HOW TO THRIVE IN THE NEW ADVICE WORLD

THE ANSWER IS STRATEGIC ADVICE

MATRIX

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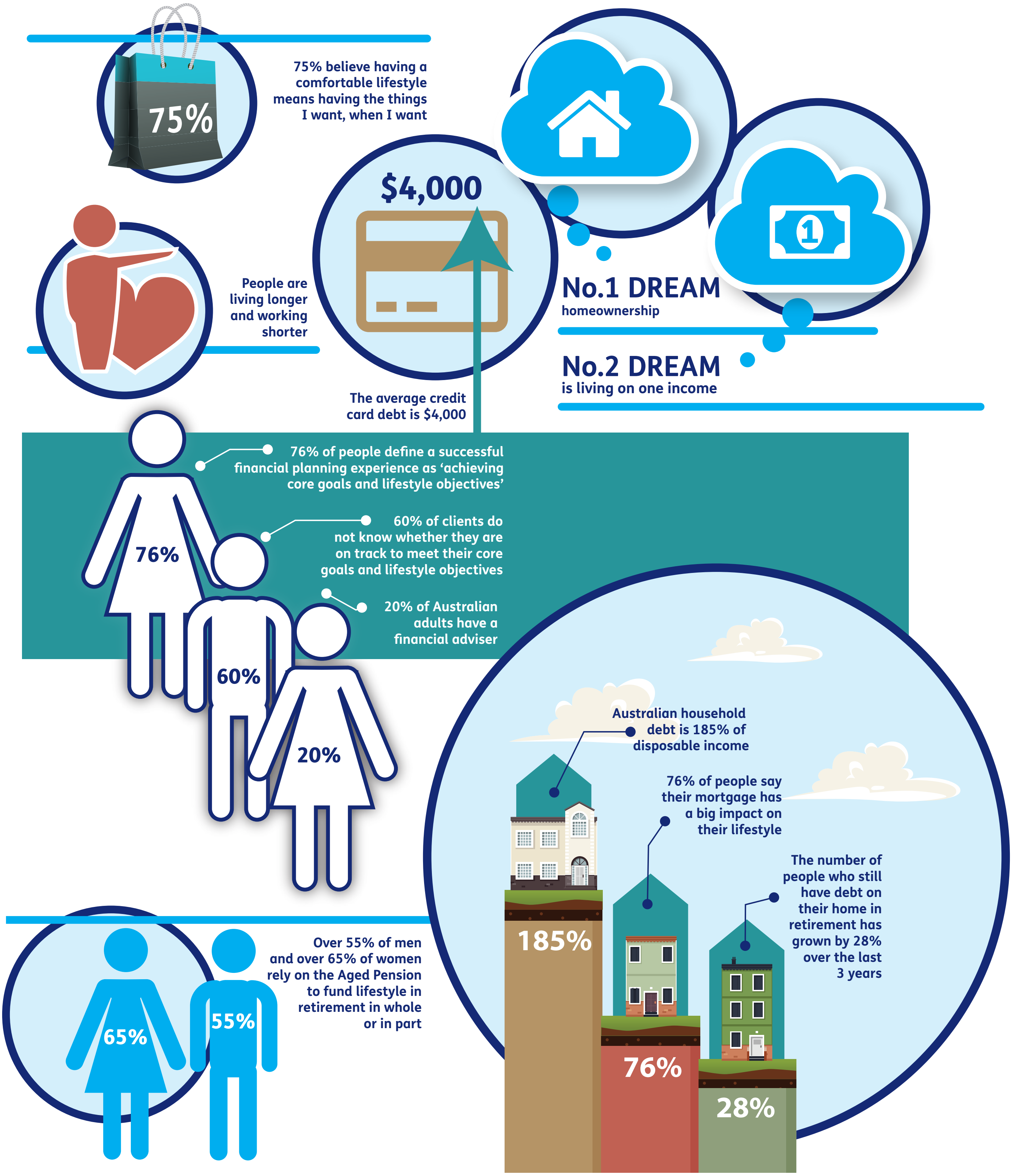
If the answer is strategic advice, what's the question?

The question is; in the age of digital disruption, robo-advice and DIY investing and insurance, why will clients pay for professional financial advice?

How can a professional financial adviser continuously add value, stay relevant and ensure their business model is compliant, effective and profitable?

This paper examines these issues and many more.

THE STRATEGIC ADVICE OPPORTUNITY



Sources: 'Australia Today' (September 2015), IPSOS Social Research Institute and NAB/MLC, 'Going the Distance' (June 2015) and 'Buy now, pay later' (December 2015), AMP and National Centre for Social and Economic Modelling (NATSEM), University of Canberra; ASIC 'Moneysmart' website (September 2016); ING Direct media release (September 2016).

EXECUTIVE INTRODUCTION

The role of the traditional financial adviser is increasingly being performed cheaply by industry super funds and automated advice services.

Time is running out for advisers who limit the scope of their advice to only superannuation and insurance, and collect ongoing passive income paid by the product manufacturer.

Today consumers are increasingly aware that if they buy insurance or top up their super on the recommendation of a financial adviser, they'll likely pay an ongoing percentage-based fee.

Alternatively, they can get cheap one-off advice from their super fund or a robo-adviser.

Then there's the issue of regulation. Under the Corporations Act 2001 (Cth), advisers must provide ongoing service and advice to receive ongoing service fees.

In order for advisers to remain compliant and secure their position as trusted adviser, they must continuously add value. The way to continuously add value is to delve deeper into their clients' financial lives, expand the scope of their advice and help ensure that their total needs are satisfied.

Advisers need to help clients address a wider range of issues including property investing, debt management and aged care.

Importantly, they must be able to charge for the value they add on a flat fee basis.

But how?

How can advisers remain relevant to their clients, meet compliance standards and build value in their business?

The answer is strategic advice.

This guide is designed to encourage advisers to move away from traditional product-based advice and embrace the strategic advice trend that's up and running and has the power to transform their businesses.

We're already seeing many quality practices within the Matrix and ClearView Financial Advice network and in the broader IFA community, make exciting changes to their business and operating model, and they're reaping the rewards.

Those benefits include:

- Sustainable revenue growth
- Compliant fee income
- Greater profitability, leading to stronger capital value
- Improved client outcomes
- Deeper client engagement
- Referrals

This hands-on guide provides practical tips on how advisers can develop a differentiated strategic advice proposition; price it appropriately; and roll it out to new and existing clients.

Arguably the hardest part is getting started on the journey.

That's where the support of an experienced, well-resourced licensee is invaluable.

> *"The key for advisers to remain compliant and secure their position as a trusted adviser is to continuously add value. The way to continuously add value is to delve deeper into their clients' financial lives, expand the scope of their advice and help ensure that their total needs are satisfied."*

At Matrix and ClearView Financial Advice, we're committed to helping advisers confidently make the leap. Some will start slowly by introducing a series of small changes while others want to launch a comprehensive solution quickly.

Whatever your intended speed, just make the first move.

We'll be there to guide and support you.

Allison Dummett

Head of Strategic Advice

BUILDING AN EXCELLENT BUSINESS MODEL

CONVERT PASSIVE INCOME INTO A SUSTAINABLE, REVENUE STREAM WITH SIGNIFICANT CAPITAL VALUE

Advisers need to act decisively to expand the advice they provide, build deeper client relationships and demonstrate the value of their advice to both clients and the regulator.

Historically, the transactional nature of advice disengaged consumers but made it possible for financial planners to build large client books and collect a passive income stream of trail commissions.

Even today, despite a constant stream of reforms and reams of legislation, there are still many practices with hundreds, if not thousands, of policyholder customers who receive little-to-no service.

But that business model is under extreme pressure. Advisers must now provide some form of ongoing service where an ongoing fee is charged. They must also provide fee disclosure statements to these clients that detail the services provided over 12 months. New clients must formally opt-in for ongoing advice every two years.

Upon reviewing their business models, many advisers will conclude that they need to find ways to foster deeper client engagement and add greater value which will likely involve asking more poignant questions and delving deeper into a client's personal situation to uncover their true financial position and long-term goals, objectives and priorities in order to identify areas where they need help.

Adopting a strategic advice model that considers a client's total needs (not only their superannuation and insurance needs) and seeks to develop and implement a holistic financial plan that maximises the probability of them achieving their goals will not only lead to improved client outcomes, it'll help advisers meet their obligations under the Future of Financial Advice reforms including the best interest duty.

The mind-blowing thing for many advisers is that strategic advice may not involve a product recommendation or sale. For example, there's no product associated with advice on budgeting and cashflow management, debt reduction, investment property, self-managed super, estate planning, succession planning or aged care.

LESS IS THE KEY TO SUSTAINABLE GROWTH

The business model of the future will see advisers providing a high level of ongoing service and advice to a smaller number of clients, probably no more than 150-200 per adviser.

The challenge for advisers is to gradually expand their relationship with individual clients, price their services accurately and confidently ask to be paid for the work they do and the value they add.

Given people are increasingly time poor, and tax and superannuation are complex areas, many clients will pay for good advice and the peace of knowing their financial affairs are being professionally managed.

Although there is significant pressure on advisers to either service passive clients or sell them to someone who can, they don't have to make the leap from transactional product-based advice to full-on strategic advice overnight. There are many stages in-between, which are explored in this guide.

Ultimately, advisers can journey to Strategic Advice at their own pace and incrementally add staff and resources as they expand their scope of advice.

For a traditional risk-only adviser, that may start by offering coaching on saving, budgeting and cashflow management to clients who want to pay off their mortgage faster. At a later date they may decide to branch out into superannuation and investment advice.

For a financial adviser who mainly provides superannuation and investment advice, it may mean adding value by modelling investment property scenarios and also moving into wealth protection to help clients assess their insurance needs and gain adequate cover.

HOW LICENSEES CAN SUPPORT ADVISERS

1. Build a relevant strategic advice proposition
2. Price their services appropriately
3. Clearly articulate the value advisers deliver
4. Establish formal systems and repeatable procedures that ensure the consistent delivery of strategic advice
5. Sensibly expand the range of services on offer
6. Identify existing clients who may be suitable candidates for strategic advice
7. Find a new home for unsuitable clients
8. Gain expertise in new areas through continuing professional development
9. Improve client engagement and client satisfaction, potentially leading to more referrals
10. Develop referral relationships with centres of influence
11. Grow and diversify practice revenue
12. Increase the capital value of practices

SCOPE IS EVERYTHING

Advisers need to determine the scope of their advice proposition and then decide whether to provide the whole suite in-house or form referral partnerships with specialist advisers and manage the overall delivery of strategic advice.

Strategic advice considers many aspects of a client's life.

It takes a holistic view of a client's situation and addresses their financial needs, both now and in the future. In a twist to the traditional approach, strategic advice starts by asking clients 'what's more important to you than money?'

Only by understanding what clients value the most, can advisers consider the best approach.

In addition to traditional advice areas like superannuation, investments and insurance, it includes emerging areas like retirement incomes, aged care, estate planning and intergenerational wealth transfer. For this type of advice, there is no obvious product solution.

Strategic advice is the solution.

Often, there will be no product sale at all. It's a value proposition based on ongoing advice, coaching and mentoring to keep clients on track towards achieving their goals.

Once the strategy is set and implemented, advisers must continuously review a client's situation to ensure the strategy remains relevant and effective.

The goal of strategic advice is to help clients understand their total financial needs and get (and keep) their financial house in order so they can get on with enjoying life.

That will likely involve educating clients about the positive and negative impact of certain behaviour so they're able to autonomously make wise decisions and maintain good financial habits.

Ultimately, strategic advice must add tangible quantitative and qualitative value.

Quantitative value will include achieving meaningful lifestyle goals like paying off the mortgage before retirement or being able to afford regular holidays and a top education for the kids. It may be greater wealth over time by saving and investing wisely, managing risk and avoiding poor decisions such as buying high and selling low.

Qualitative benefits will include peace of mind, less stress and greater certainty about the future. Advisers who specialise in estate planning will know that it'll likely mean a more harmonious family because family members are properly considered and taken care of ahead of time.

"Often, there will be no product sale at all. It's a value proposition based on ongoing advice, coaching and mentoring to keep clients on track towards achieving their goals."

Every adviser will run their business differently. Some will focus on a particular niche, for example, medical professionals, small business owners or millennials. They'll seek to understand their target market's specific needs, concerns and nuances.

Some will have the resources and capacity to offer every aspect of strategic advice in-house while others will choose to outsource certain areas to specialists while managing and overseeing the total proposition.

The next section provides some examples of strategic advice in practice.

SOMETHING TO TALK ABOUT

"What's more important to you than money?"

Whether working with young accumulators, mature couples, pre-retirees or retirees, the strategic adviser will have robust discussions about:

- Controlling expenses and mindful spending
- The role debt can play in either growing wealth or acquiring a lifestyle asset
- The costs and tax consequences of debt for both investment assets and the family home
- Options for use of cashflow and investing in a range of assets including property
- The trade-off between investment profile risk and achieving goals

YOUNG COUPLES WITH NO MORTGAGE

Advice can add a lifetime of value to a client yet few advisers focus on helping younger clients.

Traditionally, there have been two key disincentives to helping young people:

- Young people may have good incomes but they generally don't have much to invest. Under an asset-based fee model, it's not profitable to service this segment.
- For young people who are focused on buying a home, advice is often seen as expensive and low priority.

However, young accumulators have three great assets working for them:

- Income
- Time
- Insurability

They're also highly motivated to seek professional advice, particularly as buying a home is getting harder and harder to achieve.

Paying for advice should be viewed as an investment in their future. It'll maximise the probability of them achieving their goals, and the cost isn't exorbitant considering how much many young people spend on lifestyle expenses such as entertainment, clothes and gym memberships.

An obvious advice proposition for young people is advice and coaching on saving, budgeting and investing. Advisers can deliver monthly cashflow monitoring and goal reporting.

Fees for this kind of work are generally lower than for more mature clients but it can demonstrate the power of advice.

Over time, advisers can expand their relationship with the client as their needs evolve and become more complex. Importantly, the 'value through time' of these clients becomes a major asset to the business.

Strategic advice services for young accumulators

- Financial health check – compare projections based on their current situation with alternative scenarios
- Review cashflow and prepare a budget
- Facilitate mindful spending and debt reduction
- Goal setting including a plan for saving a deposit for a home or investment property
- Consider geared investment opportunities using a margin loan to create income producing assets and reduce tax
- Insurance
- Tax optimisation
- Cashflow monitoring against agreed budget and goals

Example fees

Young couples with no mortgage		
	Ranges	
Upfront fee for strategy and implementation	$500	$1000
Ongoing fees	$100 per month	$200 per month
Year One Total fees	$1700	$3400
Assumes monthly cashflow reporting or other ongoing service is provided		
Plus insurance and lending commissions if applicable		

COUPLES WITH A MORTGAGE

Advisers enjoy working with clients in their prime working years.

Traditionally, advisers have focused on helping clients increase their super, but often with little regard for their net position.

However, many mature couples have other priorities such as reducing debt, minimising tax, sending their kids to a good school, going on regular family holidays and renovating the home.

These goals and expenses are important too.

Strategic advice can address these challenges and competing priorities in a holistic way.

Advisers can model a client's actual financial position and cashflow against alternative strategies, and visually show the client the impact of different behaviour and scenarios.

Strategic advice services for mature couples

- Financial health check – compare projections based on their current situation and alternative scenarios, assess current loan and super structures
- Review cashflow and prepare a budget
- Goal setting including a plan for paying off the home or acquiring investment property
- Examine long-term cashflow including car upgrades, holidays and school fees
- Improve net position including repayment of debt before retirement
- Establish a loan structure to fund residence and possible investments
- Set up flow of funds to focus on repayment of non-deductible debt / debt recycling
- Establish income producing investments (possibly using borrowed funds for shares, managed funds or property)
- Establish a gearing strategy to build investment assets
- Insurance
- Increase salary sacrifice once debt is under control
- Maximise tax efficiencies
- Cashflow monitoring against agreed budget and goals

Example fees

Couples with a mortgage		
	Ranges	
Upfront fee for strategy and implementation	$1000	$12,000
Ongoing fees	$400 per month	$1000 per month
Year One Total fees	$5800	$24,000
Assumes monthly cashflow reporting or other ongoing service is provided		
Plus insurance and lending commissions if applicable		

PRE-RETIREES

Advisers work closely with pre-retiree clients, particularly around managing contribution caps, transitioning to retirement, and building a retirement income stream.

However, many important strategic advice areas go largely unaddressed.

For clients facing retirement in the next 5-7 years, their number one question is likely to be 'Will we have enough in retirement'? That'll be closely followed by 'Can I afford to retire when I want'?

One of the most valuable services that advisers can provide to pre-retirees is a realistic picture of their position at retirement and their lifestyle beyond. A good starting point for strategic advice for pre-retirees is a review of their true financial position and a projection incorporating all cashflow before and after retirement. If they still have a mortgage, advice that addresses this is paramount. Increasingly, advisers are providing strategy papers for a fee which cover these areas.

Strategic advice services for pre-retirees

- Financial Health Check: projection of current financial situation to show cashflow and asset accumulation at retirement and beyond
- Review cashflow and set a working budget for their remaining work life and prepare a realistic budget in retirement
- Goal setting including a plan to repay debt and options for reduced working hours
- Examine long-term cashflow including money for travel and discretionary spending
- Provide options to achieve desired accumulation and income levels to fund all goals
- Address debt and if possible ensure no debt at retirement
- Compare retirement scenarios such as retiring at age 60 versus 65 versus 70
- Review super and pension structures (SMSF, super vs non super)
- Review contributions, caps and investment strategy
- Review insurance

Example fees

Pre-retirees		
	Ranges	
Upfront fee for strategy and implementation	$1000	$8000
Ongoing fees	$400 per month	$800 per month
Year One Total fees	$5800	$17,600
Assumes monthly cashflow reporting or other ongoing service is provided		
Plus insurance and lending commissions if applicable		

RETIREES

The combination of Australia's rapidly ageing population; increasing complexity and uncertainty around the Age Pension and social security rules; ultra-low interest rates and economic uncertainty presents an enormous opportunity for advisers to provide strategic advice to retirees.

Many retirees think they have relatively simple needs around when and how to access their super and build an adequate retirement income stream but if they delve a little deeper, they actually have complex needs.

The amount a person or couple needs for a comfortable retirement varies depending on factors like their expectations, lifestyle and how long they live which is why planning is critical. Retirees must also manage different risks such as market volatility, illiquidity, tax changes and longevity.

If they have an SMSF, they'll need to meet their trustee obligations.

At some stage, retirees will need to consider issues such as aged care and estate planning. Business owners may also need help with succession planning.

A strategic adviser can add a lot of value around educating retirees about their choices in retirement; ensuring they access all their social security entitlements; layering their different sources of income; and managing their risks. They can also provide invaluable emotional support during the transition to retirement and ongoing coaching and peace of mind throughout the journey.

Strategic advice services for retirees

- Financial Health Check: projection of current financial situation to show cashflow and asset position as pension payments and drawdowns are made
- Review cashflow and set a realistic budget in retirement
- Goal setting, including things like travel, replacement of car, gifting
- Legacy and estate planning
- Regular monitoring of cash position
- Half yearly check of cash, assets and Centrelink
- Assistance with Centrelink entitlements
- Planning options for downsizing or Aged Care accommodation and services

Example fees

Retirees		
	Ranges	
Upfront fee for strategy and implementation	$2000	$7500
Ongoing fees	$100 per month	$500 per month
Year One Total fees	$3200	$13,500
Assumes ongoing service is provided		

TAKE IT SLOW AND STEADY

The best way to tackle the strategic advice opportunity is slowly.

Start one client at a time and ideally with a new client.

In the initial meeting, the majority of time should be spent asking questions about their goals and objectives, and unearthing what's more important to them than money.

People often think they have simple advice needs only to discover through deeper conversation, with a little probing, that their situation is actually quite complex.

For example, a couple planning to start a family may not have fully considered the cashflow implications especially if one party has to stop paid work. Similarly, in the near future, many people may need to take care of elderly parents.

Spending time to understand these issues builds trust and gives valuable insight. The detailed data collection and financial needs analysis follows on from there provided the client and adviser agree to proceed to the preparation of a strategy document.

If the answer is yes, they'll need to briefly explain the advice process, articulate the value they provide and broach the topic of fees and payment.

Some people may need time alone to consider their options while others will be happy to commit to the next step straight away. Either way, it's important to show clients that it is their decision whether to continue. Once the client commits to the engagement, it makes sense to provide the Financial Services Guide and collect the financial needs analysis data that will allow the work to be done.

Example conversation

"Based on our conversation today, and thank you again for your frankness, I think there are some options we could consider to help you get closer to your goals. To do that, we need to do some analysis of your financial situation and then come back with a strategy paper showing some options for you.

"If you are prepared to trust us to carry out that work, you'll need to know our fees and we'll need to collect some more detailed information.

"We have many clients in a similar situation to you and we've been able to successfully help them improve their position. Our fee to provide you with a strategy paper and options is $1,500^. If you then wish us to help you implement a particular strategy, we will quote the fee for implementation at that time.

"Based on what we've seen, we would love to work with you but it's your decision and you need to feel comfortable that working with us is the logical next step. Would you like a moment to discuss this?"

^Example fee only. Advisers should state their fee here.

Advisers must be confident in their value and be prepared to walk away if a client is reluctant to pay for the strategy paper. It's not fair on them or their practice's stakeholders including staff and shareholders, if they're not adequately remunerated for the work they do.

THEY SAID YES, WHAT NOW? HOW TO PRICE FOR ADVICE

PRICING FOR VALUE AND COMPLEXITY

It's not easy accurately pricing for advice. It's a learning process.

When pricing upfront and ongoing strategic advice fees, there are two components to consider:

- The cost of providing advice including labour, rent, technology, the risk of doing business and other overheads; and
- The value provided.

Pricing value is complicated. Advisers need to consider factors such as complexity, their expertise and reputation, and the tangible difference they can make in a person's life.

To get pricing right, a practice should determine costs for servicing typical types of clients and then add a margin for complexity and value.

This is an evolving process and there is no point waiting until pricing is 'perfect'. It is quite common for a practice to evolve pricing as they apply a price point to a client and then assess whether in fact they charged too little (it is very rare for firms to charge too much in the early stages; most underestimate the work involved).

It's quite common for practices to charge based on number of strategies.

Naturally, cost will vary significantly based on complexity.

PROFESSIONAL FEE OPTIONS

There are a number of fee options available. Some advisers charge a percentage-based fee on assets, usually collected from product holdings, while others prefer to charge a flat fee which can be billed by direct debit, credit card or cheque.

For advisers who are considering charging asset-based fees and collecting them via a product, there are three factors to consider:

1) Strategic advice may not involve any product, for example, advice on budgeting and cashflow management, or aged care.
2) With gearing strategies, it's illegal to charge asset-based fees on investments bought with borrowed funds.
3) Advice fees debited from a superannuation fund must relate to superannuation advice only in order to meet the rules under the sole purpose test.

For these reasons alone, advisers will need to be able to value their service and advice, and charge a flat fee in many instances.

When it comes to charging for ongoing strategic advice, increasingly, advisers are charging a flat fee monthly retainer linked to their ongoing service offering. Any additional project work they do outside their retainer agreement may be charged as an additional amount.

NOTE: The base cost for all advice includes overheads. Many practices are surprised at what they need to charge to be profitable for even a basic strategy.

MATRIX CAN HELP YOU DEVELOP & OFFER A STRATEGIC ADVICE PROPOSITION

Matrix's national team of knowledgeable and friendly practice development managers are available to work with you.

For more information, contact **1300 663 334** or email **contactus@matrixplan.com.au**

EVERYONE'S A WINNER

A key disadvantage of commissions and asset-based fees is there's less certainty around practice revenue because fees vary significantly from client-to-client. Asset-based fees are also affected by withdrawals and market movement, making it harder to manage cashflow and plan for the future.

However, advisers who provide strategic advice under a flat fee model have found that they have greater certainty of income in terms of both upfront and ongoing fees.

As a result, they roughly know how many clients they need to service in order to generate a desired level of revenue. This enables them to better manage their costs and expenses.

In many ways, advisers who make the leap to fee for service strategic advice are liberated from uncertainty. They're also released to spend more time servicing existing clients because they're being adequately remunerated. It also removes the need to recommend a product in order to get paid. Therefore, if the most appropriate advice to the client is to stay on track and do nothing, advisers can confidently recommend that course of action. Similarly, if a client simply wants to understand the impact of buying or selling a property or shares that they manage themselves, the adviser can still add tremendous value and be rewarded for strategic advice.

The beauty of strategic advice is that advisers are managing a client's situation, not only their money. It's a powerful distinction.

From a regulatory perspective, strategic advice follows a compliant path. It enables advisers to engage with clients on a deeper level, demonstrate their work and it encourages clients to have an ongoing engagement to ensure the strategy stays on track.

Advisers who have an ongoing advice relationship with their clients will have a strong recurring revenue stream coupled with compliant processes, driving the long-term value of their businesses.

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