RDR : Remuneration for financial planning

The proposals for intermediary remuneration focus on achieving greater clarity in terms of the types of activities which make up advice, intermediation and outsourced services including on whose behalf the services are rendered.

Remuneration for advice will be based on two criteria. The first is that it will be calculated based on the ability to define the various activities comprising the delivery of the service. Secondly, it will take into consideration who the individual or entity is that will benefit from receiving the advice.

The FSB has set out certain principles for remuneration. For example, remuneration should not contribute to conflicts of interest, it must be reasonable and in line with the actual service provided and all fees which are paid by customers must be motivated, disclosed and explicitly agreed to by the customer. Remuneration structures should also strike a balance between the upfront advice and intermediary services and any ongoing support or advice given. The intention is to ensure that the remuneration structures promote level playing fields and to ensure that customers can easily compare the different types of services and fees.

In this article we explore the FSB's proposed remuneration structures for services/activities delivered to customers, with a specific focus on financial planning advice.

Financial planning is about providing advice and helping customers plan for and meet their life goals – for life and investment advisors. Inherent in this is a financial plan. It may also include ongoing reviews of the plan. For most advisors, this will be nothing new. For short-term insurance advisors one can define this as risk planning, including risk finance consulting, loss control advice and surveys and risk management advice. Specific fit and proper standards will be set for entities or individual who provide financial planning, upfront and ongoing product advice.

In the case of delivering financial planning services, the ***advice fee will be negotiated with the customer***.

As mentioned in last week's article, designing your value proposition is **step number one**. This is a wonderful opportunity to reposition the services you deliver to existing and potential customers. No longer is the financial plan part and parcel of what you do, thrown in for free in order to make the sale of a product. ***It is now the process and service which results in the financial plan that should be analysed, understood, itemised and costed in order to ensure from the customer's point of view, that they will be willing to pay an advice fee for it.***

A value proposition should support the types of services you have identified as those you will be delivering to customers as it is the foundation upon which your remuneration will be based. Activities need to be clearly defined and you need to take into account which resource is best positioned to deliver these activities in the most efficient and productive manner – and most importantly to what extent these activities will add value to the customer because that is the one who will benefit from the receiving the advice and who will be paying for it.

Furthermore ***the value of your financial planning services as experienced by the customer will be influenced by the type of advice, expertise and support services your business can provide***, e.g. the advisory proposition for a FSP who focus on high-net-worth investment advice which only supplies a financial plan and no execution is likely to be very different from the advisory proposition used by a FSP who provides financial planning and execution focusing on retirement planning for mass-market clients.

What are some of the questions you should be asking yourself?

1. What services do your customers understand and value the most or the least? Importantly, it's what THEY value, not necessarily you.
2. Consider the profile of customers that your business currently attracts. Are they the types of customers you would like to attract, if not, what does the profile look like that will appreciate the value your financial planning advice?
3. Is the profile of customer (current and proposed) likely to be profitable for your business
4. What is the type of advice you could best offer, given core areas of competence and resources you have?
5. What are the skills, attitudes, experience and spirit in the business? What makes your FSP different to competitors? Why should they do business with YOU?

Areas that could further influence your value proposition are whether you are a small or larger FSP. Does the business have the ability to deliver the value proposition and therefore deliver on promises made? FSP's often serve many different client types and possess a range of areas of expertise. It might be worth considering whether a diverse range of client types and activities can provide the business with income streams that a narrow or specialist business may not be able to do – and, at what cost?

Research conducted by Harris Interactive on how consumers value advice shows some interesting results. Customers rated the following points as the most valued aspects of financial advice received:

1. The advisor's recommendations are based on the understanding of my needs - nearly half the face-to-face respondents rated this as the most important.
2. They help me better understand my options
3. Their expert opinion
4. Impartiality of advice
5. They save me time by researching options on my behalf
6. Personal relationship
7. They keep me on track with my financial goals and objectives
8. They proactively monitor my investments and keep me informed
9. They let me know about opportunities as they arise
10. They provide me with written reports

The most valued attributes of independent financial advisors

1. Professionalism of the adviser – almost 50% of face-to-face respondents rated this as the most important.
2. Independence of the advice
3. Adviser's reputation
4. Adviser's qualifications
5. Strength of personal connection with the adviser
6. What they charge

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