Money Management

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OPINION

Finding the right model for you

In light of the numerous inquiries into financial services as well as changing attitudes to adviser remuneration, SUE VISKOVIC considers the benefits of overhauling your business model.

From the terribly effective campaign by industry funds that demonised commissions in just a few short words, to the latest consumer campaign by Choice to ban commissions (and asset-based fees), and even more recently, the Australian Securities and Investments Commission's (ASIC's) submission to the Parliamentary Joint Committee (PJC) into Corporations and Financial Services making the same call, it seems that everyone is attacking commissions.

There are not one but three separate Government inquiries currently underway that will visit adviser commissions in some form:

- the PJC inquiry into financial products and services (brought about by the collapses of Opes Prime, MFS, Westpoint, Storm Financial and so on);
- the Cooper review of superannuation; and
- the Parliamentary Inquiry into agribusiness managed investment schemes (MISs) brought about by the collapses of Timbercorp and Great Southern.

We dearly hope that the Henry Tax Review also visits the issue, and recommends that advice fees become tax deductible.

The Investment and Financial Services Association (IFSA) Super Charter states (in summary) that super products are to be available on a no-commission basis from July 1, 2010, although products that are already in place will be 'grandfathered'.

The Financial Planning Association (FPA) paper proposes that no commissions are to be paid for financial advice from July 1, 2012, but it too has 'grandfathered' existing products.

Much of the noise surrounding commissions can be boiled down to two concerns:

- many consumers have been paying trail commissions from their super and investments to advisers from whom they have received no service since they purchased the product, and they cannot switch these commissions off; and
- there is a belief that commissions encourage advisers to recommend inappropriate products and strategies to their clients.

Neither the IFSA charter nor the FPA paper will solve the first issue. The FPA paper was created to be instrumental in moving the industry towards a fee-for-service model, but in a manner that is manageable by its members. The intention is to improve the reputation of the profession, and to also prevent Government from stepping in and legislating in a manner that may be infinitely more unpalatable than the FPA proposal.

However, there has been greater speculation and public comment on the issue since then and, with the changes being introduced in the UK and the US, there are fears that our Government will feel that the moves for the industry to self-regulate do not go far enough, and there is a risk that existing arrangements may be forced to cease.

Both the Minister for Financial Services, Chris Bowen, and the chairman of ASIC, Tony D'Aloisio, have made it very clear that if the industry does not address remuneration and conflicts, they will regulate.

ASIC has gone further in its submission to the PJC, stating that the industry will not effectively deal with all conflicts, and urging the Government to step in.

While the argument against banning commissions may be moot, we must passionately defend the right for financial advisers to determine how much, and how, they charge their fees.

Aside from the freedom of choice issues and the cries of socialism, it will simply not be in the best interests of consumers for anyone to dictate a global price for advice.

One of the main findings of our Adviser Pricing Models Research Report is that there is no 'one-size-fits-all' model for charging advice. A 30-year-old wealth creator has very different advice needs to the 60-year-old retiree, and what is a cost-effective pricing structure for one may be very expensive for another.

Even if the current recommendations by IFSA and the FPA are enforced without alteration, it is highly likely that advisers will see significant attrition from their legacy trail books.

There is no doubt that industry super funds will engage their very effective advertising people to 'educate' consumers about the ability to move their super funds into a more cost-effective environment and cease trails paid to advisers.

In short, the time for discussion and debate is over. While no one likes to be told how to run their business, many advisers are wisely putting aside their chagrin at this fact, and choosing to look at it as an opportunity rather than a catastrophe. They are taking this time to review their business models, including their pricing models, to position their business for the future.

In our experience, the process of transitioning to a fee-based remuneration model is one that is time-consuming, emotional, often confronting, and you won't get it right immediately. But for all the pain, it is a very rewarding exercise, and the long-term benefits for your business and your clients far outweigh the short-term challenges.

When you embark on this journey, particularly in the current environment, you may start with more questions than answers:

- How to move to fee for service without missing out on the upside when markets recover?
- How to move an established client base to a fee structure when you are already having difficult conversations with your clients on a daily basis?
- How much to charge?
- When to charge – at what point in the advice process?
- Should we charge fixed fee or a percentage of assets?

The best advice we can give on this issue is to undertake a process to arrive at your fee structure, do not simply take a punt.

Rather than guessing at what you think your clients will pay, it is vital that you work through a robust process to price your services, not only to increase the likelihood of getting your pricing 'right', but also to enable you and your staff to feel confident in what you are charging.

The fact is that clients will pay for advice. Provided they can see value in your offering, they will absolutely pay for it.

Without a doubt, the biggest obstacle an adviser has to overcome in moving their practice to fee for service lies between their own ears. Once they have overcome that obstacle, and they believe in the pricing and service model they are 'selling' to their clients, they will be far more effective at engaging new and existing clients with their new pricing model.

Structuring your pricing model is only the tip of the iceberg.

In reality, before you work out how to charge for your services, you need to determine what you are charging for. When you clarify what you will charge for your services, you are also motivated to ensure that those services are of consistent quality, your business is running at optimal efficiency, and you are achieving your own financial goals, as well as those of your clients.

You will certainly need to be having new conversations with clients. Discussing your fee structure and your service offering must become part of your routine with clients – both new and existing. You will also likely need to revisit your marketing material.

In order to assist clients to grasp what they will be paying for, and make their decision to engage you easier, you will need to make the intangible visible. Advice is a service, and if you can go some way to articulate that service to enable your prospective clients to see, touch, and feel what you are offering, their decision will become easier.

Finally, we recommend you enlist the help of someone external to your business to help you through this process. All participants in our research said they preferred someone who was at arm's length to assist them, be that the PDM (practice development manager) from their dealer group, a BDM (business development manager), or an external consultant.

This provided them with a sounding board and someone to challenge their thinking who was not emotionally connected to the business and was able to assist them to see their model through the eyes of their clients.

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