KEEP CALM AND SURVIVE RDR

A SHORT GUIDE FOR FINANCIAL PLANNING FIRMS WHO ARE CONCERNED ABOUT REGULATORY CHANGE

Brian Foster

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INTRODUCTION

The purpose of this book is to discuss the upcoming Retail Distribution Review (RDR) and provide ideas and guidance for financial advice firms as they prepare for the biggest shake-up in financial services regulation in a generation.

It is intended to highlight the relevant issues and bring an awareness to the need for serious thought and action for most firms. Those firms that choose not to address the issues face a difficult future - possibly no future!

I think this is important stuff.

As a financial planner myself, let me lay my cards on the table...

I believe that great financial planning is essential in today's world. I am 100% behind financial planners, and support their efforts to create profitable, sustainable businesses. Good financial planning can, and regularly does, make a significant difference in people's lives, so without profitable and sustainable financial planning firms, the public will be worse off.

At the same time, I think we must recognise that no firm or individual has an automatic right to survival. Other industries and businesses have to deal with change, and financial services should be no different. Change is difficult, and most of us would prefer it didn't happen, but it is inevitable.

There will always be people that cannot see the need for change and will do anything they can to keep the status quo, even if it's out of date, doesn't work or is damaging the profession.

The rest of us that are trying to do a good job need to ensure we keep up.

I know that managing change is difficult, especially when business owners are busy, and cocooned in the world of running a financial advice firm every day. I've been there. Sometimes, getting the space to even think clearly is a challenge.

I hope this book will give firms a starting point in understanding what's coming and why we need to change, and more importantly, what I believe firms should be doing.

I believe that it is entirely possible to offer a financial planning experience that knocks your clients' socks off, ensures that you get paid properly and get to enjoy the life you want, and which satisfies all the requirements that are about to be imposed by the regulator.

I see a win/win/win...

Why wouldn't we all want that?

Happy reading...

THE FINANCIAL PLANNING ADVICE PROFESSION

Let me quickly draw a distinction between two terms I use in this book by offering a couple of definitions from the Oxford English Dictionary:

INDUSTRY

" Economic activity concerned with the processing of raw materials and manufacture of goods in factories"

PROFESSION

" A paid occupation, especially one that involves prolonged training and a formal qualification"

The industry is represented by product providers and suppliers who manufacture financial products in their 'factories' and who are then concerned with the distribution of those products into the market.

'The profession' means financial advisers and planners who are engaged by the public to deliver... well what, exactly?

How would we define the financial planning advice profession?

We currently refer to financial services as an industry, whereas we refer to the medical profession, the accounting profession and the legal profession. It is debateable that the financial planning advice profession exists, yet but we must continue to push ahead and strive to reach a professional level.

Like most financial advisers, I was trained by the industry to distribute products. I was never trained to be a financial planner. The concept of training to be a financial planner outside of the product distribution industry is still very new.

We need to see financial planning advice training completely separately in order for a profession to develop.

When more and more firms start delivering professional financial planning advice, we will reach a tipping point. But we are not there yet. Not even close.

In fact, right now, financial services is broken.

FINANCIAL SERVICES IS BROKEN

The three main reasons financial services is broken are:

1. The money gets in the way
2. Client engagement sucks
3. The industry takes shortcuts in the advice and suitability process

THE MONEY GETS IN THE WAY

Money has the potential to bring out bad things in people. Whether it is through a greedy desire for more money, or the pressure for enough just to survive, money can be a major driver.

In financial services, we mostly deal with people's money. The asymmetry of information that exists in financial services is open to abuse and exploitation by those that understand or control the system, over those that don't.

In the wrong hands, this can have terrible consequences.

It is a key reason that some people are motivated to act against their clients' interests. It is a key reason we have corruption, theft and poor practice and it is the reason why the 2008 global crisis happened.

The money gets in the way.

At another level, it is the reason why the vast majority of the financial services industry operates its remuneration on the basis of how much money clients have. Charges based on Assets under Management are prevalent, even when there is no 'management' being done.

"Is the client the client, or is the client's money the client?"

Because, in every website and marketing activity I've ever seen, financial services industry participants state that their services are "client-centric" and "in the best interests of the client"

Does this mean that Assets Under Management fees are bad? Not necessarily.

But there are some challenges. Can financial advisers be investment managers and add value, when the vast majority of investment management firms don't add value? Is it fair or reasonable to charge ten times the fees for a client with R10M, than a client with R1M for what might be, more or less the same job?

One of my clients wanted advice on Estate planning, but already had an investment manager, managing her portfolio. Why should I be incentivised to break an existing relationship the client is happy with, just to get paid?

The industry puts clients' money in a conflicted position, and incentivises more product distribution, when more distribution is not necessarily what's needed. Managing these conflicts of interest is often tough, even if you do have the best interests of your client at heart.

And the money gets in the way for clients too.

I've given up counting the times that clients came to me asking for me to make them rich, or generate the highest return possible. I understand that we want great returns and more money, but seriously, the pursuit of 'more' without thinking about what that means creates horror stories every single day.

And there is a growing trend for clients to want to cut out the expense of their adviser and do things themselves. At one level, this is understandable, but it is also potentially very dangerous.

As much as the financial services industry has a responsibility to clients, clients must recognise that they too have a responsibility, not only to themselves for their affairs, but in the relationships with good advisers who need to be paid for doing a proper job.

The money gets in the way.

CLIENT ENGAGEMENT SUCKS

Firstly, the way we approach prospective clients is generally rubbish.

Getting clients engaged means they are never going anywhere else. It's a bit like getting engaged before getting married!

Most of what happens in financial services is transactional and transitory, including the relationships. The best financial planning firms have 'engaged' clients who willingly look forward to the interactions with their adviser. The advisers also don't struggle to get paid.

Post RDR, if you don't have engaged clients, you run the risk of becoming obsolete. Client engagement is so important, and that process starts before you've even made contact with a prospect.

Secondly, the industry has an attitude of "Listen to what I'm telling you, I know what's best for you." At one level, this is probably true, since the economic principles that we are taught are founded in truths, but this attitude turns a lot of people off.

Education is important, but I believe we need to **show** people, not tell them. The industry must stop telling the world it knows best, in situations that it cannot control, and it must seek to engage people in discussions that are more meaningful to them.

THE INDUSTRY TAKES SHORTCUTS

Most of the work done in financial advice and planning is about long term benefits. The savings for retirement, the implications for life assurance and disability protection are all about long term planning. We spend our lives talking about the long term.

And yet, the targets set for sales are for this week, this month, or this quarter. Fund performance is measured daily and reported monthly.

Relationships with many advisers are often short, sometimes lasting no more than one or two sales. The time we spend with clients is, in many cases, incredibly short.

Many advisers tell me they have 400 or 500 clients or more. How can you possibly have a relationship with so many people? There are literally not enough hours in the day. How can you educate people properly? How can you listen to them and understand them?

Shortcuts are taken in the 'know your client' process. This is often swiftly followed by shortcuts in the engagement process, the product due diligence process and the suitability process. The cost of not doing the job properly is a poorly managed client and if you look at the complaint cases that come out of the various Ombud offices, the pattern is usually the same. Shortcuts are taken, the adviser doesn't know the client properly, or doesn't document the process properly and when something goes wrong, the client is unprepared and complains.

Do you think I'm wrong?

Let me share a couple of stories based upon my own personal experience in South Africa over the last year.

STORY 1 - THE INDUSTRY OBSESSION WITH DISTRIBUTION

Although I am a financial planner, I have a financial planner to help me here in South Africa. The firm is independent and my planner assisted me with advice on Medical Aid, as well as setting up a Medical Aid policy, with a major insurance group.

Three months after inception, I received a call from the tele-sales department of this organisation, who tried to sell me a cancer policy. It appears that the company has decided that I am now its client and therefore fair game for a further sales opportunity.

I was going to hang up, but was curious and let the sales rep do his thing.

He only asked me one question, which was "Have you smoked any tobacco products in the last 12 months?" I said "No" and he proceeded to explain the three options available.

It took 30 seconds to get to his close, which was "Which option shall I put you down for?"

The CEO of the organisation involved will probably be fairly chuffed with this. I think it's a bloody disgrace. I asked the sales rep whether my financial planner knew we were having this conversation. He said "Yes."

I asked about who got paid, and the rep said that his organisation retains 20% of the commission and the adviser would get 80%.

In my head, I'm beginning to wonder how independent my adviser is...

I rang my financial planner immediately. He sighed and said "It happens all the time. I didn't know they would contact you, but I'm not surprised."

I obtained the e-mail address of the CEO and wrote, a firm, but very respectful letter, which I e-mailed to him, explaining my concerns as a customer and as a consultant interested in professionalism. As expected, the CEO did not reply, but instead my letter was forwarded to the head of marketing, who did respond, as follows:

"I would happy [sic]to engage with you further but just wanted to respond on the immediate issue of your telesales experience. Notwithstanding your personal experience, which I must state was not what we aspire to and which I will follow-up on, our telesales area sells largely on behalf of our intermediaries and therefore aims to offer them income-generating opportunities and offer very targeted products to our client base that would otherwise not be economically viable for intermediaries to market.

I must stress that our telesales strategy was not established to maximise sales but rather as a support structure for intermediaries - we value our reputation and brand more than growing sales and would not compromise this principal [sic]. I apologise once again for your experience and hope that this clarifies this aspect and would be happy to engage further".

This is the actual response from the head of marketing. I don't know about you, but I think it's a terrible reply, and says an awful lot about the organisation.

As a customer, this message says that the company cares more about controlling the financial services industry and making money, than it does about the fair treatment of clients, even when the client has been introduced by an independent firm who do not wish to be 'supported' in this way.

Seriously?...

The Oxford Dictionary defines independent as "Free from outside control; not subject to another's authority."

Next, it doesn't answer the question of who I am contracting with, and who is responsible for the advice, I (think I) have been given. You can bet your life that the product provider won't be taking any responsibility, which means the adviser is left to carry the regulatory 'can' and hasn't even been party to the conversation!

As an adviser, do you want to be held responsible for advice you haven't given or cannot control? In today's regulatory environment, that's suicide.

The "very targeted products" could not possibly have been targeted for my benefit. The company doesn't know anything about me. Before we even get to the common courtesy of a great client experience, does FAIS not require that firms "Know their customers"?

I accepted the invitation to "engage further" and responded with some additional questions but have never had a reply. It seems to have gone away. The follow up appears not to have been followed up, and I'm guessing this has been swept under the highly polished marble tiles that no doubt adorn the offices of said product provider.

What a surprise! Or is it?

What do advisers think of this assistance? Do they take their 80% and shut their eyes, hoping there won't be any come back, or do they engage with the provider and ask them to stop? If it were me, I'd not be doing any more business with the organisation.

And what of those 'advisers' that are not independent and are directly controlled by this organisation? Should the organisation not be taking responsibility for the advice its influence and authority has brought to bear?

I think it should.

STORY 2 - ADVISERS ARE NOT BLAMELESS

I have recently been targeted with a cold call from a firm of financial advisers.

Upon answering the phone, this guy announced himself "Brian, it's Chris", like I should know who Chris is. I hate it when people do that. I instantly switch off.

When I realised that it was a cold call from yet another financial advice firm, I was faced with the same dilemma. Hang up, or continue? My curiosity got the better of me (again!) and I allowed the conversation to develop. It was obvious that Chris knew I was from the UK, having mined my data from somewhere, but had no idea he was talking to a financial planner.

Chris began to tell me that, as a UK expat, I should seriously consider moving my pension funds from the UK. He told me disturbing news about the UK pension system "Not paying out pensions because the country is broke" and my benefits are "Frozen, and so will not grow"

I was offered a free meeting for a coffee and a chat with no obligation, with an adviser, and I accepted.

At the meeting, the adviser opened by explaining the fragile state of the UK pension system and why I should transfer my pension benefits. Even though I offered the information that I had a DC scheme, the reasons for transferring were confused with DB scheme benefits.

I was even warned that "Employers can raid the pension fund and spend the money"

Spurious examples were given showing investment return comparisons and the adviser explained that his role was to manage the investment decisions.

All the work he did was apparently free, and the commission payable to his firm would evidently not come from my money. What he really meant was that there would be some clever mechanism to hide the charging structure.

No attempt was made to ask me any questions about what my issues were. In a discussion about investment risk, I was offered a one sheet visual image of a series of points on the efficient frontier, and asked "Where do you think you sit on this line?" I said "The middle" (on a scale showing returns of 0% to 17.0%), to which the adviser read out a statement of 'Moderate' risk and asked me to sign the form to that effect.

When I asked why, he said it was "Just in case the regulator questions how we arrived at this"

I think that was the risk profiling exercise right there.

Am I to believe that 9% per annum is a realistic return for a Moderate portfolio? And what does Moderate mean? How does that relate to my needs? How does it relate to anything?

After an hour and 15 minutes listening to how great this firm was and why it made sense for me to buy a QROPS, I explained my time constraints and that I needed to leave. I asked for a sample illustration, based on the £100,000 example the adviser had been using, which was refused. I said I wanted to know the charges and he said "We can do a proper illustration when we have the details of your actual pension benefits. Please sign this form for us to get them."

My adviser then explained that I must be happy with his great advice, so could I please provide the names of three people he could call.

He sat... pen in hand... waiting for me to give him names and telephone numbers. Nice.

So much for no obligations then!

On a follow up call to the meeting, I explained that I really wanted an illustration to establish all the costs etc. The adviser explained that it was not possible to provide an illustration.

He again made some really startling comments about "UK companies being allowed to dip into the pension funds of their employees", and that I should be "Re-assured that I would be investing in markets that have never crashed and are not going to crash", and that my money would be held "in a vault"...

...and yet, strangely, this is going to deliver on the return expectation of 9% per annum.

Having again acknowledged that my pension benefits are held in a DC arrangement, he once again re-stated that the UK returns were "capped at 3% and can't go any higher".

He re-stated the main advantages of the tax benefits of transferring my UK pension, making a big point of the tax payable on the fund in the event of my death. "If you die, the money is gone."

He again sought to reassure me that all of this was available "For free. You do not pay me a cent and never will."

10 out of 10 for persistence... 0 out of 10 for everything else.

In the April 2014 budget, UK Government made significant changes to UK pension legislation, allowing individuals the freedom to withdraw their entire DC pension fund as a lump sum. This last weekend, UK Government made a further announcement that the 55% tax charge, payable on the death of a member, would be abolished.

Strange that there was no mention of these facts, to provide a balance to the tax incentives for transferring to a QROPS. No mention that a transfer from a UK scheme to a QROPS is a one way transfer and cannot be reversed.

The result? I do not trust the adviser and I do not trust the firm he works for.

But how would your average client know any of this?

And what do you think this firm's website says?

THE CLIENT EXPERIENCE

My personal experience so far of financial services in South Africa has been poor, and don't get me started on the services of my bank. Are my experiences fairly typical.

Maybe I'm just unlucky?

Or maybe there's a problem!

It's very easy in these situations to generalise and reach sweeping conclusions. This is something that we need to be very careful of, because I know that there are also some fantastic firms out there, some of whom I'm working with, who deliver a great client experience already.

Interestingly, it is these firms that tend to want to push ahead and reach a higher level of professionalism, while the poorer firms seem to be in denial, and blame the regulator for the industry's woes.

THE 'R' WORD

Regulation has, almost inevitably, brought us Treating Customers Fairly (TCF) and the Retail Distribution Review (RDR).

TCF challenges the culture of a business, and asks firms to take an honest look at its treatment of clients from a fairness perspective. For smaller financial planning firms who rely on good relationships with clients, TCF shouldn't be too much of an issue. If the ***intent*** is good, then it's really about having the right systems, processes and Management Information (MI) in place to deliver on that good intent, and just being honest.

Being small and nimble, and client-focused is an advantage here, if you want to change things.

Whilst some adviser firms do need to look hard at TCF, it is really aimed at the bigger organisations, where often, the culture sucks, short-termism reigns and the intent is about the organisation, not its clients. Very often, business growth, market share and short term profits precede client interests.

Big firms are going to struggle to change this culture quickly, if at all.

My experience in the UK is that there was a shift in power to smaller independent firms that wanted to do things better. And, as we shall see later, there are other forces that are helping smaller businesses.

Step up, smaller firms, and empower yourselves to get ahead!

If you have your clients' interests at heart, don't let the industry walk all over you and them.

I've spent the last few years working in the TCF space and the conclusion I've drawn is this:

Some people are ethical and some are not. All firms say they treat customers fairly and some clearly don't. I doubt that the culture in some firms will change unless those firms are forced to change, either by the regulator, or by customers who, with the benefit of transparency, are empowered to leave and do business somewhere better.

You cannot teach people to be ethical. You cannot teach people to be fair. Either you are built that way or you're not. The longer the industry fails to take TCF seriously, the more likely it is that we will need stronger regulation.

There needs to be a regulatory dividend for adopters of good practice, and serious consequences for those that don't.

And so, hot on the heels of TCF, we await the introduction of RDR.

WHAT IS RDR?

RDR is the Retail Distribution Review.

It is a review of the way in which financial advice, products and services, are delivered to the general public - the retail market. The result of the review is very likely going to be significant change to financial services regulations, and this will impact on many businesses, as well as clients of financial services businesses.

The RDR will affect everyone involved in financial services, but will probably be felt most by businesses delivering financial advice. For adviser firms, the impact could be the difference between surviving the changes, and not.

Some advice firms in South Africa, that choose not to, or cannot, adapt are going to go out of business. For these firms, RDR represents a significant threat.

For those prepared to embrace the ideas and objectives of RDR, I believe RDR represents a major opportunity.

At the time of writing, the FSB has not yet released the RDR paper, but we know that it has taken the term "RDR" directly from the UK regulator.

I have shown below an extract from the UK regulator's introduction to RDR.

Why the RDR?

We announced the review in June 2006 with the specific aim of identifying and addressing the root causes of problems that continue to emerge in the retail investment market. This includes products and services offered by, for example, retail banks, life insurers, financial advisers, building societies, stockbrokers and fund managers

What does RDR seek to achieve?

The aim of the RDR is to identify and address the root causes of problems that continue to emerge in the retail investment market. As we said in the June 2007 discussion paper (DP07/1), the market for retail investments was not working as well as it could to serve the interests of consumers or firms.

We have a number of objectives for the RDR. In particular:

- to maintain an industry that engages with consumers in a way that delivers more clarity for them on products and services
- to enhance a market which allows more consumers to have their needs and wants addressed
- remuneration arrangements that allow competitive forces to work in favour of consumers
- to maintain standards of professionalism that inspire consumer confidence and build trust
- an industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly
- to build regulatory framework that can support delivery of all of these aspirations and which does not inhibit future innovation where this benefits consumers

What benefits will RDR deliver?

Our proposals seek to empower consumers and give them confidence and trust in the retail investment market - people will be able to understand more clearly what kind of advice they are getting, how much it will cost and how it will be paid for and, critically, have confidence that their adviser is well qualified and acting in their best interests.

We also expect that these proposals will help to reduce the negative perceptions associated with the advice process, improve consumer confidence and encourage people to seek financial advice. They also present significant opportunities for firms and individuals in the retail investment market to build trust and confidence by modernising practices, raising standards and treating their customers fairly.

WHAT DOES RDR MEAN?

In the UK, the impact of RDR affected four key areas:

- Higher minimum qualifications for advisers
- A new definition of "Independent" and "Restricted" advice
- Transparency of costs and charges throughout the chain
- A shift in advisers being paid by commission to fees, or "Adviser Charging"

Qualifications

The initial focus for advisers in the UK was on getting properly qualified.

Personally, I was already very well qualified. However, we should also recognise that I passed my exams 12 years before RDR was introduced, so much of my exam knowledge was out of date. UK pension legislation, for example, underwent a major overhaul in 2006, which rendered a great deal of my exam knowledge redundant. The solution seems to be a combination of examination and ongoing continuous professional development (CPD) in order to ensure the knowledge remains up to date.

The minimum level for examinations was set at QCA level 4, 'diploma' standard. There was talk of setting it at level 6 'degree' standard, which is equivalent to the Certified Financial Planner level, but the regulator felt this was a step too far, too early.

I suspect that this may follow some years down the line, raising the bar even higher, although, as a friend pointed out recently, a degree standard education ought to be the basis for any professional.

Reportedly, around half of all UK advisers had to take further qualifications. The fact is that the vast majority of advisers got up to speed, and those that didn't, or couldn't, probably shouldn't be in advisory positions.

The general feeling seems to be that advisers are now technically better equipped and advice standards have improved.

Independence

The whole issue of Independence and Restricted status has been something of a mess, largely because the definition and meaning of 'Independence' hasn't been properly clarified. I think this is an area that will get further attention, and at the time of writing, the FCA has already recently amended some of the interpretations originally introduced.

For me, the real definition of Independence has changed over the last 10 years or so. Most people would regard being Independent as having access to 'whole of market', and not being tied to any particular product provider or products.

The dictionary definition suggests independence is "without control or influence by a third party" and this is, I think, a closer definition to what clients probably perceive it to mean.

The important thing to a client is that the advice being given has not been tainted in some way by some influential or controlling party, that has placed a conflict of interest in the way. The advice should be what the adviser truly believes to be suitable, and in the interests and circumstances of the client.

I don't think most clients really care about products or providers, as long as the recommendations made are suitable, fit for purpose and solve the problem they are designed to solve.

I'm intrigued by the idea that an adviser, tied to selling the products of a single provider, could offer independent advice (which is not influenced by the product provider), whilst an independent adviser, able to offer the whole of the market, might not actually be independent (because he is incentivised by certain providers or products).

I think we need a better definition of what it means to be independent and that must start with getting rid of any undue influence from the industry.

Transparency and the move to fees

The transparency of costs and move from commission to fees is clearly the headline issue, and I don't think that the true impact has really been felt in the UK yet, mostly because public awareness of the issues is not yet mainstream. That will take time.

For every adviser praising the move to fees, you'll find plenty of advisers still bemoaning the loss of commission. Old habits die hard. Mostly, I think this comes from mindsets that are closed to the changes going on in the world and a desire to maintain the status quo.

RDR, and particularly the move from commission to fees, has been criticised for 'decimating' the number of firms and advisers, and creating an "Advice Gap". I've seen this reported in the South African space too but I don't think this is an accurate statement of what's happening. I think this is the result of some vested interests hoping to retain the status quo.

Look, I know it's difficult and we have to take lots of people on that journey, but if we don't do it, we risk losing everything.

Whilst it seems true to say that the number of UK advisers has declined, most of these people were working in large institutions, like the banks, which have closed their face to face financial advice businesses, making lots of people redundant. It's interesting that those organisations have historically been largely responsible for the vast majority of complaint cases, regulatory fines and poor practices.

Barclays Bank, for example, made its salesforce redundant in 2011 and that was reportedly around 1000 advisers. Other large banking institutions followed. It's worth re-stating that the purpose of RDR was to increase professional standards. If the main sources of poor advice have closed those businesses, perhaps RDR has already been successful in some of its aims!

There is evidence that these individual advisers are popping up elsewhere in the market and it may well take some time to see a clear picture of what has really happened.

The latest figures would seem to indicate that the numbers of firms and advisers overall, hasn't materially changed.

We should also remember that the UK "Financial Services Act" was initially introduced in 1988, since when, it was amended in 2000 to become The Financial Services and Markets Act. The UK had regulation for 25 years before the introduction of the RDR in January 2013, and much of the 'clearing out' has happened over a long period of time. Numbers seem to be difficult to come by but the UK may have had 250,000 to 300,000 regulated individuals in 1988. If that's right, and I think it is, then the last 25 years has indeed seen a major change in the UK advisory landscape.

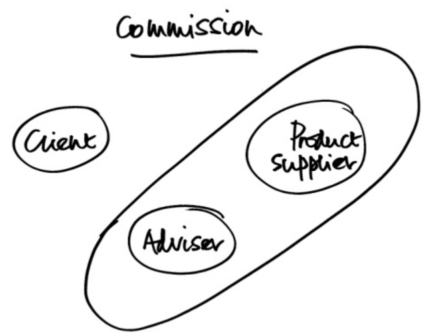
RDR probably shouldn't be criticised for this, although we might say that the decline in numbers has happened as a result of regulation, and isn't that part of the purpose of regulation?

And there's another question that baffles me... If a lower number of better quality, more professional advisers exist, doesn't that mean more opportunities for those that remain. Isn't that a good thing for them? Why are good advisers worried about this?

Having operated in financial services for 30 years, my perception is that financial advice in the UK has taken significant steps toward professionalism.

The commission system

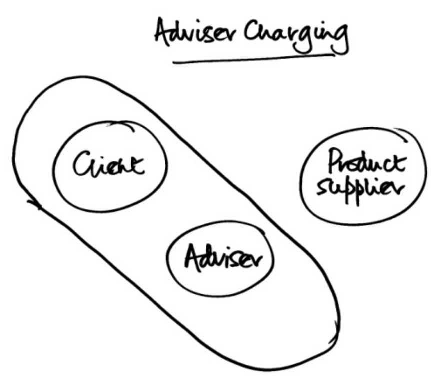
The commission system was designed by the industry to pay advisers to distribute its products.



Commission is agreed between the product supplier and the adviser, and commonly, the client has no real say in how, or how much the adviser is paid. I know that some advisers reduce their commission entitlement, but there's an interesting word... entitlement!

The nature of commission is that there is an entitlement mentality in the minds of many advisers.

Instead, advisers were required to have Customer Agreed Remuneration, or "Adviser Charging", which is a form of remuneration agreed between adviser and client, that product providers could take no part in, or influence.



Product providers were permitted to facilitate adviser charges through products if they wished, and if agreed by clients.

In the UK, initial commission has been banned from 1 January 2013 on any newly arranged contracts that involve any investment element. In other words, short term insurance and pure risk products were excluded (although in Holland, I understand commission has been banned on all risk products too).

The UK regulator also left existing 'trail' commissions in place, as long as there were no increases or amendments to the plan involved. Subsequently however, the regulator has stated that legacy commissions will be switched off in April 2016.

This has some serious implications for some firms, not least of which is the idea that commission belongs to the client, not the adviser.

Clients are in a position to switch off adviser remuneration if they choose not to pay it any longer.

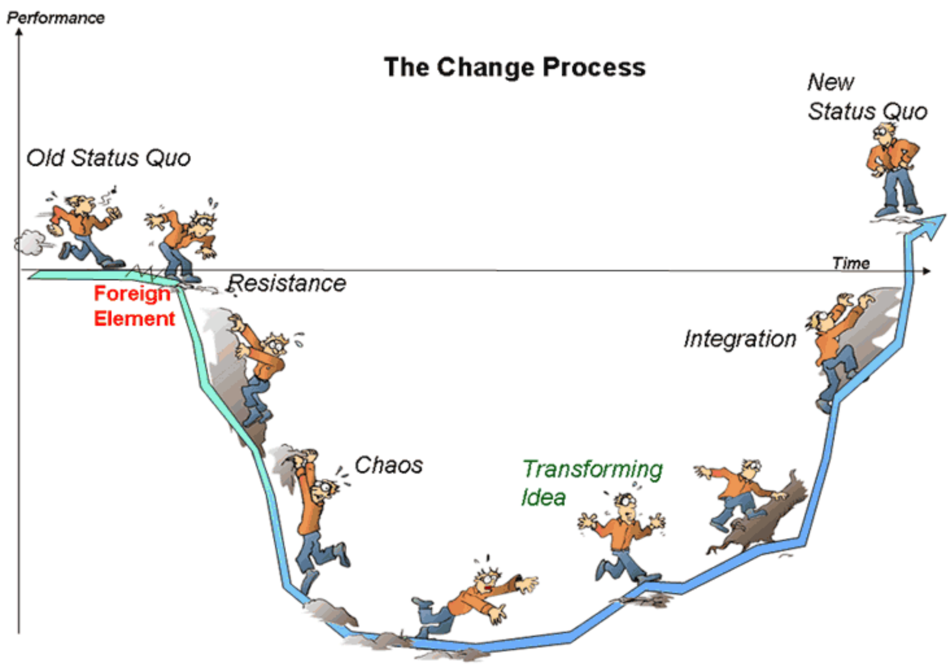
Whether, and when this might happen in South Africa is not yet known, but the direction of travel would seem to indicate that it would be risky to rely heavily on product providers for future cash flows.

One thing is clear to me. Many financial advice firms are going to have to completely re-visit the way they do business. Before that can happen, they may need to re-think what they are doing, before they can even get themselves into the right mindset.

Even firms that have the right mindset will probably need to change their systems, processes and operations.

And then, they have to take their staff and clients on the journey too!

CHANGE IS PAINFUL



Whenever there is a need for great change, there is a change process required, and different people and firms will be at different stages in that process.

In any of the significant changes that have taken place in my life, the most traumatic time has been in the period between the introduction of the 'foreign element', and the point at which the transforming idea has been developed.

This is the time when uncertainty, and fear of the unknown have caused me to worry, procrastinate, and argue. I've felt denial, anger and resentment and on occasions my life has descended into moments of chaos...

but I'm still here...I survived!.. And most firms will be too. And looking back, I've learned some things in the process. And if it wasn't for all that change, I never would have learned what I've learned. And now that I have a new perspective...

I wouldn't want to go back.

For all this to take place, there is no other way through change, than THROUGH it. What we would like then, is to perhaps shorten the period of pain... and that means getting to your transformational idea as quickly as possible.

"WHAT DO YOU DO?"

"I'm a financial... broker/adviser/planner/wealth manager"

"Oh, you sell insurance"

"Umm, no not really"

When someone asks you what you do, what do you say? Most of the people I meet who are financial planners (that's what I'll call you), tell me what they ARE, not what they DO. To be fair, financial planners are not alone, but does your answer accurately describe the role you perform for your clients?

And does it matter?

I think it does, and more to the point, I believe it will matter more in the future.

It's fair to say that clients don't understand the differences in our titles, and frankly don't care. What they do care about is what we actually do.

That matters a great deal.

So what do financial planners DO exactly? What's the difference between a broker, an adviser, a financial planner, an investment manager and a wealth manager? And if clients can't identify the difference, how do they know where to go for... well, for what? What do they want?

Do they know what they want?

I know what you're thinking. "Of course they know. They want us to help them solve their financial problems. To provide peace of mind and security"... And you'd be right.

But what does that mean, really?

After 30 years in financial services, I've reached the conclusion that in general, most clients don't know what they want, or if they do, they really struggle to articulate it, and most advisers don't really know what they do for people, and if they do, they really struggle to articulate it. I was challenged by all of these things as an adviser too.

If clients don't know what they want and they can't tell the difference between the services on offer, what would convince them to pay for it?

Post RDR, how are you going to describe your services, so that clients not only say "Yes" but agree to pay for them? Some firms have figured this out, but most haven't, and it's probably the #1 RDR concern.

THE WORLD HAS CHANGED

I joined financial services in 1984, thirty years ago, at the time of writing this. The world today looks very different to me.

Just think about some of the changes for a moment. Telephones and computers are obvious examples. My laptop is only designed to last three years, because the components will be out of date within 18 months.

What about the companies that existed in 1984 that are no longer here today? What about the companies that didn't exist even ten years ago, which are now major international organisations?...The way we read newspapers... the television programmes we watch... the way we buy music... advances in medical science... how long we live... and what's happened to public funded benefits.

What was South Africa like, socially and politically, in the mid 80's - mid 90's even?

Technology has, of course, played a massive role in the changes. The Internet was only invented in 1990, and yet, in 2011 there were something like 31 billion searches on Google.

How did that happen?

The way we communicate has changed too.

The first text message was sent in 1992. Now we can 'instant message' on any one of a number of platforms. Social Media allows us to find, and talk to, anyone in the world about anything... on a mobile device, that we used to call a mobile 'phone...

...which also didn't exist in 1990.

And most of it happens at little or no cost!

We could add to this, the changes that have taken place in what we call work and retirement. Gone are the days of a 40 year career in a single company, where retirement happens at 65, and financial independence is provided by a final salary pension scheme, largely funded by our employer... unless you work in Government... but let's not go there!

The 20th century was defined by the Industrial Age. Wealthy business owners built factories and employed lots of people to work in those factories for a wage that was enough to get by on. Some of those factories still exist, but this model is in decline.

And then Tim Berners Lee invented the Internet... and everything changed.

The 21st century will be defined by the Information Age. But more than that, the Internet has fundamentally changed the way we work. It is now possible to have a very small factory of your own.

You can operate a global small business with a laptop and a mobile phone from your bedroom.

The concept of work and therefore, retirement, has changed for a lot of people. Personally, I don't separate the two anymore. I choose to work at something I really enjoy doing, and which I hope makes a difference, and I don't plan to retire in the traditional sense that involves a 100% shift from work to non-work.

For me, and I think increasingly more people, the question isn't "How do I save enough money to retire at 65, or 60 if I'm lucky?" The question might be "How much is enough for me to be financially independent, as soon as possible, so that I can carry on doing whatever it is I love doing?" (which might be what you call 'work')

That's fundamentally a different question. Some people might not even bother with the financially independent bit, and just do what they love regardless.

I'm convinced that my life isn't defined by what I'm going to do in the future. It's defined by what I'm doing now, in the present. Sure, I need to plan for the future and I want to know, financially, how I'm going to be able to connect being independent to my money, but I think the concept of retirement is changing fast.

I think this calls into question a whole bunch of issues and traditional financial planning techniques.

The world has changed.

SO WHAT?

'Big' used to be better. Now, it's often a liability. It's s-l-o-w. It's inefficient and expensive. It's not personal. It's not clear about its values. It's inward looking. Closed and controlling of its environment. And size, for some organisations has become a problem. If I use the expression "Corporate politics", I think you'll know what I mean.

Barclays Bank has been hit with a series of regulatory fines over the last 5 years or so, for a range of significant regulatory misdemeanours, some of which are extremely serious. Barclays are, by no means alone, and what we are experiencing is a regulator that is forced to take drastic action upon organisations that have developed a selfish 'me first' culture.

In 2012, Barclays was voted the least trusted brand (of any brand - not just financial services) in Britain (Source: 'Which' survey 2012). Having re-branded itself as "The 'Go To' Bank" CEO Andy Jenkins admitted in December 2013 that it would take 5-10 years to change the culture in the organisation. December 2013 is five years AFTER Treating Customers Fairly (TCF) was supposed to be embedded into business practice and about ten years since the expression, TCF, first appeared on the regulatory landscape.

I see Barclays has just been fined another £38m this week.

For a great perspective on why this is happening, I suggest you read Simon Sinek's great book "Leaders Eat Last." It will explain the cultural changes that have taken place over the last 100 years or so, and why we are, where we are now.

'Small' used to be a liability. Now it's an asset. It's quick and responsive. It's client-focused and highly personal. It can control the delivery of the customer experience and is open and outward looking. The internet has reduced the cost of marketing and made it much easier to find your audience. Small firms can compete with big firms and don't need a huge marketing budget to do so.

The world has changed, and I believe these changes are a massive benefit for smaller, forward thinking, independent financial planning firms who can deliver a more personalised experience to their clients, that big firms can't, even if they wanted to.

In the future, defining and finding your niche is extremely important. And that's the marketing piece that financial advice firms are notoriously bad at.

THE INTERNET HAS CHANGED EVERYTHING.

The volume of financial information available on the Internet is vast. Just about anything that we know as financial planners can be found by anyone with access to Google in a matter of minutes. You want the answer to a technical question? It's there. You want to invest money yourself? You can.

There are those that say financial adviser businesses are threatened by the Internet, and this will lead advisers out of business. Threatened?... Yes, possibly. Out of business?... I don't think so.

Getting access to this information is valuable for the public, however, the sheer volume of information is overwhelming. What's more, a lot of what is 'out there' is unhelpful, wrong or plain dangerous.

This means that people are being persuaded to do stupid things, and sometimes regulation can't stop it. To the unwary, the Internet is both a blessing and a curse, but they don't know what they don't know, and it must be a devil of a job regulating organisations that only exist in cyberspace.

I had a call from a friend the other week, who complained that she had lost almost R10,000 on an investment that had gone wrong. It appears that she was surfing the internet and clicked on an investment advert to find out more. She then received a follow up call (from someone in Australia) and was persuaded to open an online account. She says she knew the investment was 'risky' but was prepared to lose R500.

What actually happened was that she invested £500 not R500 and was then encouraged to invest a further amount on the promise of been given an extra sum for free - a bonus.

Upon transferring the money into the account, the next click saw the automated purchase of a series of binary options, which are paired derivatives. Apparently, she watched the balance disappear over a period of hours.

Horrified, she contacted the company, who were now strangely difficult to reach, and asked for her money back. The company is unregulated and the 'contract' operates from an overseas jurisdiction where there is no investor protection. Strange that.

I managed to call some broker for the company, purportedly in New York, who seemed not to understand the concept of regulation, and simply said that she should have invested with him, as he would have doubled her money in a matter of days!

Yeah, right. The Internet can be a dangerous place.

My friend has written off the money, and whilst she realises she made a dumb mistake, she has a tainted view of financial services and so called 'advisers'. She, of course, doesn't understand the difference between 'brokers' and 'brokers'. Why would she? I contacted the regulators and asked them to warn people, but there is only so much they can do.

The Internet has changed the way financial services operates, but I believe that lots of people still want to put their faith in a human interaction, especially where advice and the protection of their wealth is concerned. In fact, I believe that many people, who are inclined to use Internet services in the future, may experience similar problems and seek out decent local advice of a human kind - and that's where we come in!

STUCK IN THE OLD WORLD

One thing that hasn't really changed though, is the way in which financial products are delivered to customers through intermediaries.

I was selling mortgage and insurance products when the internet was invented in 1990. We had no website of course. All my marketing was local. Clients were mostly ignorant about what was available and I was the gatekeeper to all that information. Our brokerage was owned by an insurer, and I sold clients as much insurance as I could, to meet my targets, using a one page fact finding document, a check-box record of advice, and as few meetings as I could get away with.

Sound familiar?

The mortgage was a means to an end. I didn't get paid for arranging a mortgage. The 'end' was the sale of an insurance product, preferably (for my employer, and me, as a commission-based 'adviser') an endowment policy. Sales commission rates on endowments were much higher, which of course, created a massive conflict of interest.

And placing a conflict of interest in front of someone trained to sell a product that was too complex for a client to understand will (and did) lead to problems. Most of my customers left with an endowment mortgage because I had been trained and incentivised to sell them.

I was 22 years old!

From mortgage sales, I moved into a general financial advice (product sales!) role, before being dazzled by the bright lights of 'The City of London' and the world of investment management... or so I thought!

To be honest, I was attracted by the money.

At 26, who isn't?

In 1994, I spent 6 weeks working in a basement office on London Wall, where we sold penny shares to the public, over the 'phone. Our 'know your customer' document was five questions, the first two of which were "What's your name and address?" Of the dozen or so 'traders', I was the only one with any proper financial advice experience, since I had by then, started studying for the Financial Planning Certificate. Within a day or two, I was picking up the phone, talking to 'punters' about the stock market and selling various high risk shares.

The boss was from Ladbrokes - and that just about sums it up!

Our clients were, mostly, ordinary people trying to make as much money as possible, as quickly as possible; misguided, poorly informed and without the faintest idea what they were doing... or why. They regarded us as trusted 'in the know' investment specialists that would make them rich.

The only reason I lasted 6 weeks was because I didn't have another job to go to, and in the end, I left without one anyway. I'll never forget the train journey into London that morning. It was my birthday, and in early January it's still dark at 8am. In the dark, I watched the same miserable faces sitting in the same seats on the same train, making the same trip to a job they probably hated just as much as I did, and I was struck by this idea...

"There must be more to life than (chasing) money"

I walked into the office, handed in my notice and got back on the next train home.

At the time, I thought it was just about the worst thing that could happen to me. Looking back, it was probably a blessing. It was a lesson that impacted my life and my attitude toward money and what it meant to 'advise' someone. I realised I had to have some ***meaning*** to what I was doing.

It was the point at which I became a financial planner... well, in intent anyway!

Fast forward 25 years or so, and where are we? Well, in many financial services companies, if you fell off the planet in 1994 and got back on in 2014, you could be forgiven for thinking you were still in the same place. Mostly, it hasn't changed.

Having joined an accountancy practice in 1997, we set about building a fee-based advice business, and I worked on an hourly rate of £65. That took some getting used to, and required a completely different set of skills. The conversations with clients became completely different, and I enjoyed developing a whole new set of more productive and meaningful relationships.

The real change came in 2004.

This was the year I took 6 months out and visited South Africa for the first time. I fell in love with the country and was instantly hit by the complete difference in cultures and lifestyles. I wondered about the concept of lifestyle, and what that word means. Often, in order to see things as they are, you have to take yourself out of your current environment completely.

I returned to the UK a different person, and instantly looked for ways to help my clients focus on the things that were more meaningful in their lives.

I discovered Lifestyle Financial Planning.

Interesting that eight years later I should find myself moving to South Africa permanently, to help South African financial advisers learn from that experience. One of the things that makes me chuckle is that, in South Africa generally, but Cape Town particularly, lifestyle is massively important to people.

South Africans invented lifestyle... why are more people not offering Lifestyle Financial Planning services?... I digress.

The next few years saw significant change in the conversations, systems processes and fee levels in the business. And I realised that I could never go back to the old ways.

Why am I telling you all this?

The journey to Lifestyle Financial Planning was for me, my "Transformational Idea." In fact, the UK RDR hadn't been birthed at that point, so in many ways, I was preparing myself for what was to come, without realising its importance.

For me, it just made sense.

Given all the changes going on in the world, I'm convinced that this is the key to the future for successful financial planning firms. In fact, what I'm noticing right now, is that some UK investment management firms are beginning to add Lifestyle Financial Planning services to their core services, and there's a good reason for that.

I believe that, for clients, this is where the value is.

And client value in a transparent, post RDR world = getting paid. I'm convinced that many products including investment products are already becoming commoditised, and with commoditisation comes price pressure.

I believe that selling financial products as a broker, and making profits, in a post RDR world, is going to be difficult.

REFLECTION

Looking back, what I realise... back in my mortgage days... is that clients didn't come to me because they wanted insurance, or even a mortgage. They ***needed*** a mortgage. What they ***wanted*** was a house.

No, wait...

What they ***really*** wanted was this concept of their ideal lifestyle.

The house was just a representation of it.

Think about that for a moment.

Every financial decision we make. Every purchase we make... Our car...how much we save... the debt we take on... when we retire... where we go on holiday... where to send the kids to school... all geared to what we believe about our ideal, or desired lifestyle.

We may not be conscious of it most of the time, but that's what's going on. Your lifestyle may be very different to mine, but that's the point. Our individual preferences are very individual.

So, instead of helping clients understand this, and get what ***they*** really wanted, I did what every financial advisor did... and many still do. I just sold them whatever I needed to, because I wasn't incentivised to care about what was going on in their lives. I was incentivised to sell them a product.

While Mr Client was quietly thinking about how he was going to arrange the tools in his new garden shed, and Mrs Client was quietly thinking about what colour curtains would look great in the lounge, I was furiously filling in mortgage forms and making decisions ***for*** them.

"You don't need this"... "You definitely want that."

I was only 22 years old remember.

Here's the thing...

I was trained by the financial services industry to sell stuff. I wasn't trained to be a financial planner.

I was trained to fill in a fact find, to open up the gaps that would lead to another product sale, because that's what the industry wanted. Another product sale. It still does.

I wasn't trained to listen to people. I wasn't trained to show people... I was trained to tell people. And I wasn't incentivised and rewarded to be a financial planner.

The thing is that all the power in financial services sits within the product manufacture and supplier space, that is "The industry."

The industry has a need to distribute its products. I get that. And, I should say that, in general, these products are needed in the world... We need life assurance cover... We need disability insurance... We need to save to be financially independent... We need retirement savings products that capture tax benefits for the right people.

But these are some of the tools to get the job done. They are not ***the*** job.

In the main, the industry has developed financial advisers to be just another distribution channel. Just another way to sell more stuff. And unfortunately, the training and the ways advisers are incentivised is skewed too heavily toward the industry, and too far away from the real needs of customers...

... And also, the real needs of financial planning firms!

What we are about to see in the UK, is an increase in the Direct to Consumer (D2C) market. In other words, product providers that are concerned only with distribution will seek whichever channel is most profitable. I guess that's just called good business, but I reckon it's a bit disingenuous to accept business from intermediaries and then seek to take over the relationship.

A BALANCE BETWEEN CLIENT AND BUSINESS

Having said, "There must be more to life than (chasing) money, I'm not saying that getting paid lots of money for delivering great advice and service is wrong, or in some way bad.

In fact, I think most advisers that do a good job, are not paid sufficiently well for the difference they make to the lives of their clients. I think there should be a better connection between the reward and the nature of the advice and services delivered.

In some organisations, there seems to be this sense that you can't make money and treat people fairly at the same time. That they are somehow mutually exclusive.

I also don't believe that it is for the regulator to regulate costs too heavily. There should be freedom for buyers and sellers to make their own market and determine what is a fair price. I think RDR is an attempt to do this, by ensuring there is transparency, so that customers can understand what they are buying and what it costs.

Those firms who are hiding inflated or confusing cost structures, or who are doubtful about the value in their products and services will not like, and probably resist, transparency.

In the UK, many years ago, the regulator chose not to enforce a maximum commission agreement. In other words, providers and advisers were free to charge whatever commission they wanted. This lead to some products having a higher or lower commission than others. This in turn led to product bias, since the money got in the way!

Why sell a unit trust structure for 3% commission when you could sell a life insurance bond for anywhere between 5% and 7% (or more, depending upon how much volume your so called 'Independent' network could negotiate and influence)?

In South Africa, people tell me there is no product bias, as there is a maximum commission agreement. However, does this lead a large number of advisers to take the maximum commission, which means the cost is the same, but there are big variations in the quality of advice and services?

Why should the cost be same when the quality is variable, and invisible to the client!

Nothing is ever perfect is it? The point though, is that there needs to be some definition of value that clients can distinguish for themselves.

TURNOVER OR PROFIT?

In a product sales environment, the incentive is to sell more products. The volume of sales then becomes the most important factor. More sales = more money for product providers and distributors.

But, is each 'sale' profitable for the distributor?

Historically, most advice firms have never measured profitability. This needs to change.

What is the cost of a sale? Do you know how much your business needs to generate in order to make a profit?

One of the things that RDR will do, in making the costs more transparent, is show up where the losses are. Adviser firms need to take a business approach to RDR and either stop doing non-profitable business, or find a way to do it more profitably.

Many firms are unaware of what it costs them to be in business, and I think this comes from a product distribution mindset. If you think your job is to distribute more products, then each prospect is a product sale, and the objective is to find out which product, or multiple products can be sold.

That's so 1990's.

Financial advice firms need to consider what it costs them to be in business and re-think each client relationship. There needs to be a connection between what it costs, what you do, and who you do it for.

Great businesses only have profitable clients.

Before you can set pricing, you need to think about what you are offering and you need to think about who you are offering it to. Do they want it? Do they need it?

THIS IS NOT THE END OF THE INDEPENDENT!

I am positive about RDR. Excited even! I must be a lonely individual, right?

At the time of writing, we don't yet know what the South African RDR really will look like, although we can be certain that it will mean massive changes.

I recognise that there will be pain for some people, and there will be casualties for sure, but I also see the long term benefits.

You see, rather than the "end of the IFA", as has been suggested, I see this as the opportunity to move financial planning from the industry into a profession, because, done well, that's what it is.

I don't believe that professional financial planners have a regulatory problem. I believe they have a business model problem.

I believe the industry has a regulatory problem.

Focusing on regulation will keep you out of jail, but it won't get you paid. The thing that will get you paid in the future, is a great client experience.

In a perfect world, the industry will focus on designing simpler, transparent products that people really need, and financial planners will be independent partners, who use those products as tools and treatments, in the situations where their planning and advice calls for it.

Good products will be independently recognised as valuable, and poor ones will fail.

HOW TO SURVIVE AND THRIVE

The 4 key issues going forward for advice firms will be:

- Creating a great proposition for clients
- Client engagement
- Advice suitability process
- Business profitability

1. YOU NEED A CLEAR VISION FOR THE FUTURE

You need to understand what your proposition really is about, and you need clarity on why it is worth paying for. You need to understand what problem you are trying to solve.

If you cannot articulate your proposition, you might have a hard time persuading people to pay for it.

2. YOU NEED TO ENGAGE YOUR CLIENTS BETTER

First prize is to get lots of your ideal clients beating down your door, asking to work with you. Is this happening yet?

Most firms will need to market themselves better. They will need client attraction strategies that build trust and lead new and existing clients into the business, because they want to be there.

Once on board, the engagement process needs to be backed up by consistent delivery.

People want to engage with financial services differently. Some want face to face advice and some don't. Some want online engagement. Some don't see value in advice at all and want to 'go direct'. Some may well just want a product conversation and some will want comprehensive financial planning and coaching.

None of these are right or wrong. They are just different. They will need a different approach, and financial advice firms should be responsive to the engagement needs of their ideal clients. This is where the expectations are created at the outset, and poor engagement into a service that doesn't deliver what your client expected, will lead to problems.

3. YOU NEED TO DEFINE YOUR IDEAL CLIENTS AND YOUR OWN PRODUCT

The best businesses are really good at working with certain types of clients. I know you have clients in your business that you don't enjoy working with. They drain you. They take up more of your time than they need to. There are other clients that you love working with, and who love working with you.

Client segmentation is all about identifying the **right** clients, and whilst they need to be profitable, you might be surprised at what constitutes the right client.

- You need to know who your ideal clients are, and why they are ideal
- You need to understand what their problem really is
- You need to engage them in a way that works for them

You need a great proposition that your ideal clients understand, and some (but probably not all) will want. In short, you need to focus on working with people who believe what you believe, and that means spending some time thinking about who you want to work with and why.

4. YOU NEED TO UNDERSTAND YOUR CLIENT BETTER

I don't just mean filling in a fact find document, and if you are still using a one pager, throw it away. Immediately!

I mean knowing and understanding your client, probably more than they know and understand themselves. You need to ask better questions and unpack the real issues. You need to ***show*** them the extent of their problem, and that solutions exist. Change your sales process to an advice process.

It is clear to me that shortcuts are being taken at this vital stage.

From a regulatory perspective, there is a requirement to 'know your client' so aside from it being a good idea, it is a regulatory issue that crops up all the time in ombud determinations that go against advisers.

5. SHOW, DON'T TELL

I know you know more about financial services than your client ever will. But making decisions ***for*** your clients is dangerous, especially if you don't know them as well as you think you do, and your suitability process isn't tight enough. Working ***with*** clients to help them make decisions and getting ***informed consent*** and commitment to action, is where we need to get to.

If they understand why they are making the decisions they make, clients will cope better when things go wrong. If it goes wrong and you ***told*** them to do it without getting proper commitment from them... don't be surprised to lose clients, or worse, get complaints.

There are still recommendations and advice to be given, but clients must ultimately make decisions because they must live with the consequences.

6. TAKE RESPONSIBILITY

This means undertaking your own due diligence on what you recommend. You cannot hide behind the excuse that you relied on marketing information provided by a third party product provider. That's just lazy. If you want to be called a professional adviser or planner, then you need to step up and take responsibility for your advice.

This might mean that you choose not to deal with certain providers that aren't supporting transparency and fairness. It might mean that you choose not to get involved in products that are overly complex, or which you cannot fully understand.

Your job is not 'to be clever'. It is 'not to be dumb'.

I guarantee that your ideal clients don't really care which product provider they end up with. If your clients are asking to use specific products or providers, especially dangerous ones, then let them access those products directly, or let another adviser take the liability.

The cost of getting it wrong is not worth the extra time and thought required to do it properly.

7. DOCUMENT PROPERLY

There are two reasons for properly documenting your advice.

The first is to ensure that you transfer understanding of your advice to your client. The second is to protect yourself in the event that things go wrong and your client has decided to stake a claim.

If you get the first reason right, you shouldn't need the second.

WHAT NOW?

Financial advice businesses are going to need different business models. They are going to need different pricing strategies. Some will be incredibly sensitive to price, and some will allow firms to charge a lot because they add a lot of value.

There is much talk about the impact on firms in the UK of the UK RDR. I've read general statements about the "decimation" of IFAs and the creation of the advice gap, but I'm also hearing UK firms saying they've noticed no changes or, are winning new clients.

Even some firms that kicked and screamed pre-RDR, are saying they are better off now. Many have had transformational ideas!

It seems to me that whether RDR is good or bad depends on what you were doing before RDR, and what you have done since. It depends on how you managed change.

Believe what you want about RDR, but it doesn't change the fact that you have to do something.

Marketing yourself as honest, trustworthy and qualified isn't the answer.

Your values don't differentiate you. Should clients not ***expect*** all of these things from every professional firm?

Marketing yourself as fee-based isn't the answer. All firms will be fee-based soon.

Marketing financial planning isn't the answer either, because nobody knows what it is. I can't remember a single client that came to me and asked for help with their lifetime goals, or begged me to prepare a lifetime cash flow forecast. Not one.

I believe that appealing to your ideal client's emotional desire for identifying and maintaining their desired lifestyle is the answer, and the client experience around that, will become everything that value is based on.

This will reward you and your clients emotionally. It will ensure your business is rewarded financially, year after year, to the point that it has a commercial value, and if your documentation is good, you will get little or no grief from the regulator.

Being independent means not being influenced by an external third party. That means doing your own thing, your own way.

The fundamentals of financial planning will be the same, and yes there are common systems and processes you should find in all firms...

But the client experience? That must be unique to your firm. That's your differentiation.

If it's good, that's what will get you paid in the future and help you survive.

If it's great, you will love your work and your business will thrive.

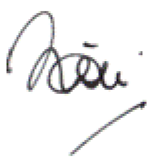
This will need some thinking through. It will involve doing things you may not have done before, and it will involve change. It will certainly involve marketing yourself better to the people you have designed your services for.

So that, when you are asked the question, "What do you do?"...

... You have a more compelling answer than, "I'm a financial planner".

Go knock their socks off.

All the very best



ABOUT THE AUTHOR

Brian Foster has worked in financial services for 30 years.

He spent his first 10 years as a product salesman, working as an agent for various product providers, being remunerated by commission.

He spent the next 17 years as an independent financial planner, working as an agent for his clients, being remunerated by client fees.

As well as being a client-facing adviser, Brian has also been involved in the creation and management of three UK financial planning firms, the last of which he sold to emigrate to South Africa.

Since 2012, he has been developing an adviser coaching and consulting business, and he specialises in helping advice firms to design and deliver a financial planning experience that knocks their clients' socks off.

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