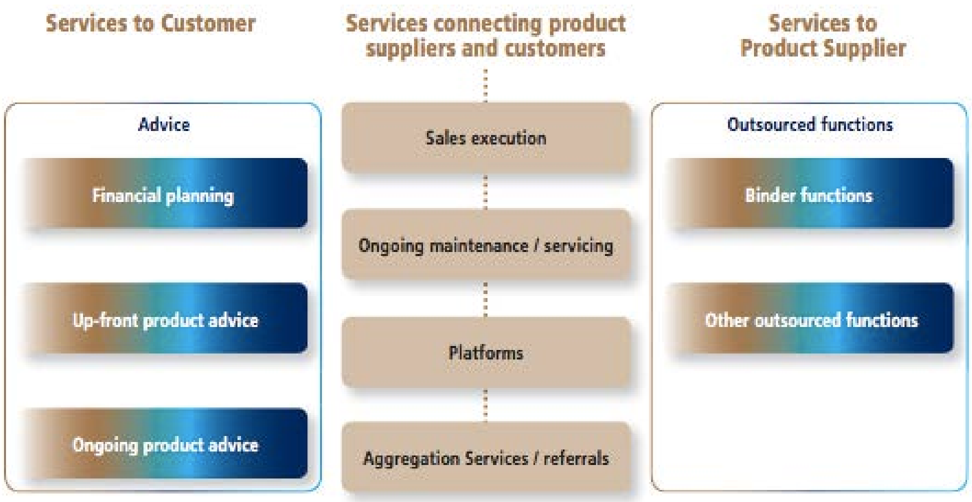
RDR Remuneration for services to customer

The FSB is looking to define the services provided by advisors on the basis of activities delivered to or performed on behalf of someone. We must therefore look at who is going to benefit by the activity or service? This is important because it links directly to the type of remuneration and who will be liable for the payment of that remuneration.

They define 3 types of activities or services (see diagram 1) based on the “receiver” of the service. There are activities or services delivered:

1. To *customers*, on the one hand,
2. To *product suppliers* on the other hand, and/or
3. Somewhere in the middle, there are those services that effectively *connect customers and product suppliers*.

Diagram 1



Our discussion here is limited to the services delivered to the customer – the main one is *advice*. From an advisor perspective, one first needs to understand what advice involves before you can do something about it. After all, this is the value that you really provide.

Any advice provided must be suitable for customers, based on their individual circumstances. It must also be in their interests.

From an advisor perspective, you can only provide suitable advice that is in the interests of the customer if you gather data or information – in other words, you must do a fact find. So, all advisors should be reviewing this piece of the process in their own businesses.

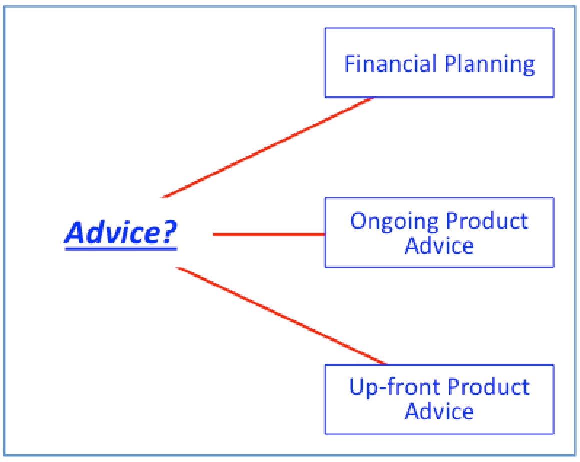
RDR proposes that there are three types of “advice” (see diagram 2) – each of these types will have a set of conduct standards and fit and proper requirements, but these are still to be fleshed out.

1. ***Financial planning***: this 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. Advice here may

or may not lead to a product sale. 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.

2. ***Up-front product advice***: this involves recommending and/or selecting appropriate products based on the identified needs of the customer and includes replacements of products.
3. ***Ongoing product advice***: this is about recommending changes to products (including investment allocations) during the term, based on changing market or customer circumstances. It would include advice to maintain an existing product. As above, implicit in this is the need to conduct a regular review of customers' circumstances.

Diagram 2



Now that we have a clearer understanding of the three types of advice to customer proposed by the FSB, let us explore how remuneration for these services is arrived at. How do you decide what to charge a customer?

The first step is to decide which of the categories for rendering advice you want to position your business to operate in. Once you are clear on that, you need to assess the ***value proposition*** that you are looking to provide to customers and then cost that value proposition as this will provide the foundation of how to structure remuneration to customers.

The end result of a value proposition is to ensure that the business as a whole delivers on promises made, resulting in satisfied customers who have experienced value or benefits to such an extent that they are willing to pay for that service.

Once you've made the decision about the advice categories, take a step back and assess whether the choice you've made (e.g. a combination of financial planning which includes up-front and on-going advice to all customers) is in line with your personal goals?

It might be a strange question to ask, but the impact of such a decision might require a lot of changes to your current business model e.g. systems, processes, skills (technical and soft) and people. On the other hand, a personal goal might be to spend more time with the family, or spend less time at the office. At Masthead it is referred to as ***Your Primary Aim*** and this is a key part of the business planning process.

The important point is that the regardless of the advice category (or categories) that you choose, it needs to be one that serves your personal goals in order for business success to be sustainable.

Once you've reaffirmed that your decision is in line with your personal goals, the next step is to ***design your value proposition***. This requires analysing all the areas in your business that are linked to helping your customers achieve financial stability and freedom.

Some of these areas are: (1) the business model or structure, (2) professional development, (3) skill and diligence, (4) time, (5) money and (6) resources. All of these should be in place to deliver *THE SERVICE* that generates income for the business. When you design your value proposition, it becomes important to analyse the amount of work done for customers and the costs incurred to provide the various services in such a way that the outcome is successful execution because that ensures payment by the customer.

Some of the following points are worth considering when building your value proposition:

1. Focus on building value beyond financial products, better yet, rather focus on what sets your business apart.
2. Design your services – this process will depend on which of the advice service categories you choose which are referred to earlier in the article.
3. Price your advice and services – use a combination of business expenses, resources, time allocation and direct costs to get to grips with the overall costs of advice services provided to customers
4. Build trust with customers by communicating service value – having an understanding of exact value including costs provides a platform from which to design messages and visuals which reinforce the value of your service offering.
5. Plan your transition into a RDR world – recent research conducted in the UK, by Masthead, shows that the sooner the business starts the process of defining and costing the value proposition, the easier the transition to a stable and predictable remuneration-based world.

Becoming RDR ready will require you to step outside of your business and, with a fresh pair of eyes, take a look inwards. If you were a client of your business and had access to firms that offer similar services, how would you say your business compares now with what you want it to look like in the future? What would need to change in order for it to keep up and remain relevant in light of the proposed regulatory changes?

Masthead already runs seminars and workshops regionally that guide you through the process of designing and costing a value proposition based on your choice of services to customers - this will help you to become fit for the new post-RDR landscape.

<u>Interesting statistics:</u>

Happy customers who get their issues resolved tell about 4-6 people about their experience. – *White House Office of Consumer Affair.*

A dissatisfied customer will tell between 9-15 people about their experience. Around 13% of dissatisfied customers tell more than 20 people. – *White House Office of Consumer Affairs.*

A 2% increase in customer retention has the same effect as decreasing costs by 10% –*Leading on the Edge of Chaos, Emmet Murphy & Mark Murphy.*

February 2015