

# Practice made perfect



Rod Bertino

**Professional Planner and MLC brought together some of the industry's leading consultants to identify the steps that all financial planning business owners can take right now to create businesses that will thrive and prosper regardless of the regulatory and industry challenges they may be facing.**

**I**t may never before have been as challenging to run a financial planning practice as it is today. Regulatory change has caused a rethink of business structures – sometimes from top to bottom – and ongoing economic uncertainty means consumers are seeking greater value for money in the services they buy from financial planners.

At the same time, the ongoing push towards professionalism is recasting how financial planners relate to clients, and this in turn has an impact on how a business must be structured and managed to support the provision of professional services, and to be profitable.

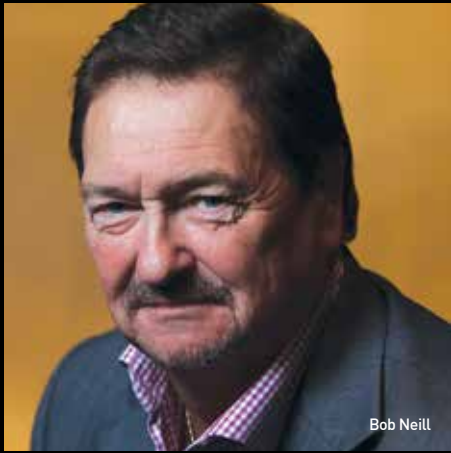
A concept that almost all financial planners grapple with is that of “utility”, says Andrew Inwood, the founder and principal of research firm CoreData. Inwood says utility is really another way of saying: “This is what I do, and this is how much it costs.”

Duncan McPherson, head of licensee productivity and development for MLC Advice Partnerships, says financial planners are rediscovering the concept of utility, and realising that in many cases the interpersonal skills needed to articulate it are lacking – and that is a result of the intense focus on legislative reform that really dates back to the *Financial Services Reform Act of 1992*.

## **THE SKILLS THAT YOU NEED TO BE SUCCESSFUL IN A LIFE INDUSTRY ARE INTERPERSONAL SKILLS AND THE BACK OFFICE GENERALLY TOOK CARE OF ITSELF**

“The skills that you need to be successful in a life industry are interpersonal skills and the back office generally took care of itself,” McPherson says. “Then what happened with that is that the revolution in legislation meant that we wanted to make this technically strong, so it required a migration from the soft skills, the interpersonal skills to the technical skills.

“Then it turns out that we hired a lot of people who were ex-school teachers, ex-engineers, those people who had those technical skills; and it turned out, lo and behold, that they didn’t have the interpersonal skills. So the industry’s going through that process of just growing up.”



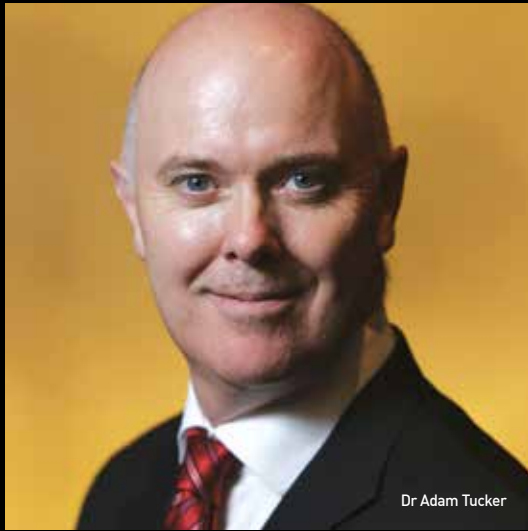
Bob Neill



Paul Tynan



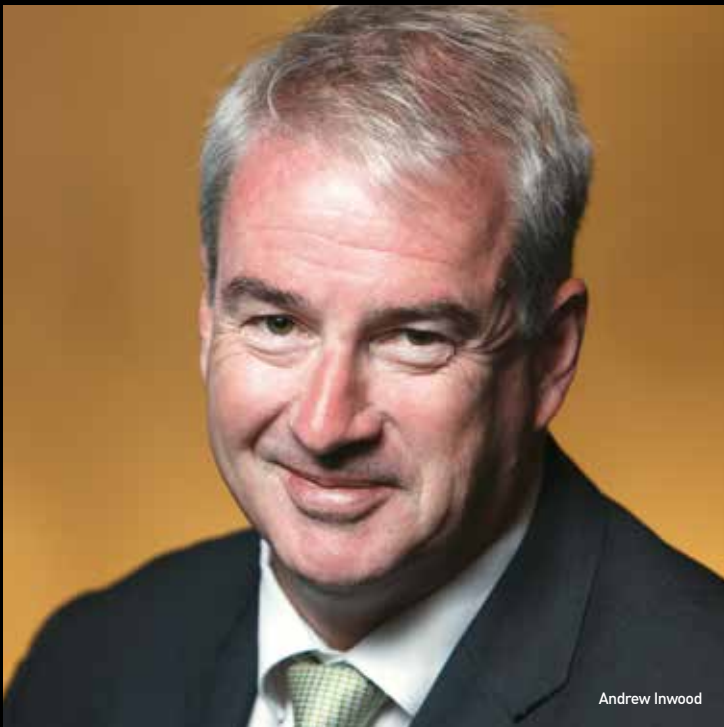
Sue Viskovic



Dr Adam Tucker



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Andrew Inwood



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## YOU'VE GOT TO LOOK AT WHAT THE CONSUMER'S DOING AND HOW THEY ARE SHIFTING AND THAT'S A WHOLE WORLD OF DISCUSSION

### CONSUMERS MATURING

Adam Tucker, a director of the Beddoes Institute, the organisation that has recently conducted a range of research projects for the Association of Financial Advisers (AFA), says that while the industry has been focused inwardly and debating the ins and outs of FoFA, consumers have also changed and matured.

"You've got to look at what the consumer's doing and how they are shifting, and that's a whole world of discussion," Tucker says.

"You know [the market is] fragmenting faster; you've got to look at the world that they live in and also look at competition. And we've got competition from all sorts of places...but we live in Australia where there's in the order of seven times more financial advice through the letterbox than anyone [gets] in the US. So consumers are moving rapidly. Competitors are moving rapidly, and you've got to adjust; and you're doing all of that with an envelope, a regulatory envelope. It's a huge dilemma."



### MASSIVE POLARISATION

Sue Viskovic, managing director of Elixir Consulting, says consumers are faced with a bewildering choice of places to go to get advice. And it's not helped by financial planners themselves not necessarily being sure of the kind of client they want to attract.

"Do I go to a scaled advice model?" Viskovic says.

"The industry super fund can do a phone-helpdesk thing with my answer, if you fill in these forms. Roll your super over. Or someone can talk to me on the phone about setting up my life insurance. And that's one thing.

"But when and how do I know that, actually, I've been referred from my mate who's got a great adviser who's going to sort that stuff out, but he's also going to talk to me about my long-term objectives and start getting that behavioural recognition that, okay it's a longer-term decision for all of my financial decisions?

"Forget about whether they stick me in a managed fund or direct equities or whatever your product is. I still think a lot of guys are still stuck between this, 'We must take on anybody that we can', and, 'We've now got these great scaled advice models, which are perfect for that market'.

"But a lot of small business advisers do their very best work when they can have a true, engaged relationship with a client; and yet they still say 'yes' to anybody who knocks on their door."

A presumed implication of Viskovic's view is that the financial planning industry must polarise, says Tony McDonald, co-founder and principal of T&C Consulting.

"If you've just arrived from Mars and you listen to that, you'd say, 'There is going to be massive polarisation in this country on advice. Massive polarisation'," he says.

"You're going to have this corporatised model down here, which is a ruthless, lean, efficient machine and it's going TO [start] with scaled advice or technology connections to get there because the bank can afford [it] - industry funds probably can't.

"Then you've got this just white space, nothing, a void; and then you've got financial planners over here, what we're talking about in terms of financial planners. And the mistake they make [is] they're kind of trying to be GPs, but they're not. They're not GPs. They're specialists, and the sooner IFAs [independent financial advisers] get off this GP mentality and into, 'I'm a specialist' - forget about that crap over there and



## **That's enough about us. *Let's talk about you***

We're interested in you and your business. That's why our Practice Management experts are ready to listen to your business goals before offering advice. It's how we discover opportunities to help your business thrive, allowing you to focus on saving retirement for your clients.

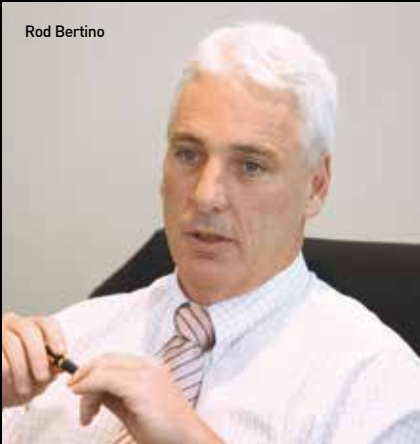
Accessing expert advice in building efficiency, profitability and growth is easy, simply contact Kim White, National Practice Development Manager, MLC on **0417 250 967** or email **[kim.r.white@mlc.com.au](mailto:kim.r.white@mlc.com.au)**

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stop whinging about them and get over here and be a highly engaged, trained specialist who's not only technically competent but has got blood going round their veins as well and can talk to people – then that's kind of interesting. And let's be honest, the natural order in Australia is oligopolies. Every industry in this country is an oligopoly.”

Rod Bertino, principal of Business Health, says that what concerns him more is that “a lot of this stuff, no adviser in the country can control”.

“So they're paralysed,” Bertino says.

“They're thinking about all this, or some of them aren't even thinking about this, and are paralysed full stop. Fundamentally, they're not focusing on what they can control.

“What you're talking about is, ‘What sort of business do I want to run?’ Less than one in four practices in the country have a documented business plan – and they give advice to clients about planning for the future. A lot of that high-level stuff is incredibly important, but fundamentally

they need to address their own business. What is their business model? What do they want to achieve? If you get that clear, then the clients and the engagement model will start to flow. But without that...

“Just to quantify that, we've got data on about 2000 Australian practices. Those with a fully documented plan, that review it regularly and have someone that they hold accountable, they [make] 246 per cent more profit on average.”

#### MAKING A PROFIT

Financial planning practices have to first and foremost be run as businesses, and be very clear on the services offered, says Paul Tynan, managing director of CONNECT Financial Services Brokers.

“We're going to go to a model where we're going to focus on this dirty word called ‘profit’ and run it like a business,” Tynan says.

“I absolutely agree [that] where we're going, we're going to have general advice, which is going to be the banks and the industry funds. We're [also] going to have personal advice – that's why I've been getting on my old hobby horse [about] aligned and non-aligned distribution, so the consumer can actually know when they walk through the door what they're getting.”

Tucker says the main problem is that consumers simply don't know what financial planners do.

“You go out and actually ask the Australian public what a financial adviser does and they still come up with a lot of question marks,” he says.

“They really still don't know. And that, combined with the negative media stuff that goes on, they're pushing upwind.”

Viskovic says that as the clouds lift over FoFA, financial planners are starting to think ahead again, and to plan, and that will bring clarity to business models and to client offers.

“They've had excuses, they've had reasons; FoFA's just been such a massive confusion for them: ‘Right we can take one path’. ‘No, there's changes in all of that path’,” she says.

“They've been paralysed to a certain degree, other than figuring out how to give an FDS [fee disclosure statement] – and now they might not have to. Now we're talking to more and more going, ‘Okay, well now I feel like I can maybe take a little bit more control and I need to start making some decisions about what we look like and what we're saying yes to in terms of our clients’.



Andrew Inwood



Duncan McPherson



Bob Neill

## Participants

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### SUE VISKOVIC

Founder,  
Elixir Consulting

“They know that there’s all these concepts around ‘consumers don’t understand what we do, they’re not engaged, how do we turn them on?’ When you look at a real business, most of them have networks that they can work at and they will generate referrals and they will grow their business once they get really clear on what their real offer is out to the marketplace.”

McDonald says the issue remains, however, of how to make a profit from the provision of advice, and competing against institutions that are vertically integrated.

“Let’s look at the successful financial planning practices. Let’s use Snowball as an example; and it was unashamedly built around vertical integration and getting product profit,” he says.

“It was done all the right way, but that was the model – and that’s what people saw as successful financial planning. They ended up being aggregated. There was little margin in the advice part of it; there was margin in the portfolio construction; and there was margin in the portfolio administration; and precious little in the advice. So if you assume and test the hypothesis, it’s going to get massively polarised, and you’ve got these big, ugly, vertical models over here and you’ve got these really groovy, engaged, technical and confident financial planners over here – how do they make their money?”

## THE ISSUE REMAINS, HOWEVER, OF HOW TO MAKE A PROFIT FROM THE PROVISION OF ADVICE, AND COMPETING AGAINST INSTITUTIONS THAT ARE VERTICALLY INTEGRATED

### EVOLUTION OF FINANCIAL PLANNING

Bob Neill, managing director of Seaview Consulting, says the successful structure will emerge over time, and it has an historical precedent in the accounting profession.

“If you look at the accounting profession 25 years ago, it was largely dominated by suburban ‘general practitioners’ who did everything for the client,” he says.

The client walked in, they did everything – the GPs of your world. And they dominated the personal business segment. A number of factors combined. There was complexity around

legislation; tax laws changed; businesses became better-informed [and gained] access to more information; they demanded more out of it. And so that accounting sector morphed into what was a mid-tier sector. The mid-tier sector had a broad range of skills, high level of confidence around specialist capability, and completely now dominates the business.”

The evolution of financial planning in Australia may inevitably involve convergence with the accounting profession – at least in terms of business structures, if not of professional skill sets.

“If you take a convergence model and you say, ‘Well, professional advice will actually look a lot more like a client’s going to take cohesive delivery of accounting advice, risk advice, debt advice, investment advice’...I think there will be a range of different structural models that we’re entertaining,” Neill says.

“I think what will be key will be the cohesive delivery [of services], using shared information.” ■