clients, achieving legitimate and healthy profitability, whilst minimising the risk of complaints, fines and associated adverse publicity for the profession. Existing clients would refer new clients and related professions would have no hesitation in forming strategic alliances with highly skilled, qualified and reputable advisers in their locality.

In these articles, I will share frameworks and business models which I believe can achieve these outcomes. I won't be advocating a one–size–fits–all framework in an advisory market as diverse as the UK.

As business consultants, my colleagues and I spend our time helping advisory firms to focus on designing and developing the shape, size and structure of an operating model appropriate to their particular aims and ambitions (final version always subject to approval by their own Compliance Officer/Adviser)

We help business owners paint a clear picture of what good looks like for them, so they have a yardstick to help measure their own performance and determine where room for improvements exists.

Even the top sportsmen and women in the world engage coaches to help them set objectives, evaluate their performance and analyse where small changes might make a big difference to results. It is no different for a business owner or adviser in this market.

I will use these articles to describe 4 broad propositions, each catering for up to 3 defined client segments.

If you are the owner of, or somebody who works within, an advisory business, you should be able to recognise at least a broad description of the segment(s) you currently, or want to, serve. Then, you will be able to assess

whether you have the operating model and methods of delivery in place to serve your target segment(s) effectively and efficiently.

Some Assumptions

My aim is to retain focus on the general principles involved rather than make any claims as to how much every firm should charge for specific advice or services. Please treat the numbers used for client assets, thresholds for service levels and adviser charges as illustrative. I will assume three broad types of consumer in the market place. The labels used for each segment are inevitably pretty broad, so should be seen as indicative rather than definitive.

<p><i>1. General Market (GM)</i></p>	<p>Earning less than £50,000 a year and have less than £100,000 to invest. Cost effective services could be delivered to these clients. Clear limits on adviser time and expertise are needed. Do not necessarily have to be rejected as a result of RDR.</p>
<p><i>2. Mass Affluent (MA)</i></p>	<p>Earning towards or over £70,000 with over £100,000 to invest. Needs may be specific and not complex.</p>
<p><i>3. High Net Worth (HNW)</i></p>	<p>Earning over £150,000 or with over £500,000 to invest. Needs are likely to be complex.</p>

Advice and/or services could be delivered to these 3 segments by way of one of up to 4 different propositions

<i>PROPOSITIONS</i>	
<p><i>Self service</i></p>	<p>No face-to-face advice. Service may be required across a spectrum of clients.</p>
<p><i>Transactional</i></p>	<p>Advice needed on ad hoc basis. Not reviewed or updated unless requested.</p>
<p><i>On-going advice</i></p>	<p>Full financial planning. Narrower, focused wealth management. Reviews at agreed frequency.</p>
<p><i>Relationship</i></p>	<p>Full financial planning for clients with greater complexity. A need for greater technical input. Bespoke agent-style approach.</p>

Chapter 1 – Introducing the Springboard Series of Publications

	PROPOSITIONS											
	Self service			Transactional			On-going advice			Relationship		
Segments	GM	MA	HNW	GM	MA	HNW	GM	MA	HNW	MA	HNW	
Needs	THIS MATRIX WILL BE POPULATED AS THE SPRINGBOARD SERIES CONTINUES											
Proposition												
Price												
Process												
Skills												
Systems												
Structure												

I will assume the GM segment would not need the complexity and expense of a Relationship proposition. This creates up to 11 strands for firms to consider when deciding and designing their proposition, price and strategy.

The main emphasis of the Springboard series will focus on the 5 strands under on-going Advice & Relationship. However, I will refer to aspects of effective delivery in the Transactional and Self-service areas. By the end of the series, I will have painted a detailed picture of what good could like in respect of each strand.

Forthcoming Attractions

The publications over the next few weeks and months will:

- challenge the perception of what the market is here to deliver and how it should deliver that value
- look at the constraints to delivering that value – self-inflicted and imposed – and how to overcome them
- share a clear framework for a range of business propositions that can be profitably delivered at prices that are seen as value for money
- help establish a plan for managing change within the business, migrating clients from an outdated model to a new one
- help consider how to market to new target market clients
- outline what others need to do to better support the evolution of the market – service providers, the regulator, politicians etc.

They will look at questions such as:

- Isn't the demise of commission a good thing for the advisory market?
- Why wouldn't clients pay fees at a profitable level for service and advice if the proposition is right?
- Is "Independent" status as imperative as many firms believe?
- Why do firms feel the need to operate a multiple platform strategy rather than select one or two key options?
- How well equipped does a firm need to be in order to build, manage, monitor and maintain its own investment solution(s)?
- Could a fixed fee approach provide greater clarity than a % x FUM or an hourly rate pricing model?

- Do you really have to “sack” lower value clients?
- Do you have as much control over your future as you want, and if not, why not and what will you do about it?

A Challenging Ambition

I want these publications to encourage thousands of financial advisers to

- Articulate to clients the real value available from a trusted adviser
- Help clients to realise how much more financially organised they can become
- Earn rewards consistent with the level of professionalism at which they operate
- Live more fulfilled and less stressful lives.

Advisers in the UK are uniquely placed to have a positive impact on the lives of millions of people. My hope is that this series plays its part by proposing ways in which the profession can articulate and be free to deliver all it can do for the public it serves.

Communication

If you think what I have to say has real merit and provides food for constructive thought, please recommended these publications to others to read – be it another advisory firm you know, a colleague, someone in your regulatory regime and or even someone in politics or the media.

We don't necessarily think everyone will agree with what we propose, but these articles aren't intended as an instruction manual. We really hope to hear from readers who are prepared to view the content as a prompt to help their thinking.

Let's start to change the image of what good should and could look like within the market and in the corridors of power where people seek to have an influence or interfere.

I hope you find the series thought-provoking.

The next chapter deals with how all businesses can better improve their productivity, profitability and client experience at whatever level they are at.

It will look at the key Constraints facing most advisory businesses and share some of the most useful insights I have found in working with firms over the years applying Eli Goldratt's Theory of Constraints to overcome them.

Please feel free to share your views via Springboard@12man.co.uk