WORDS ROD BERTINO + TERRY BELL

If it's all about relationships, BEST TO BUILD GOOD ONES!

TOP PRACTICES KNOW HOW TO GET ON WELL WITH MORE THAN JUST THEIR CLIENTS. FROM STAFF TO REFERRAL PARTNERS, THEY KEEP BUSINESS AFFILIATIONS WARM AND MUTUALLY BENEFICIAL. HERE'S A LOOK AT HOW THEY DO IT.

We had the pleasure during 2016 to work with many professional, highly successful practices (including the three finalists for the Financial Planning Association's inaugural Professional Practice of the Year Award). It came as no real surprise to us that one of the attributes they all had in common was their approach to relationships, whether it was with their clients, staff, centres of influence or service/product providers. They valued these relationships and were committed to ensuring they produced a win/win for all parties concerned.

While we regularly write about client relationships, we thought that, as this new year unfolds, it might be interesting to look at how successful practices leverage the relationships they have with the other important people in their business lives to produce that mutually beneficial result. This is the BusinessDictionary.com definition of leverage: "The ability to influence a system, or an environment, in a way that multiplies the outcome of one's efforts without a corresponding increase in the consumption of resources."

PRACTICES AND THEIR STAFF

Your people are, without doubt, extremely valuable to your practice. And as the war for talent hots up in 2017, the strength of your staff relationships may very well be tested.

PERFORMANCE MANAGEMENT	PROPORTION OF PRACTICES	PROFITABILITY IMPACT*
Staff with written job descriptions		
None	20%	-
More than 75%	70%	258%
Staff with incentive/bonus program		
None	40%	-
Select staff	26%	156%
All staff	34%	232%
Staff with own performance objectives		
Less than 50%	31%	-
50%-75%	10%	58%
More than 75%	59%	95%
Last performance reviews/appraisals		
More than 12 months ago	14%	-
Within last 6 months	59%	157%
Last salary/remuneration review		
More than 2 years ago	9%	-
Within last 12 months	84%	363%

KELLY O'DWYER MP IS THE MINISTER FOR REVENUE AND FINANCIAL SERVICES.

following extensive consultation with the industry, consumer groups and ASIC.

In the future, all financial advisers, both new and existing, will be degree or degree-equivalent qualified, will be required to pass an exam, and will be bound by an industry-wide code of ethics. The exam will represent a common benchmark across the industry.

The new education and exam requirements are proposed to commence on January 1, 2019. Existing advisers will have until January 1, 2024, to reach degree-equivalent status and until January 1, 2021, to pass the exam. The code of ethics will come into effect on January 1, 2020. The transition period recognises that existing advisers may need to complete the education requirements on a part-time basis, while continuing to service their existing clients.

CAPS ON LIFE INSURANCE COMMISSIONS

The government has also committed to reforming the remuneration arrangements for the sale of life-insurance products by financial advisers.

The Corporations Amendment bill introduced last October also caps the initial and ongoing commissions that can be paid in relation to the sale of certain life risk insurance products, and bans volume-based payments for the sale of life-risk products. The reforms follow a series of reports and recommendations, including an ASIC review, the industry-commissioned Trowbridge Review and the FSI, all of which identified a need for reform in this area.

Advisers can, and often do, receive initial commissions of between 100 per cent and 130 per cent, on the sale of new life risk products to consumers. The ASIC report identified a strong correlation between the high initial commissions and the practice of churning, in which consumers are regularly sold replacement life insurance policies even though there is little or no benefit to the consumer in changing the policy. ASIC found that across all examples where high initial commissions were paid, 45 per cent resulted in poor consumer outcomes.

Advisers will transition to the new capped remuneration structures from January 1, 2018, with the full reforms coming into effect in 2020. This lead time will ensure that advisers have enough time to adjust their business models in line with the new rules.

The government believes it is critical for the future of the financial advice industry that both the life-insurance framework and the professional standards reforms are implemented as soon as possible.

Following these reforms, consumers will have far greater confidence that their financial adviser is acting in their best interests and providing them with the advice they need on setting financial goals, making the most of their savings, and protecting their assets.

'APPROPRIATE' MARKETS FOR PRODUCTS

Finally, another issue that was identified in the FSI's final report was the need to strengthen the accountability of financial firms and their distributors throughout the whole product lifecycle. To achieve this, the government is in the process of implementing the FSI's recommendations for the introduction of design and distribution obligations and product intervention power for ASIC.

As part of these reforms, the government is consulting on ways to require product issuers to identify appropriate target and non-target markets for their products, to select distribution channels

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for their products that are consistent with those identified markets, and to regularly review the target market and distribution channels to ensure they remain appropriate.

Financial product distributors will be required to put in place reasonable controls to ensure products are appropriately distributed to the identified markets. The government encourages interested stakeholders to provide a submission on the consultation paper released in December 2016. Submissions are due by March 15, 2017.

The Turnbull Government is committed to improving the financial planning industry. It's an industry that has the potential to add great value to the lives of every Australian, by removing some of the worry that comes from navigating a tricky part of life. ■

Here's what successful practices are doing to enhance their relationships:

- They ensure all staff have up-to-date job descriptions, with responsibilities and objectives for the year clearly defined. These are 'no brainers', right? You can't manage what you can't measure.
- The principal pays staff the respect they deserve by objectively reviewing their performance at least once a year.
- Communication with staff is frequent, regular and meaningful, as involved staff are always keen to learn how their practice is progressing with its plans; for example, 81 per cent of practices hold regular weekly/fortnightly team meetings.
- While a market-competitive remuneration package is important, we see many principals looking to go the extra mile by extending their staff benefits; subsidised study leave, flexibility to work from home and an extra week's annual leave are all good examples.
- They say 'thank you' for a job well done, and acknowledge important milestones for staff (birthdays and work anniversaries, for example).

As the table clearly shows, investing time, care and thought into staff can truly produce a win/win for all parties.

PRACTICES AND THEIR LICENSEE

The most successful practices we see are working proactively with their licensee (usually the practice development manager) and will always look to involve them, not only in the usual day-to-day stuff but also in their bigger picture. Sharing your business plan (or better still, inviting your PDM to participate in your business planning process), is a great way to build a professional relationship. Here are some others:

- Share your progress and successes with your PDM, and acknowledge the role he/she may have played.
- Seek out your PDM's opinion or input on a particular issue or concern. Given the nature of their role, your PDM will, most likely, be working with other practices just like yours.
- As an extension of the previous point, why not invite your PDM to participate in your advisory board or working committee?
- Invite your PDM to some of your important functions/events (client seminars for example); this is a great way to help them more fully appreciate your practice's culture.
- Even a simple phone call – to wish your PDM a happy birthday or to offer congratulations on the birth of his/her child, for example – is a nice way to acknowledge your relationship.
- When credit is due for a job well done, ensure your PDM's boss hears about it.

FACTS & STATS

81% of Australian practices generate more than 50% of revenue from existing clients

Average number of referral partners **2.6**

Proportion of clients aged 60+ **49%**

62% of Australian practices work with business coach, BOM/PDM or advisory board

(Derived from *Future Ready VI* HealthCheck analysis.)

PRACTICES AND THEIR PREFERRED PRODUCT PROVIDERS

In addition to the points listed here for licensees/PDMs (equally applicable in our view), we know numerous principals who will allocate a set time each month to meet specifically with their product BDMs. As this is the only time during the month for such meetings, except in the case of emergency, both parties are usually focused and well prepared – thereby respecting (leveraging) each other's time and effort.

PRACTICES AND THEIR REFERRAL PARTNERS

In our view, two of the major challenges facing advisers this year will be:

1 | Sourcing new clients

2 | Ensuring your service offer addresses the needs of your client base, who, as they age, are looking for new products and services. (Another one of our favourite topics!)

Developing and nurturing a network of like-minded professionals has become an important strategic imperative for many practices, which are continually looking for ways to leverage these relationships. Here's what some of the most successful referral arrangements have in common:

- Both parties (adviser and lawyer/accountant/broker) will meet at the beginning of each business year, share their high-level plans and set expectations regarding what they're looking for from each other.
- And this isn't simply in terms of actual numbers (of referrals), but also their level of communication, the process they want to follow and the type of client they're looking to have referred.
- They will look to regularly meet face to face throughout the year (if not quarterly, at least every six months) to review how their relationship is progressing (or not, if this is the case).
- If either party isn't satisfied, they are prepared to call it, firstly; then, if there's no noticeable improvement, terminate their arrangement. It's not personal, right?
- They compare A-class clients for both parties. Are there any names in common that aren't yet being serviced by both referrers? A great check point.
- They prepare, or at least offer, a complimentary financial plan for your referral partner. It's a great way to showcase not just your capability, but also just what it is that you do (and why they're referring you). ■

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