

# The technology trifecta: transparency, productivity and profitability

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Moving a practice to a fee-for-service environment often involves identifying a customer value proposition, defining a fee structure in accordance with that value proposition, and transforming business processes. Importantly, planning businesses must also be physically able to operate in a fee-based environment, by utilising the right commission rebating structures and invoicing capability, and last but certainly not least, be able to justify the fees they are charging the client.

For many practices, technology can play a critical role in putting all these pieces of the puzzle together.

First things first – it is very difficult for a planner to work out what to charge a client if they don't know how much it costs to service them.

“Technology can assist advisers to gain a clearer picture of their business, including the time invested in a client and the return on that investment. This is important to know when determining the sustainability of their current business model and how they may need to adapt to implement any proposed changes,” said Robert McCabe, head of product and technology for Coin Software.

“It is important for advisers to think about how they run their business and how they add value to their clients. Integrated technology can automate business processes which help to power practice efficiency. For example, financial planning software can significantly improve the efficiency of advice, while wrap platforms can significantly improve the efficiency of back office administration while maintaining high service standards,” McCabe said.

In recent months, Iress Market Technology, which offers both the Xplan and VisiPlan planning applications, has received more enquiries from groups looking to track the time spent on different components of the service they provide to clients – whether that is meetings, strategy development, research and so on.

“If the technology can track that easily, I think it gives planners peace of mind to put a fee model in place for their clients,” said Tizzy Vigilante, national manager, Iress.

## **Enabling a range of fee models**

Once planners have worked out what they are going to charge their clients, technology must cater for various fee models – including clients who have yet to transition from commission-based structures, and those paying asset-based fees or flat fees. Major players Coin, Xplan and VisiPlan have all been able to cater for fee-based models for some time, but Vigilante said many more planners are requesting assistance with the practicalities of moving to fee-for-service.

Most of the key challenges for planners when they are considering transitioning are questions around invoicing and payment methods, Vigilante said, as well as commission rebating – including collecting brokerage, splits and dealer payments – but fee modules and pricing are increasingly areas of interest. While both Xplan and VisiPlan offer this functionality, users often need some help on how to use the available management reports to conduct deeper analysis of their businesses.

“Certainly we're seeing more and more advisers very much focused on practice management workflow, and being in a position to track what they're doing for each client. The fact that the software can enable them to do that is a plus because they can start streamlining and gaining efficiencies,” Vigilante said, adding that Iress is planning more functionality for its solutions around better measuring the cost to serve clients.

“Some groups with accounting backgrounds are very keen on tracking six-minute time units,” she said.

In keeping with the need to articulate clearly the various components of a fee, Midwinter Financial Services launches in August a new module, Plan Builder, to integrate with its Reasonable Basis solution. While the aim of Plan Builder is to enable faster production of complex statements of advice (SOAs), there is also a new focus in the product on adviser remuneration, according to Matthew Esler, general manager, strategy and technical services, Midwinter.

The software provides planners with the ability to choose a number of remuneration alternatives, include SOA preparation fee, initial advice fee, brokerage fees, establishment fees, and miscellaneous fees, and models options for either paying the fee through the product or directly, providing the ability to demonstrate advice deductibility.

“We spoke to advisers, dealer groups and product providers and what we’ve created is a solution which enables advisers to show very clearly what the value of the advice is for the client and what they’re being charged for, including the specific fees – whether it is the cost of preparing the SOA, the initial consultation fee, or ongoing advice fees and review fees,” Esler said.

“Some of the best remuneration models I’ve seen are where the adviser enables the client to determine what fees should be charged. You can only do that if you can highlight to the client what you’ve done as an adviser that has added value to their end outcome,” he added.

### **Lifting practice productivity**

Another issue is how, in a fee-for-service environment, a planning practice can now actively service clients who may have previously been a relatively passive source of commission revenue.

“Certainly the big concern for advisers is, ‘How do I sustain my business moving from a commission system where I’m being paid through the product consistently, to a situation where I’m providing a service to the client and asking them to pay for that service?’,” Esler said.

“The advisers who provide continual service and are highlighting to their clients the value of their advice don’t seem to have an issue with the change. But for others, there’s quite a bit of revenue coming in from clients who might not be serviced. Obviously to maintain that revenue, the adviser will need to contact that client and re-establish that relationship.”

Research shows more practices are looking to technology as the key to enabling this level of service and establishing new revenue streams to keep practices profitable.

The December 2009 Investment Trends Planning Software Report found that planning applications over the previous year had focused on developments relating to planner productivity, adding functionality to help planners work more efficiently and to provide dealer groups and practices with tools to benchmark the productivity of their planners.

Investment Trends principal Mark Johnston attributed this move to the need to better understand how planners spend their time as they move to a fee-for-service remuneration model.

One way time savings and efficiencies could be achieved is through optimising workflow, with Investment Trends finding that many developers continued to work on workflow functionality, such as processes that enable planners to work on multiple clients for equities and portfolio switching and rebalancing, and a rush of interest in investment product integration, with AdviserNETgain becoming the first planning application to be fully integrated with workflow from an investment platform.

Coin’s McCabe has also observed this trend.

“We are hearing that advisers remain focused on how to make their business more efficient, while maintaining high service standards. We have responded to these needs by developing tools such as customised modelling and objective-based product selection functions, that enable more efficient advice when it comes to superannuation and insurance, and developing a broad range of SOA services to cater to different needs,” he said.

Midwinter has also sought to slash time spent on SOA preparation with its new Plan Builder module, which it claims can reduce the time taken to provide a complex SOA from an estimated seven hours to under two hours.

“What we’ve done is enable all the compliance requirements in terms of understanding the client’s objectives, linking those objectives to key recommendations, benefits, outcomes, risks and disadvantages. The strategy or the product replacement advice you’ve generated through the software comes through into Plan Builder automatically,” Esler said.

“The key reason why we’ve reduced the time is that advisers don’t need to do trial and error modelling for the strategy – it optimises the strategy outcome for the adviser to find the best solution for the client automatically,” he added.

### **A platform for change**

Over in the platform space, Investment Trends reports that providers have been a little slower to get on the fee-for-service train.

“We didn’t see a lot of fee-for-service transition development last year. Many platforms were waiting to see what happened with regulations before committing serious dollars to enable fee-for-service,” said Investment Trends analyst Andrew Knox.

Generally speaking, however, the 2009 Investment Trends Platform Report showed that wraps have more fee flexibility than master trusts.

Some of the applicable functionality that some platforms offer includes:

- Fee and commissions calculator to calculate fee-for-service advice amounts;
- Grouping of clients by fee structure;
- Fee flexibility through dial-up and dial-down fees;

- Fee-for-service invoices generated; and,
- Fee-for-service payments reconciled.

According to Knox, there was little development in 2009 in services around invoice generation and payment reconciliation, but there may be more focus on this area in 2010.

#### Accommodating different fee models

Colonial First State (CFS) general manager, distribution Marianne Perkovic said the structure of its wrap product, FirstWrap, already accommodates fee-for-service, and 12 months ago, CFS added a dial-down adviser service fee to the FirstChoice platform. “It was the first time in a bundled product they could dial down that fee,” Perkovic said. “A lot of the work we have been doing in this area is working with advisers on the difference in revenue and how to accommodate the change in fees they receive.”

Portfolio administration provider Praemium has always targeted planners offering fee-for-service with its products, but recently the group launched a new investment wrap platform, SMARTwrap, to service planners during the transition period as they transfer their clients from commission-based to fee-paying, given that this process could take practices between a year and two years to complete.

“For that period of time planners need to have one platform that can either be fee or commission, so they can look at all their clients in one environment. SMARTwrap is basically a full custodial wrap where financial planners can transact on managed funds and direct equities, and undertake administration and reporting. But it also includes a rebate structure which can be switched off as planners convert the client base from commission to rebate,” said Arthur Naoumidis, group CEO, Praemium.

#### Getting the edge

Platform providers are also recognising the role they can play in helping financial planners to better articulate their value proposition – and that means proving to clients they’re working hard for their fees.

“Once they move to fee-based, the next part is how do they make themselves efficient so they can actually serve more clients for less money? One way is by reducing the cost to the client, by using a product that offers direct equities. Another is by offering separately managed accounts (SMAs),” Naoumidis said, adding that Praemium is launching a “new breed” of SMAs with BlackRock which will eliminate the need for ongoing SOAs, after an initial recommendation has been made. “In the meantime, the planner can manage the relationship. That’s what fundamentally will improve the operational efficiency of the financial planning practice.”

CFS has also focused on working with planners on how they can grow future revenue streams.

“With any change in fee collection, there are going to be impacts. Some are taking the opportunity to segment their clients. Particularly for the clients who were effectively just in a pool but were not ongoing review clients, planners need to think about what level of service they are going to offer them now, and can it be a more holistic approach,” Perkovic said. “Some are taking the opportunity to reconnect with clients who may not have been serviced well, and determining where they are in their lifecycle.”

Financial planners are also seeking other avenues to add demonstrable value.

“Quite a lot of advisers are looking at building multi-manager portfolios and model portfolios, and charging fees as an investment management-type fee. They particularly see building model portfolios as reducing the overall advice process cost, and as a way to generate margin for their clients,” Perkovic said. “Others are also seeing the growth of SMSFs and identifying that as a new client segment.”

Over the last few months, she has noticed an increase in the number of requests for improvements to FirstChoice and FirstWrap, not only in the area of model portfolios, but also for more reporting and to address the perennial issue of connectivity between financial planning software and platforms.

“We are seeing a lot more requests for data feeds from different systems, and we have some work to do with FirstWrap on improving reporting for SMSFs,” Perkovic said. “Generally we think it’s good that they are thinking about it, because the platforms are there to help them deliver good service to clients.”

#### Is the profession in denial?

Just as some platform providers have not been slow to move towards fee-for-service, some planners seem to be digging in their heels and hoping for the commission status quo to remain. And Marianne Perkovic, head of distribution at Colonial First State, believes those planners need to get on board if they don’t want to risk being left behind.

“There are still some advisers who think that if there is a change in government it won’t change, but our job is about educating advisers that the industry has now moved down the road to a fee-for-service model. Those who are sitting on the fence will be playing catch-up to those who are more transparent and who have actually communicated that to their clients,” Perkovic said. Praemium group CEO Arthur Naoumidis agrees, saying the vast majority of planners are in denial.

“The platform and the financial planning market is going to change and there are two drivers – regulation and trauma. A lot of financial planners have come out of the GFC traumatised, and they know that their business model is broken, so they’ve got to move forward.

“Our goal is to shake the tree to find those forward-looking planners who know it’s going to happen, and work with them to start planning,” said Naoumidis.

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