FINANCIAL BROKER
Financial Planning & Guidance

One - Unified Voice

A Guide to Developing Business Strategy for Financial Brokers

Creating your success through
Financial Planning

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About The Author

Eamonn Twomey established StepChange, a marketing and strategy solutions business for Financial Brokers, in 2011. For the previous 27 years, Eamonn worked in a variety of senior sales and marketing roles in the Broker channel in both the UK and Ireland with Irish Life and Friends First. StepChange offers a unique combination of knowledge of the Financial Broker environment overlaid with strategy, sales and marketing expertise.

StepChange works with Financial Brokers and life assurance companies, addressing a broad range of commercial challenges in the areas of strategy, sales and distribution, and marketing.

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Executive Summary

Financial Brokers face a challenging business environment. Like many businesses, they are looking to create greater certainty and a more solid future by 'upping their game' and increasing the value they give to their clients.

This document is aimed at Financial Brokers who want to increase their value to clients, highlight that value to clients, and have a viable revenue model based on that value that ensures they are fairly remunerated for their efforts.

We first take a high level look at the business environment for Financial Brokers using the PEST methodology. Regulation and auto-enrolment are possible threats to our business model but post retirement advice and new communication technologies are opportunities for Brokers to expand their client base and their services.

The next steps are to take a serious look at your own business and examine its strengths and opportunities. You need to segment your client bank and profile your target clients.

Now you are in a position to build value propositions that highlight your services and the value you give to consumers. This paper sets out how to construct your own value proposition and also includes generic propositions for illustrative purposes. We advocate that you build the communication of your personal value proposition into your sales process at the first client meeting.

Finally we look at your revenue model. We examine the different stages of Financial Broker advice and rank which are most valued by clients. We highlight a strategy for linking the value that clients perceive in advisory work (financial planning) to commission payments, if that is your chosen route.

We highlight the different commission and remuneration models available to Financial Brokers and the advantages and disadvantages of each system. We then describe how to calculate hourly rates for Financial Brokers. This is a useful exercise regardless of whether or not you intend to use hourly rates, as time is the major input in your business and you should have a quantified value for this. Finally we discuss how to position your remuneration model alongside your value proposition at the first client meeting.

The philosophy of this paper is that the creation and communication of value to the consumer is key to your success. The method of payment for that value is secondary to this. Financial Brokers must focus on their key strengths and the advisory services that clients value most in order to ensure their continued success.

Introduction

The guide has been produced by PIBA to assist Financial Brokers to consider any potential changes and what these changes would mean for your business. This guide aims to help you deal with the challenges facing your business, develop clarity regarding the value that you bring to clients, help you communicate this value to consumers, and set out how you might ensure you are fairly remunerated for the value that you add.

The guide is divided into four main sections as follows:

1. The first section is a high level look at the business environment and how it is impacting our marketplace today.

2. The second section then sets out some tools that you might use to gain a deep understanding of your business, in order to help you really identify where and how you add value to your clients. It sets out some thoughts on areas you need to consider in order to then be able to clearly articulate your core value to existing and potential clients.

3. The third section takes a detailed look at value propositions for Financial Brokers and why you are paid for your work, rather than how you are paid for your work. It looks at what a value proposition is and also examines what a Financial Broker actually does and where you add value. Then from a client's viewpoint, it examines what they really value and finally how you might communicate this to strengthen your client proposition.

4. The final section looks at how you can ensure you are fairly rewarded for the value proposition that you bring to your clients. It looks at and compares different methods of payment for Financial Brokers. While not advocating fees as the preferred means of payment, this is an area of challenge for many Financial Brokers. The guide covers how you might calculate fees (where they are appropriate) and how you can justify these fees to your clients.

The Business Environment today

In starting to develop your strategic proposition, first of all you need to have a definite process for achieving this. One important element of this work is making sense of the factors that are external to your business over which you have little or no direct control, but which can play a big part in determining your success or otherwise into the future.

The winds of change

We only have to look at our nearest neighbours in the UK to see significant changes in the market of providing financial advice and how Financial Brokers are remunerated for their services. However these changes are not happening solely in the UK.

A ban on commission on investment and pension products has been introduced in the UK from 1st January 2013 under their Retail Distribution Review (RDR): and in the Netherlands too. Similar changes are being introduced in Australia in July this year. The changes in these countries are examined briefly below. A central aim of the regulators in these markets is to remove any potential conflicts of interest and bias in the choice of products by Financial Brokers.

The UK market

With effect from 1.1.2013, RDR has now come into effect in the UK market. This is a regulatory initiative, introduced by the Financial Services Authority, that aims to improve the levels of consumer confidence and trust within the retail investment advice sector.

As part of this, commission can no longer be paid on new pension and investment business in the UK. In its place, a new form of remuneration for Financial Brokers has been introduced called 'adviser charging'. The aim of adviser charging is to reduce conflicts of interest and improve the quality of financial advice by removing product influence from adviser remuneration. The main features of adviser charging include:

- Product providers for pension and investment business can no longer pay commissions.
- Financial Brokers can only be paid through adviser charging for the advice and related services they actually provide.
- Charges must be based on the services provided, not the product sold.
- Charges must be clearly set out and agreed with the client upfront.
- Ongoing charges on new business written from 2013 onwards can only be levied where a client is given and agrees a defined ongoing service.
- The charging structure must display the following features:
  - Written in clear and plain language
  - As far as is practicable, uses cash terms or where charges are in non-cash terms, uses examples in cash terms.

In a nutshell, the regulators are seeking to separate the advice process from the product sale. Advisers will need to transparently set out and agree a charging structure with clients for the advice that they give and not the product sale.

Advisers will receive their payment either by a fee, payable by the client, or by payment from a product provider out of the product, once this has been clearly understood and agreed to by the client.

There were other changes introduced under RDR, including the introduction of higher qualification levels for Financial Brokers and greater transparency around whether Financial Brokers offer fully independent or restricted advice.

Dutch market

With effect from 1.1.2013, Financial Brokers in Holland will no longer be paid commission by banks and insurance companies on any product that they sell. This includes pensions, investments, protection and mortgages. Instead they will have to charge consumers for their advice.

Australian market

With effect from 1st July 2013, product providers in Australia can no longer pay commission to Financial Brokers, who will also be bound by law to offer advice in the clients' best interests. Financial Brokers will also be required to send clients a fee statement every year.

Factors impacting Financial Brokers in Ireland today

The economic crisis has had a devastating effect on the Irish life and pensions market and in turn on Financial Brokers as a key stakeholder and force within this market. After further falls of approximately 5% in the levels of new business in the market in 2012 and falls across each of the main product categories, new business is now back at levels seen at the start of the century, maybe even before that. In addition, lapse rates have significantly worsened over the last few years, creating enormous challenges to the profitability of life companies, requiring them to reprice and indeed change the shape of charges and commission on products.

Financial Brokers have seen a sharp decline in their earnings since the financial crisis began with the collapse of the mortgage market and the significant reduction in the amount of life and pensions new business. There also is a realisation that the market for financial advice and life and pension products will continue to be challenging and is likely to see further significant changes in the coming years. These changes are likely to impact the way that you present and carry out your advice proposition with customers, and indeed, in some circumstances, potentially how you then get paid for the value that you add.

To look briefly at some of the broader factors impacting Financial Brokers, these are best considered using PEST analysis – looking at the changes under the dimensions of Political, Economic, Social and Technological changes. It is a useful exercise for Financial Brokers in determining your proposition to consider all those factors that are affecting or likely to affect your business. The following is just a snapshot of some of the factors: by no means an exhaustive list.

Political

- Charges on Pensions: The Minister for Social Protection on presenting The Report on Pension Charges 2012 stated that she has concerns in relation to both the level and transparency of charges on pension schemes and will be prioritising this area to be examined further.
- Revision of MiFiD / IMD Directives: The determination to remove bias in the choice of products by banks, Financial Brokers and other advisers is a constant regulator and consumer concern. Many people are now pointing to Europe for direction. MIFID II and IMD II hold the prospect of a commission (from product providers) ban where independent advice is given – it is not certain this will happen, what it will actually mean and how this regulation will progress. The time frame for impact of these directives is 2015-2016. In fact, the impact of the European regulations on the commission model may be muted in themselves. However, when European regulations are finalised over the next year, they could trigger a review by the Central Bank of intermediary remuneration since they have already signalled their intention to do this.
- Consumer Protection Code: As a result of CPC, question marks are raised over the future of volume based override for Financial Brokers; and CPC also sets out new requirements to justify any ongoing commissions / trail received from providers.
- Health Market changes: Upcoming changes recently announced in respect of health insurers being required to pay for all hospital stays of their customers, not just those in private beds, will herald further significant price increases. This is likely to further exacerbate the dramatic increase in consumers cancelling their health insurance cover.

Economic

- Budget 2013: While there were no immediate dramatic changes to pensions in this budget, changes to the maximum allowable pension were flagged for 2014. However the threat of cuts in tax relief for pension contributions now appear to be receding.

- Defined Benefit scheme deficits: With DB scheme under significant pressure, they offer opportunities for pension Brokers to help companies to evaluate their options and to potentially restructure their schemes.
- Decline of bancassurers: With the collapse of the Irish banks and the loss of trust with these institutions, Financial Brokers have gained a larger share of the life and pensions market in recent years.
- Personal wealth destruction: With the destruction of people's wealth and the personal debt overhang in the economy, the prospects and opportunities for Financial Brokers have been further exacerbated. However there is an inherent opportunity here too in that solid financial advice is needed now more than ever.

Social

- Ageing population: The latest Census results showed that the number of older people (aged over 65) has increased by 14% over the previous six years. In contrast, the 19-24 year old age group was the only category to show a fall, with a decrease of 12%. This creates challenges and opportunities for Financial Brokers in understanding the requirements of these older clients moving from active retirement lifestyles to long term care needs.
- Opportunities for post-retirement products: In line with the above, ARF and other post-retirement products offer attractive opportunities for those Financial Brokers who can develop a compelling proposition in this area.
- Lack of Trust in Financial Services companies: According to the highly reputable Edelman Trust barometer for 2013, the two industries least trusted in Ireland continue to be the financial services industry and the banks. Trust in financial services remained unchanged in 2012 while trust in the banks (which is lower than financial services) fell further.
- Pressure on Commission system: The commission system is viewed in some quarters (regulators, media etc.) as being opaque and contributing to bias in choice of financial services products.
- Need for advice: Consumers find the world of personal financial services extremely complex and many recognise the need for advice. Financial Brokers need to ensure that consumers understand and recognise the value of the independent advice that you offer.

Technological

- Opportunities to enhance customer service: New technologies offer great opportunities to improve a Broker's service proposition to your customers and to reduce cost in your business.
- Web presence now critical: Consumers now carry out most of their research of companies and individuals online. It is very important for Financial Brokers that your web presence fully reflects the professionalism of your business and your potential value to the consumer.
- Social media explosion: Social media is now fully established and here to stay. Financial Brokers need to fully understand the opportunities (and indeed the pitfalls) of building a strong and engaging social media presence.
- Communication opportunities: With a myriad of tools available from email to e-zines to social media now available, there are great opportunities for you to deliver engaging communications to your customers at lower cost than before. Financial Brokers can engage prospective customers and build loyalty with existing customers through structured use of these technologies.

Summary

So what do all these changes mean for Financial Brokers in Ireland today and in the next few years?

There are undoubtedly strong headwinds that need to be faced with an increasing pattern of change across the globe of a clear separation of the advice process from the product sale, particularly in the area of pensions and investments. There is a clear determination on the part of regulators to remove any potential conflicts of interest and bias in the choice of products by Financial Brokers and other advisers. This potentially could herald changes to the way Financial Brokers earn their income in the future.

In Ireland, legislation and regulation will continue as a dominant force in our industry. In addition, it will be a long road to economic recovery. While there are undoubtedly some new opportunities emerging for Financial Brokers, the firms that are likely to succeed are those that prepare proactively for these changes instead of waiting for the impacts to be imposed on them.

This will be done by taking note of the changes, building an appropriate, future-proofed business proposition that your customers value, communicating this effectively and building a revenue model that enables you to drive the required level of income into your business.

Developing a Strategic Roadmap for your Business

This section reviews some of the areas you need to consider in helping you determine the future direction for your business. Some of these tools are also used when developing your sales or marketing strategy; however in this instance, you need to take a broader look at your business and consider a wider set of factors.

Setting objectives for the business

It's always important at the outset to articulate the long-term objectives of the company. First of all, it ensures that all owners of the business share the same ambitions and are pulling in the same direction. Secondly, it's a useful sanity check in the event of any significant changes being implemented in the short-term – will they serve you well towards your longer term ambitions?

While usually there are growth ambitions within a business, what does this mean? Are you seeking to build your business up to a certain number of clients, or possibly assets under management or annual revenue? Are you growing your business with a view to bringing in a family member to eventually take over the reins or do you plan to sell your business in time? Do you plan to buy out your partner or indeed sell your share to them? Are you looking to build a business that is very general in it's offering or are you specialising in certain areas?

These are the types of questions to ask yourself and to capture your thinking in writing for agreement with other business owners and for sanity checking as you implement any changes in direction.

Understanding the attributes of your business

It's very important that the strategy you develop is appropriate for your particular business and not just some faceless Brokerage! To find these points of differentiation, a SWOT analysis should be completed. While many Financial Brokers will consider themselves the same as the rest, you all have points of differentiation with your typical competitors.

Strengths and Weaknesses: These are factors that are internal within your business that differentiate you from other Financial Brokers. Typically here you might consider factors such as:

- The quality and size of your client base
- Your brand strength
- The financial strength of your business
- Your staff numbers, their profile and quality
- The levels of expertise and qualifications in the business
- Technology used in the business
- The quality of your service proposition.

Opportunities and Threats: These relate more to factors in the external marketplace that are specific to your business. They could include:

- Your geographical coverage
- Target market penetration
- Access to specific client groups
- Introducer relationships
- The threat of competition from other Financial Brokers, banks etc.

This is a really important exercise as it will bring to the surface positive attributes for you to build your value proposition around and indeed will identify some gaps that you may need to actively look to close.

Segmenting your customers

Customer segmentation is the practice of dividing your client base into groups of individuals and companies that are similar in specific ways. It enables you to target specific groups of customers effectively and allocate your resources (time, money, energy, marketing activities) to best effect.

I have spoken to a number of Financial Brokers who claim that they subconsciously do this – that their best clients get their best service. However when you dig below the surface, it sometimes emerges that it is the clients you know best that get the best service, not necessarily the clients who require or deserve your best service.

Some Financial Brokers operate a 'one size fits all' service for clients, irrespective of their value to the business. Yes, your less valuable clients will be delighted with this as they receive a premium service for effectively low cost to them. However how do your better clients feel? They are delivering a lot of value to you but not getting any additional value in return.

So how do you go about segmenting your clients? The first step is to decide the factors that you are going to use. Well-developed segmentation models will use a number of these to drill down to smaller sub-groups of customers. Typical factors used are:

- Revenue from customer – maybe averaging any initial commissions over a number of years before adding to renewal commission.
- Premium levels
- Assets under management
- Potential for future business
- Income levels
- Age
- Geography

Deciding your target clients

Pareto's principle is that 80% of your business comes from 20% of your clients. Let's consider a Financial Broker who currently offers a 'one size fits all' service and who has 250 clients delivering turnover of €200,000 p.a. This Financial Broker then completes a simple segmentation exercise of identifying who his top 50 (20%) clients are by value. He sells the other 200 clients.

The income for this Financial Broker has now fallen to 80% of what it was - €160,000 p.a. However he now only has 50 clients to service. With the extra time and capacity now available, he can now put his efforts into improving his proposition enough so that he locks down these 50 clients and ultimately seeks to find 50 more similar clients with his new improved proposition.

The outcome is he now has 100 clients (60% less than when he started) and €320,000 p.a. in income (60% more). Yes, this is a simplistic example but it is useful to consider the concept.

The question is often asked as to why you should bother to get rid of the lower value clients. The simple answer is that if they are taking up significant resources to keep them through ongoing service, they are just not worth it. Should they have a lower level of service? Should they be asked to pay more? These are issues that many Financial Brokers are grappling with today. Obviously if these clients are no drain on your resources but delivering income, it makes sense to retain them!

Once you have completed your segmentation exercise, you then need to decide the profile(s) of the clients that you want to work with. This will enable you to tailor your proposition specifically for them, rather than trying to appeal to everyone. It's not enough to say you're open to any new client, unless they are a good fit with your target client groups. If you work with literally anyone, your proposition will need to be so generic that it will not really appeal to anyone or instead you will need the time, money and energy to develop and maintain multiple propositions. Targeting somebody, everybody, and anybody may in fact mean you are targeting nobody!

Multiple propositions are potentially a route to go; however they should be built on firm foundations. For example, your top 20% of clients by value may get a gold plated service that is substantially different to the service offered to the next 30% of your clients. Indeed this service in turn would then be significantly different to the minimal service proposition being offered to the remainder of your clients. The experience in other markets is that you may be surprised: some of these transaction / minimal service clients may not be happy to receive such a minimal service, but rather than go elsewhere, may be happy to agree to a higher level of service and remuneration for you.

At this stage you need to revisit your overall objective and clarify the type of business that you operate or want to operate. Are you a general life and pension Broker who will seek to appeal to the mass market without really specialising in any specific area? Or are you a specialist in say pensions, insightful financial and wealth planning or in a particular sector of the economy? Or if you are a medium to large business, are you all of these? This is an important distinction to get right, as your business and sales proposition will ultimately need to be based upon this.

Similar to your segmentation exercise, you then need to actually articulate this and capture it. You can determine your target markets by the likes of:

- Geography
- Minimum value to your business
- Premium Levels
- Assets under management levels
- Product Type etc.

Developing a strategic positioning for your business

The next important step in the strategy development process is to articulate as clearly as possible where it is that you intend to compete. This is important as it sets out at a high level for everyone associated with your business what you do.

Taking into account your analysis of the external forces impacting your business, the SWOT analysis that you completed and your identified target markets, you now need to make some clear choices. You need to be really clear on the particular features of your business that will enable you to stand apart from competitors. *Of course this positioning is one that you must be capable of delivering upon; it cannot just be an aspirational dream!* Either you can actually deliver the proposition today or you have firm plans to ensure you will be capable of delivering it in the near future.

An example of strategic positioning for a retail Financial Broker, specialising in expert financial planning, might be:

"ABC Financial Services is a leading financial planning business in Waterford. We work with individuals, families and SME businesses to help them identify their current financial position and to develop plans to achieve their financial aspirations. We advise on the full range of financial solutions that may be required and we offer a friendly and accessible service to our customers."

An example of strategic positioning for a Financial Broker specialising in pensions but aiming more at the 'higher' end of the market might be:

"DEF Pensions offers specialist pensions advice to business owners and companies in the West of Ireland. We offer advice in all areas of retirement planning for individuals and companies, new pension scheme implementation, pension scheme restructuring and scheme wind-ups. We enable our clients to achieve their pension aspirations with confidence and the minimum of fuss."

In developing your strategic positioning, you should consider a range of different areas. These will include:

- Whether you appeal to the mass market or indeed have a 'boutique' offering
- Whether your proposition is based on price – e.g. free advice, cheapest product or a differentiated offering for your customers
- Your target markets (see previous section)
- A specific product focus, if applicable
- The quality of your service proposition.

When you are clear on your positioning, are there changes that you need to make to actually deliver this to clients? Do you have enough staff to deliver your service promise? Do you need to upgrade your technology? Do you have the required levels of skills yourself to deliver what you are promising?

A well thought out positioning that accurately reflects what you do sets the foundation for building a strong value proposition for your clients. This is where you turn your strategic positioning into a business proposition that your customer values and is happy to pay for.

Developing your Value Proposition

This section explores the whole area of your value proposition. It explores what a value proposition is, why it is important and sets out some examples of value propositions for Financial Brokers today.

Before we start examining value propositions in detail, it is important to state that ***a strong value proposition is equally important whether you are paid by commission, fee or any other method of payment!***

What is a value proposition?

According to Wikipedia, *"A value proposition is a promise of value to be delivered and a belief from the customer that value will be experienced."*

How do we apply this for Financial Brokers? The first important point to note about this is that the financial product (if any) actually purchased by the customer plays only one small part of the value proposition. The key ingredient of your value proposition is the advice that you give your customer. You may have a single value proposition for your business as a whole or indeed you may develop a value proposition for each of the main product categories for which you provide advice.

To help us get to the root of your value proposition, we have to examine two critical areas: what a Financial Broker actually does and, secondly, what clients value in dealing with a Financial Broker.

What a Financial Broker does

What does a Financial Broker actually do? Do they set up life assurance, critical illness and income protection policies for their clients? Do they set up personal pensions, executive pensions, PRSA's or group schemes, or set up investment bonds for clients? Actually Financial Brokers don't do any of these things, as these activities are actually carried out by the administration departments in life companies! And yet many Financial Brokers when asked what they do will answer along these lines, talking about the products that they arrange for clients.

While of course financial products play an important role in the world of the Financial Broker, the reality of what you do is actually far more important and valuable than simply arranging products. Through gaining a full understanding of your client's financial objectives, current situation and attitude to risk, you analyse their financial needs, make recommendations and implement financial solutions for them. This captures what you do in one sentence – this will be fleshed out later!

This is what a client actually sees when they are dealing with Financial Brokers with robust advice processes and this is what Financial Brokers do, day in and day out! Now it starts to become very clear why clients require a Financial Broker rather than trying to do it themselves. Yes they may (often mistakenly) believe that there is a price advantage in talking directly to product providers; however how does this compare to the enormous value that you bring to them? To answer this, we need to examine next what a client actually values in dealing with a Financial Broker.

What a client values

As mentioned above, while a client might ***see or be aware of*** all that you do, what is it that they really ***value?*** A number of studies have been carried out in this area in many different markets, which will be referred to below to demonstrate an important theme. The overriding message is that ***price is not the determining factor*** for most clients in deciding to work with an adviser.

Research was carried out in August 2012 by the leading US consulting firm Spectrem Group who specialise in the wealth management and retirement sectors. They surveyed a large group of mass affluent ($100,000 - $1m investible assets) investors as to the top factors when choosing a financial adviser. The answers were ranked (most popular at top) as:

- Trustworthiness
- Transparency
- Investment track record
- Fees and Commission
- Depth of Product and Services.

This research demonstrated that the price of advice was not even one of the top three most common reasons for choosing an adviser. Transparency of charges was rated much more highly than the quantum of fees and charges.

Likewise in the UK, research carried out by J.P. Morgan, also in August 2012, sought the influential factors when deciding to use a particular adviser. The findings identified the following factors, in order of importance, to potential clients:

- Their understanding of my goals and needs
- Results achieved for other clients
- Qualifications / membership of professional body
- Professionalism of support staff
- Ability to advise on every product in the market
- Ability to put me at ease
- A free meeting
- Free initial recommendations
- Being local to where I live / work
- Attractive offices.

Again, the price related factors appeared well down the list.

Standard Life in Ireland carried out excellent Customer Segmentation research in April 2012, the results of which were not dissimilar to those in the other markets. While price was unsurprisingly mentioned as one of numerous factors by those segmented as "Financially Insecure", it did not feature among the two categories of "Financially Secure" as follows:

Contented Freewheelers (age 60+, semi or fully retired, financially secure) seek the following factors in relation to advice, among other investment related factors and not ranked:

- Want to be kept up to date at all times, when markets are good and bad
- Want trusted advice
- Want transparency in charges.

Steady Progressors (40-55, professional, well-off, cautiously optimistic) similarly seek the following advice factors, again among other investment factors and not ranked:

- Want a clear strategy – are willing to pay for independent advice
- Want clear and simple solutions and fees
- Want to be closer to how their funds are performing.

Again quality of advice and transparency, both of progress against their financial objectives and also of charges are more important to these groups than the actual level of fees charged.

Now consider your website and your corporate brochure. What is the overriding message in it? Is it that you will find the cheapest solution for clients or maybe is it that you offer the first consultation free of charge? *If this is what you are promoting, you are not appealing to the majority of potential customers who value a completely different range of factors.*

Yes, you will win some business for being cheapest and will definitely get people to accept what is free. However are these the clients that you are seeking? Are they sustainable, particularly when you consider some of the potential changes in the market in the future as highlighted earlier?

By developing a value proposition, based upon the excellence of the work carried out by you, gaining a deep understanding of your clients' objectives and working with them in an impartial, transparent and professional manner offers a greater opportunity to build a position as their trusted and long-term Financial Broker.

Building your value proposition

To develop your value proposition, you need to consider three main questions:

1. What type of a Brokerage are you – are you the right type of business for potential clients?
2. What do you offer to clients – is this what appeals practically to them?
3. Why will clients use you instead of others – is this what appeals emotionally?

1. What type of business are you?

There are many different types of Financial Broker firms in Ireland. It is important that you can accurately and openly communicate the type of business that best describes your Brokerage. Examples may include:

- Generalist: This description fits the vast majority of smaller firms in Ireland today. You carry out financial planning with individual, family and SME clients and can provide advice right across the product spectrum. For some more complex areas (possibly group pension schemes, SSAS, defined benefit schemes etc., you refer clients to specialist consultants. This is a similar approach to your medical GP referring patients to specialist consultants.
- Universal: These firms tend to be larger firms with broader expertise across numerous people, enabling the firm to advise clients right across the financial spectrum. They have all the skills available to clients under their own roof.
- Pension Specialist: These are firms that specialise in the pensions market, establishing retirement solutions for clients, and usually will also address ancillary benefit needs (group risk, executive term etc.) These firms tend to have smaller numbers of clients, who tend to be high value clients. These firms are capable of dealing with very complex pension related issues and may be an outsourced partner to some generalist firms. Because of their specialism, these firms tend to be able to charge more for their services.
- Investment / Wealth Specialist: These firms specialise in wealth management / investment planning, usually with higher net worth clients. Some of these firms set minimum assets under management hurdles for clients to access their services. These firms typically have rigorous advice processes, utilising robust future cash flow modelling and asset allocation methodologies into their processes. Because of their specialism, these firms tend to be able to charge more for their services.

Some Brokerages won't fit any of the above due to additional capabilities that they might have – linkages with an accountancy firm, may offer general insurance etc. These businesses need to capture the additional value created by the breadth of their offerings.

Once you are clear about your target markets, it is then important that your firm is positioned correctly to meet the needs of that target market. As well as being positioned correctly, the whole proposition of the business then needs to be capable of delivering a service to meet the needs of your target groups.

2. What do you offer to clients?

As described earlier, Financial Brokers carry out a far more important role that simply setting up policies for clients. Taking the example of a generalist Financial Broker, the process that you (should) actually carry out is:

- You gain a full understanding of your clients' current financial position.
- You help your clients articulate their financial objectives and goals.
- You help your clients to gain an understanding of the principles of risk and you help them identify their own appetite and tolerance for risk.
- Often you have to seek, collate and make sense of a broad range of information to be gathered from product providers on behalf of the clients.
- You make recommendations to them as to how they might best achieve their financial objectives.
- Some Financial Brokers develop detailed future cashflow scenarios.
- You research the market for the most suitable financial products for your clients.
- You negotiate best terms with the product providers on your clients' behalf.
- You implement the required policies on your clients' behalf
- You set up scheduled review meetings with your clients to ensure the financial plan and all of the recommendations remain appropriate and take remedial action where required.
- You provide a phone-based service to help your clients with any ongoing advice that they might need.

Once you can articulate your offering, you are now in a position to directly appeal to those values that clients seek when choosing a Financial Broker.

3. Why will clients use you?

Once you can articulate exactly what you do, using our above example of a generalist Financial Broker, it now becomes very clear to individual, family and SME clients exactly what they can expect in dealing with you. They will start to tick off some of the important value requirements they are seeking as identified earlier:

- Trustworthiness: Clients will draw comfort in the rigour and professionalism of your approach.
- Transparency: Clients will welcome a discussion about the process to be used. The issue of transparency of charges and fees will be covered later in this guide.
- Their understanding of my goals and needs: Your process overtly includes this as a step. You need to spend time on this part of the process to ensure full clarity of financial objectives.
- Results achieved for other clients: While not included in the process, this can be covered off by the preparation of case studies to provide further comfort to clients of your expertise.
- Qualifications / experience / membership of professional body: Outline your qualifications and experience. Membership of PIBA should be stated.
- Kept up to date: The review process is really important and should not be an afterthought as the client goes out the door. Schedule follow-up meetings as part of your process.
- A clear strategy: This is the key output of your work: a financial plan. This in turn will identify product solutions that are required to deliver the plan.

Sample value propositions

Some Financial Brokers will develop a single value proposition for their overall business; others will develop their value proposition at a product category level. Taking the example of a generalist Financial Broker, dealing across the full range of products with individuals, families and SME's, sample value propositions have been included below. There are examples of value propositions for:

- Generalist Financial Brokers – overall value proposition
- Generalist Financial Brokers - pensions and investments advice
- Generalist Financial Brokers - protection advice.

These sample value propositions are suitable as a guide only and need to be tailored to the specific attributes of your business – your target markets, your actual advice process, your areas of expertise and your service capabilities etc. They should be representative of your business, not simply aspirational, as otherwise you will be over-promising and under-delivering – a recipe for disaster in your efforts to build long-term trusted relationships.

Overall Value Proposition – Generalist Financial Broker

ABC Financial Services is a leading financial planning business, based in South Dublin. We work with individuals, families and SME businesses predominantly in the Dublin and Leinster regions to help you bring certainty to your financial future. Gaining a full understanding of our clients' financial goals and background, we work collaboratively with you to develop a roadmap for your financial future and then work closely with you into the future to ensure your plan stays on track. We advise on the full range of financial solutions and we offer a friendly and accessible service to our customers. Our goal is to help you grow your money, retire at a date chosen by you to live a lifestyle identified by you; and to protect you and your family against any financial shocks along the way. We'll seek to do this by becoming your trusted financial adviser through building a long-term and open relationship with you, keeping you informed and in control of your financial future.

We use the following process with our clients to maximise the value that you can gain from our expertise:

- We gain a full understanding of your current financial position: As part of our work with you, we gain a full and deep understanding of your financial situation today. This starts with understanding your family situation, your work and all aspects of your financial life. We help you build up your financial picture so that we are crystal clear about the starting point. We also gain a complete understanding of your current portfolio of existing financial products, gathering the required information from product providers as required.
- We help you identify your financial objectives: We help you to get crystal clear about your financial objectives and goals in the short, medium and long term. As part of this, we help you identify important goals such as your investment time frames, your desired retirement age and level of income in retirement and risks that you might want to protect yourself against.
- We help you to identify your attitude to risk: We help you to understand your attitude to risk and also your threshold for withstanding risk so that we can ensure we identify solutions that are appropriate for you.
- We complete a financial plan and make recommendations: We analyse your current financial situation in line with your financial aspirations, developing future cashflow scenarios for you (optional). We then recommend any changes you may

need to make to your own financial management and recommend any products that may be required to help you achieve your financial goals. We highlight certain tax savings opportunities if relevant to you and explain any legislative requirements around your financial planning. Our plan will be delivered to you with a full and clear explanation of any market jargon! The aim of this stage is to recommend solutions that will help you manage your wealth better, protect yourself and your family against unforeseen events and achieve your retirement goals.

- We research and negotiate with product providers: Once you decide to proceed with our recommendations and if a financial product is required, we research the market to identify the best product to meet your needs and then ensure that you receive the best terms possible. As part of this we consider important factors such as:
  - Product features and benefits
  - Product cost
  - Choice and suitability of funds
  - Investment performance record
  - Provider financial strength
  - Underwriting requirements of provider
  - Claims payment record of provider
  - Customer service capability of provider.
- We implement the solutions: We then explain the full process to get the financial product in place and help you complete the paperwork and all other parts of the process. We help you complete the underwriting process with the minimum of fuss and get any cover up and running.
- We set up scheduled reviews: We then agree a review schedule with you to address any changes in your circumstances. As part of this review, we will update your financial objectives and address any changes to your personal or financial situation that may affect your plan; and we will review any solutions put in place to ensure they are achieving the required results. This will include a review of fund performance, and changes will be suggested if required; as will any changes to your protection cover that may be needed to reflect changes to your requirements.
- We provide an ongoing phone service: We are delighted to provide support to you to answer any questions you have in relation to your plan or any products in place. We are also delighted to act as a sounding board for any general financial questions you might have. We also send you a copy of our bi-monthly newsletter to keep you informed on any useful developments in the personal financial services world.

Pensions and Investments Value Proposition – Generalist

DEF Financial Services is a leading financial planning business in Waterford. We work with individuals, families and SME businesses in the Munster region to help you identify your current financial position, identify your financial aspirations and develop plans to achieve them. We advise on the full range of financial solutions and we offer a friendly and accessible service to our customers. Our goal is to help you maximise your financial resources today, grow your money over the term of the financial plan and retire at a date chosen by you to live a lifestyle identified by you. We'll seek to do this by becoming your trusted financial adviser through building a long-term and open collaboration with you, keeping you informed and in control of your financial future.

We use the following process with our clients to maximise the value that you can gain from our expertise:

- We gain a full understanding of your current financial position: As part of our work with you, we gain a full and deep understanding of your financial situation today. We help you gain clarity in relation to your income and expenditure, we help you identify clearly all of your assets and liabilities and we gain a complete understanding of your current portfolio of existing pension and investment assets, gathering the required information from product providers as needed. We also gather a broad range of other relevant information around your personal and professional life that gives us further insights into your financial position.
- We help you identify your financial objectives: We help you to get crystal clear about your financial objectives and goals in the short, medium and long term. As part of this, we help you identify important goals such as your investment time frames, your desired retirement age and desired level of income in retirement.
- We help you to identify your attitude to risk: We help you to understand your attitude to risk and also your threshold for withstanding risk so that we can ensure we identify solutions that are appropriate for you.
- We complete a financial plan and make recommendations: We analyse your current financial situation in line with your financial aspirations, developing future cashflow scenarios for you (optional). We then recommend any changes you may need to make to your own financial management and recommend any products that may be required to help you achieve your financial goals. We highlight certain tax savings opportunities if relevant to you and explain any legislative requirements around your financial

planning. Our plan will be delivered to you with a full and clear explanation of any market jargon!

- We research and negotiate with product providers: Once you decide to proceed with our recommendations and if a financial product is required, we research the market to identify the best product to meet your needs and then ensure that you receive the best terms possible. As part of this we consider important factors such as:
  - Choice and suitability of funds
  - Charging structures
  - Product features
  - Investment performance record
  - Provider financial strength.
- We implement the solutions: We then explain the full process to get the financial product in place and help you complete the paperwork and all other parts of the process. If Revenue approval is required for your product solution, we will liaise with the product provider to ensure this is secured as early as possible.
- We set up scheduled reviews: We then agree a review schedule with you to address any changes in your circumstances. As part of this review, we will update your financial objectives and address any changes to your personal or financial situation that may affect your plan; and we will review any solutions put in place to ensure they are achieving the required results. This will include a review of fund performance, and changes will be suggested if required. The review will also incorporate a review of any legislative changes that might impact your financial plan or the achievement of your objectives.
- We provide an ongoing phone service: We are delighted to provide support to you to answer any questions you have in relation to your plan or any products in place. We are also delighted to act as a sounding board for any general financial questions you might have. We also send you a copy of our bi-monthly newsletter to keep you informed on any useful developments in the personal financial services world.

Protection Value Proposition – Generalist

XYZ Financial Services is a leading financial planning business in Galway. We work with individuals, families and SME businesses in the West of Ireland to help you identify your current financial position, identify your financial goals and develop plans to achieve them. We advise on the full range of financial solutions and we offer a friendly and accessible service to our customers. Our goal is to help you to provide financial security for you and your family, should any unforeseen events occur in your lives. We'll seek to do this by becoming your trusted financial adviser through building a long-term and open collaboration with you, keeping you informed and in control of your financial future.

We use the following process with our clients to maximise the value that you can gain from our expertise:

- We gain a full understanding of your current financial position: As part of our work with you, we gain a full and deep understanding of your family and dependants and your financial situation today. We help you gain clarity in relation to your financial needs in the future and how they might be affected by unforeseen events; and we gain a complete understanding of your current protection arrangements, gathering details from product providers as required.
- We help you identify your protection requirements: We help you to identify the scenarios that you wish to protect against and suggest some potential solutions to be considered.
- We complete a protection plan and make recommendations: We first of all review in detail your future financial needs and the cover required to protect against unforeseen events. We then analyse your existing protection cover, to ensure it is appropriate to meet your requirements and identify any protection gaps that might exist. As part of this we identify any potential protection improvements or cost saving opportunities that might exist. Our plan will be delivered to you with a full and clear explanation of any market jargon!
- We research and negotiate with product providers: Should you decide to proceed with our recommendations and if a protection product is required, we research the market to identify the best and most cost effective product to meet your needs and then ensure that you receive the best terms possible. As part of this we consider important factors such as:
  - Product features and benefits
  - Product cost
  - Underwriting requirements of provider

- Claims payment record of provider
- Customer service capability of provider
- Provider financial strength.

- We implement the solutions: We then explain the full process to get the financial product in place and help you complete the paperwork and all other parts of the process. We explain the underwriting process to you, and why and when the provider may seek further medical evidence. We help you complete the underwriting process with the minimum of fuss and get the cover up and running. We will then review all the documentation to ensure it is exactly as required.
- We set up scheduled reviews: We agree a review schedule with you to address any changes in your circumstances that may affect your protection requirements. We also monitor the cost of protection products on an ongoing basis to identify any future cost saving opportunities for you.
- We provide an ongoing phone service: We are delighted to provide support to you to answer any questions you have in relation to your plan or any products in place. We are also delighted to act as a sounding board for any general financial questions you might have. We also send you a copy of our bi-monthly newsletter to keep you informed on any useful developments in the personal financial services world.

Communicating your value proposition

A value proposition developed along these lines will show clear value to clients. It will demonstrate your professionalism, will appeal to the values that are important to them and will move the conversation away from price.

Once you have developed your value proposition, it is very important to ensure clients are made fully aware of the value that you offer. They may subconsciously realise the value that you are delivering: it is your job to make them acutely aware of the value that you bring!

Initial introduction

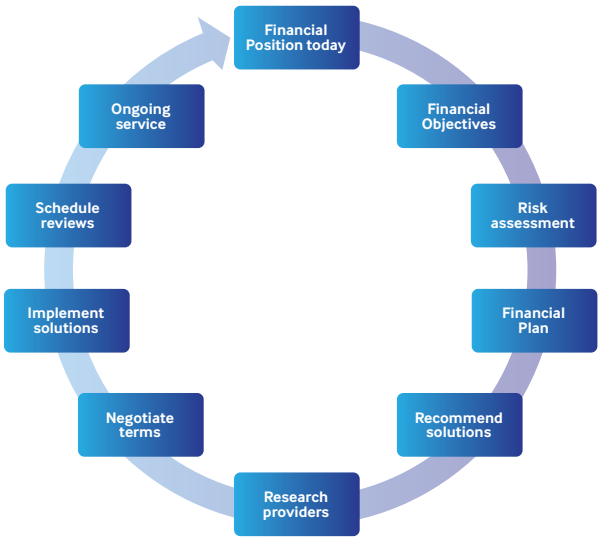
When you are introduced to a prospect for the first time, either through a referral, a networking event, or through them ringing your office, you need to clearly articulate the reasons as identified in the "Why will clients use you?" section above. This can be done in a conversational way, without entering into too much detail at this stage. The aim of this conversation is to secure the first meeting.

First meeting

This is the most important point in communicating the value proposition and needs to be a headline agenda item in this meeting. Rather than only diving in to completion of the factfind, it is really important to take time at the outset to walk a client through your value proposition. This can best be done through a short presentation, using an iPad or other device.

The aim of this presentation is to describe why you are the right Financial Broker for them, show them the rigour of your process and 'make the subconscious conscious', showing them why you offer everything that they value in a financial adviser. It is also useful to have your advice process drawn up as a simple process map to make it easier to explain and to engage your client with it. This can be walked through easily with your client, step by step, demonstrating the value that you are going to bring to them (see example below).

It's important to note also how this moves the discussion away from products! In fact, products don't come into the process until you're almost half way through it. The focus is on the valuable advice that you give and the totality of your service.



Also have your value proposition(s) written up to be given to clients to take away, so that they can reflect further on the value that you add. This will remind them of your value as you are off developing their financial plan and your advice recommendations.

Review meetings

As part of your review meetings with clients, it is a very good idea to walk through the key points of your value proposition again, particularly those points that relate to ongoing service and reviews. This will ensure that as other advisers nip at your client's heels, they will remember why you are the right Financial Broker for them!

Developing a viable revenue model

The next step in the strategy development process after developing an engaging value proposition for your clients (and ensuring you can deliver it), is to develop a revenue model to ensure that you are fairly remunerated for the value that you are adding.

This section looks at getting the balance right in your remuneration approach to best match your revenue with your costs. It then considers the important challenge of linking your value proposition to your revenue model, and in the process justifying your remuneration to your clients. It also looks at different methods of payment for Financial Brokers being used today and indeed other models that might be considered in the future. While not advocating fees as the preferred means of payment, this is an area of challenge for many Financial Brokers. The guide covers how you might calculate fees (where they are appropriate).

Matching revenues with costs

This is one of the areas of greatest challenge for Financial Brokers. The current situation for many Financial Brokers is that they carry out a significant amount of work on behalf of their client, delivering many elements of their advice process, but don't get paid unless the client ultimately buys a policy from a life company.

Research in the US reveals that advisers spend 1-3 hours on the initial / factfind meeting, and then on average they spend 11.5 hours developing the financial plan and recommendations. In total, this is nearly two days' work, for which many Financial Brokers are not directly paid.

The findings were similar in the UK where the Association of British Insurers reported that smaller Financial Brokers spend 8-9 hours advising on investment business, and larger Brokers even more - up to 14 hours. Larger Brokers spend more time due mainly to greater internal compliance oversight and also the use of paraplanners / more junior staff, who will not complete the work as quickly as an experienced adviser but whose time will be cheaper.

For Financial Brokers who are dependant solely on commission as their means of income, they run the risk of providing significant value to their clients (through their advice and recommendations work) without getting paid in some cases (where the client does not buy a policy, is only 'fishing' or indeed goes elsewhere to buy).

Indeed with some of the current commission structures in the marketplace that incorporate a clawback element, even where the product is implemented, the Financial Broker's remuneration is not secure until after the clawback period has expired even though the Broker has provided full value to the client.

This goes back to the Financial Broker being seen (and remunerated) as a product seller and not an expert adviser. To better match your revenue with your costs we need to return to your value proposition.

Linking your value proposition to your revenue model

The first step in identifying the optimal revenue model for you in the future is to go back to our section about the value proposition and answer the questions:

1. What type of Financial Brokerage you are: Are you a generalist, a universal Broker or a specialist?
2. What is your advice process: See your value proposition.
   a. **Where is your time spent?**
   b. **Where is your expertise required?**
   c. **What do clients value?**
3. How to link your value proposition to remuneration.

1. What type of Financial Brokerage are you?

While protection is a core part of many businesses, it is seen as a less challenging area in terms of remuneration due to the importance of price as a headline product determinant. This is not suggesting that Financial Brokers should not charge for their protection advice as customers can still go elsewhere to implement recommendations!

However for the purposes of this report, we will use the example again of a generalist Financial Broker, providing pensions and investment advice.

2. What is your advice process?

Once you have your advice process clarified, you then need to examine where your value is being added (time and expertise) and what your clients view as valuable to them. The following table demonstrates a view of this. Some of the rankings may vary from firm to firm.

Activity	Broker's time	Expertise Needed	Client Value
Factfind - client's current financial position	Medium	Low	Low
Factfind - financial objectives and goals	Low	Medium	High
Risk profiling	Medium	Medium	Medium
Gathering data from other sources	Medium	Low	Low
Analysis of data and preparation of financial plan	High	High	High
Future cashflow scenarios (if completed)	High	High	High
Product recommendations	Medium	High	Medium
Market research for products	Low	Medium	Low
Provider negotiations	Low	High	Low
Product implementation	Medium	Low	Low
Review meetings	Medium	High	High
Ongoing client service	Low	Medium	Medium

Now if we examine this again, *this time highlighting (in grey) where Financial Brokers are currently rewarded for their effort and expertise,* we see the following:

Activity	Broker's time	Expertise Needed	Client Value
Factfind - client's current financial position	Medium	Low	Low
Factfind - financial objectives and goals	Low	Medium	High
Risk profiling	Medium	Medium	Medium
Gathering data from other sources	Medium	Low	Low
Analysis of data and preparation of financial plan	High	High	High
Future cashflow scenarios (if completed)	High	High	High
Product recommendations	Medium	High	Medium
Market research for products	Low	Medium	Low
Provider negotiations	Low	High	Low
Product implementation	Medium	Low	Low
Review Meetings	Medium	High	High
Ongoing client service	Low	Medium	Medium

Based on the observation that Financial Brokers being remunerated by commission will not be paid unless their product recommendations are accepted, they are in fact then being rewards for activities (highlighted in grey) that actually do not take much time, take average expertise and most importantly are areas that ***clients do not value.*** Therefore clients will push back in relation to fees and charges as they perceive poor value.

On the other hand, the areas that take a lot of time, that require significant expertise, and that are viewed as valuable by clients are in fact not charged for.

3. How to link your value proposition to remuneration

In order to link your value proposition to remuneration, you need to be rewarded in line with your time, expertise and where the client sees value. However it is of course impractical to charge individually for each individual activity (later in this section we will examine different charging methods) so the best approach is to group activities into four distinct stages as follows:

- Introduction / Factfinding meeting
- Financial Planning
- Product Implementation
- Client Management

How each of the activities within the value proposition relates to these stages is shown in the table below.

Activity	Broker's time	Expertise Needed	Client Value
Introduction / Factfinding Meeting			
Factfind - client's current financial position	Medium	Low	Low
Factfind - financial objectives and goals	Low	Medium	High
Risk profiling	Medium	Medium	Medium
Financial Planning			
Gathering data from other sources	Medium	Low	Low
Analysis of data and preparation of financial plan	High	High	High
Future cashflow scenarios (if completed)	High	High	High
Product recommendations	Medium	High	Medium
Product Implementation			
Market research for products	Low	Medium	Low
Provider negotiations	Low	High	Low
Product implementation	Medium	Low	Low
Client Management			
Review Meetings	Medium	High	High
Ongoing client service	Low	Medium	Medium

If we look at each of the stages in turn and the reality of charging for them, the following can be considered:

1. Introduction / Factfinding meeting: New clients are not going to arrive in your door with open cheque books! As a result, you are unlikely to be able to charge for this meeting. However this should not be offered as a free meeting: instead you should say to the client that you will cover the cost of this meeting (which is the reality of the situation). With the exception of the 'Financial Objectives' piece, clients also don't place much value on this meeting. To increase the impact of this meeting and to reduce the cost, you should consider the following:
   - Spend time at the introduction walking through your value proposition to show the value you bring. Clearly talk through the areas that clients really value so they understand the benefits of dealing with you.
   - Spend time getting to the root of a client's financial objectives. They really value this piece so do not gloss quickly over it.

- To shorten the meeting, you can consider some of the factfinding happening remotely. Should you send a questionnaire to the potential client ahead of the meeting, asking them to prepare for it?
- You can consider (if available) involving a more junior member of staff to complete the data gathering exercise with the client. You carry out the positioning of your business, the objectives piece and indeed maybe the risk profiling while the junior member of your team does the time consuming but relatively straightforward data gathering.

2. Financial Planning: This is an area of significant change. With the exception of the data gathering from other sources (which again can be carried out by a junior member of your team), this is an area that takes up a significant amount of time (up to two days as mentioned earlier), requires high levels of expertise and is an area that clients place significant value on. A high quality written report is a minimum requirement of clients here. Therefore this is an area that warrants a charge allocated to it, either by commission or other method.
3. Product Implementation: Because of the relatively low level of expertise and time required in this stage (which again can be largely carried out by junior staff if available) and the low value placed here by clients, it is difficult to justify a charge for this work. However in the event of a particularly complex product implementation (e.g. multiple policies, group pensions etc.), an allocation charge is entirely appropriate.
4. Client Management: This again is a fairly significant piece for the Financial Broker and also highly valued by the client so this should attract a charge, be it renewal commission, trail or a fee. Very importantly here, if this is an area that your client **does not** value and is not willing to pay for, then they cannot expect a service from you, beyond a minimum maintenance role.

If you charge for each of these stages separately, you can first of all be more confident of being paid for your time and expertise, irrespective of whether or not policies are taken out. ***Indeed you may bundle the various charges together for the client,*** showing them the breakdown, and agree the method of payment – commission, fee, trail etc. The result is the client understands the charges, pays for what he values and you are confident that your revenue is now reflective of your inputs.

Note regarding Stage 2 – Financial Planning

One of the significant changes for Financial Brokers who are starting to use this approach is the challenge that you are ***charging*** for your financial planning work but possibly ***not being paid*** until the product implementation phase. So how do you bridge this gap?

The answer is that it is necessary to discuss with your client both ***what you are being paid for*** and also ***how you will be paid***. This requires a very open and transparent conversation with your client along the lines of:

"In relation to the financial planning work that we carry out on your behalf, we charge a fee of €x,xxx (see later in this document). This is payable by you to us. Alternatively as part of our work with you, we may recommend and implement financial products for you. In this case there may be commission payable from the product provider to us and this can be used to reduce or potentially even cancel out the fee payable by you."

Note regarding Stage 4 – Client Management

As this is a high value stage for clients, it is important that you can demonstrate a robust and well thought through approach for your clients. This may be best achieved by offering a tiered service approach. The tiers will probably be based upon a flat minimum charge for each tier, or the levels of trail commission payable; or a mixture of both. The tiers may look as follows:

- Bronze service – Clients not paying an ongoing amount (by renewal commission, trail or fee).
- Silver service - Clients paying an ongoing amount (by renewal commission, trail or fee) of a minimum of (say) €300 per annum.
- Gold service - Clients paying an ongoing amount (by renewal commission, trail or fee) of a minimum of (say) €750 per annum.

The diagram below shows potential service offerings for each service tier.

ABC Limited - Service Programme

	Bronze	Sliver	Gold
Minimum Charge	€0	€300	€750
Fund Values	✔	✔	✔
Product Admin support	✔	✔	✔
Ongoing advice	Hourly charged	✔	✔
Portfolio review	Hourly charged	Yearly	Half-yearly
Portfolio rebalancing	✘	Yearly	Half-yearly
Fund Manager Seminars	✘	✘	✔
Access to tax advice	✘	✘	✔
Client Newsletter	✔	✔	✔

Justifying remuneration to clients

There is no doubt that moving to a 'value proposition' approach rather than a 'product selling' approach will require far more transparent and open conversations with clients about charges in general and indeed your own share of the overall fees. This will be a prerequisite to delivering the trust and transparency that clients are seeking.

Many Financial Brokers have made this move, both in Ireland and abroad, and there are a multitude of case studies with a common conclusion: if clients understand your proposition and value it, they are comfortable with this more transparent charging methodology. If you can't show the value of what you do, you won't get paid. Would you pay for a service that you don't value?

The introductory meeting is the place to have this conversation with your client – to demonstrate the value that you will bring and to agree how you will be paid for this. This may end up being by commission only; however if the client does not implement any business with you, they should then expect to pay a fee for the financial plan.

Below are some pointers to help smooth this conversation with clients:

- Break down the costs as discussed above in line with the value proposition to remind clients of the value they are getting.
- If a client doesn't value one of the stages and is not willing to avail of it (e.g. your ongoing services), then they cannot expect you to provide it at all or at least beyond basic maintenance.
- A high quality, written financial plan / recommendations report will be needed to justify the financial planning charge. Promote this with the client.
- Use real life case studies of successes with other clients, showing the financial benefits they have achieved far in excess of the costs.
- Offer remuneration options to the client if possible so that they feel more in control. These could include one or a mix of commission, fees, trail etc.
- Compare your approach to that of other professional services firms – accountants, solicitors who use a similar approach.

What do clients want in relation to your charging method? They are certainly looking for the following:

1. **Value:** They must believe that your charge is fair and adds increased value to them in comparison with other Financial Brokers or advisers.

2. **Control:** The client needs to feel that they retain a level of control over future charges. You need to demonstrate that providing ongoing value will ensure you retain them as a client and continue to justify your fees.
3. **Certainty:** Clients want transparency. They want to know what their charges will be and want to have an open and honest conversation about them.
4. **Simplicity:** Clients want you to have a simple charging model that they can understand and that is logical to them.

Overview of potential revenue models

This section does not consider the levels of charges that should apply, but instead examines the pros and cons of the various potential means by which a Financial Broker can be (or could be in the future) remunerated for their work. While each of these is examined in isolation, there are in reality many situations where a 'one size fits all' will not work and a combination of different Broker charges are the most appropriate solution.

For the protection market, premium based commission is quite an appropriate remuneration model. These lines of business are also changing, with new commission models emerging to be considered by Financial Brokers. There are now options to take higher levels of commission in Year 1 with clawback applicable, or indeed to take a stepped or level commission option where there is no clawback. These need to be considered carefully by each Broker. Protection business is not considered in this section.

For each remuneration method, there is a table below that sets out:

- The type of remuneration
- An explanation of how it is applied
- The pros and cons of the approach.

Upfront commission with reduced allocation	
The allocation rate is reduced in line with the commission taken with no direct impact on the Annual Management Charge (AMC) and no clawback applies. Ongoing charge paid by renewal commission (reduced allocation) or trail (increased AMC). Provider pays commission to the Financial Broker.	
Advantages	**Disadvantages**
• Easy for client to understand • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker • No lapse (clawback) risk for the Financial Broker	• Hard to sell to high premium clients when they see % charge as € amount • High premium clients subsidise low premium clients for Financial Broker • Client perceives poor value in early years as fund lags investment amount

Upfront commission with enhanced allocation	
The allocation rate is maintained at or close to 100% with an increase in the AMC and clawback of commission applying; and possibly early exit penalties. Ongoing charge would typically be paid by renewal commission or trail. Provider pays commission to the Financial Broker.	
Advantages	**Disadvantages**
• Client sees 100% investment • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker	• Very difficult for client to understand and not transparent • High premium clients unhappy when they see % charge as € amount • High premium clients subsidise low premium clients for Financial Broker • High AMC easy to attack • Financial Broker takes the lapse risk through clawback system

Upfront commission with enhanced allocation	
The allocation rate is maintained at or close to 100% with an increase in the AMC and clawback of commission applying; and possibly early exit penalties. Ongoing charge would typically be paid by renewal commission or trail. Provider pays commission to the Financial Broker.	
Advantages	**Disadvantages**
• Client sees 100% investment • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker	• Very difficult for client to understand and not transparent • High premium clients unhappy when they see % charge as € amount • High premium clients subsidise low premium clients for Financial Broker • High AMC easy to attack • Financial Broker takes the lapse risk through clawback system

Flat Commission	
The allocation rate is reduced in line with the flat commission taken in Year 1 and subsequent years with no direct impact on the Annual Management Charge (AMC) and no clawback applies. Provider pays commission to the Financial Broker	
Advantages	**Disadvantages**
• Easy for client to understand • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker • No lapse (clawback) risk for the Financial Broker	• May be hard to sell to high premium clients when-they see % charge as € amount. • High premium clients subsidise low premium clients for Financial Broker • High renewal commission may be easy to attack • Costs of upfront advice not paid

Adviser Charge – provider paid	
A new concept introduced in the UK. Client agrees a charge for services availed of by client. Client then pays investment and charge (for remittance to the Financial Broker) to the product provider or the investment amount is reduced by adviser charge, which is paid to the Broker. The difference between this and commission is that the amount of commission is calculated based on the services provided by the Broker, and not by the premium amount.	
Advantages	**Disadvantages**
• Financial Broker payment based on effort / value to the client • Easy for client to understand. Charge quantified in euros • Very transparent and cost known in advance • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker • No lapse (clawback) risk for the Financial Broker	• Lower premium clients may not see value / be able to afford the adviser charge • Charge will be a very significant portion of overall investment if investment amount is low • No 'built in' ongoing revenue stream for Financial Broker

Trail commission	
The AMC is increased by a % of the fund amount, which is paid by the product provider to the Financial Broker.	
Advantages	**Disadvantages**
• Easily understood by client • Aligns interest of Financial Broker and client – both seeking fund growth • Straightforward payment for Financial Broker • No non-payment risk for Financial Broker • If Broker has a strong investment process, an excellent mechanism for ongoing remuneration	• Subject to the rises and falls of the market lack of control • Low reward for Financial Broker in early years • When funds are sizeable, open to attack from other advisers with lower trail • High AUM clients unhappy when they see % charge as € amount

Fees	
The client pays the Financial Broker an agreed fee (based on tasks completed or time spent) for services delivered. No link to product sale and provider plays no role in fee payment.	
Advantages	**Disadvantages**
• Broker payment based on effort / value to the client • Easy for client to understand. Charge quantified in euros • Very transparent and no provider bias • Fees can be billed as value is delivered • Client used to this approach with other professionals • Easier to deliver bespoke arrangements • Ongoing value added will attract ongoing fees • Clients don't feel 'sold to' as no link to products / providers • If no product is bought, fee is still payable	• Lower premium clients may not see value / be able to afford the fees required • Charge will be a very significant portion of overall investment if investment amount is low • No 'built in' ongoing revenue stream for Broker. • Financial Broker must secure payment from the client – carries non-payment risk • Detailed recording required to justify fees (whether based on time or tasks) • More administration for the Financial Broker • VAT is payable (PIBA is investigating this area further and will be reverting to members)

As can be seen from the tables there is no one perfect solution. The reality is that a mix of upfront remuneration (by commission, adviser charging or fee) to cover the significant work carried out at the planning stage is required. In addition, an ongoing payment (renewal commission, trail, fee or adviser charge) also makes sense if the client wishes to avail of a high value, ongoing service from the Financial Broker. The client pays this amount. How it is paid to you is decided by you (with the client's consent) and monitored and potentially influenced by regulatory policy.

Which method suits best depends on the profile of your target market, the quality of your value proposition and your ability to engage clients with it, your belief regarding what clients really value in a relationship and how they wish to pay for it, and finally your view of potential future market developments. There is undoubtedly pressure on the current system of commission linked to the product sale – it is important that Financial Brokers consider this when designing their future remuneration model.

Calculating fees

This final section deals with fees charged by a Financial Broker to a client for services delivered. Many Financial Brokers struggle with this area, as heretofore they were 'price takers' from the product providers who set the shape of commission structure for the Broker to choose from.

As a result, it is challenging for Financial Brokers to decide the right structure and level of fees for their business. This section explores some of the areas for Financial Brokers to consider in developing a fee proposition for their business. This section assumes that you have developed a strong value proposition that you are capable of delivering to your clients.

To develop your fee proposition, there are a number of areas that you need to consider as follows:

- Understanding your cost base
- Calculating your billing rate
- Deciding the best fee method for your business
- Charging your fees
- Communicating your fee proposition

Understanding your cost base

The first step you need to take is to identify your cost base. This will help you build up a picture of the minimum income needed to ensure your business is viable. There are numerous ways to do this; however it may be easiest for you to consider one of the approaches below.

Option 1 – Bottom-up costing

In this method, you look at the individual costs of running your business to determine the total cost. This is probably the simplest method for small Brokerages. If we take the example of a small (one-person) Brokerage, the costs might be as follows – the figures are simply for example purposes:

Rent	€20,000
Heat / Light / Phones	€ 3,000
Rates	€ 4,000
Car & Expenses	€10,000
IT costs	€ 5,000
Marketing	€ 5,000
Accountant	€ 2,000
Other costs	€ 5,000
Required earnings	€120,000
Total Costs	**€174,000**

As can be seen from the example above, if the owner wants to earn €10,000 per month, they need to be targeting an annual income of €174,000.

Option 2 – Overhead allocation

This method is a little bit more general and may only be suitable for businesses that have a very clear picture already of their costs and are considering the marginal cost of employing another person. Using this method, the business decides on a 'scaling factor' based upon the employee's remuneration.

Typically this scaling factor would be a minimum of 1.5 to 2 times the employee's salary; however some businesses will use significantly higher (up to 3-4 times) scaling factors when calculating the cost of employees. The reason they use higher rates is to build in a profit element for the business, rather than simply covering costs.

If we assume the same one-person Broker as in Option 1 and use the minimum scaling factor, again based on a required earnings figure of €120,000 p.a. the minimum revenue required for this business is:

€120,000 x 1.5 = €180,000 p.a.

As can be seen, the two results are relatively close.

Calculating your billing rate

The next step is to convert this minimum revenue figure into an actual billing rate. To do this you need to consider the number of hours available to you. First of all, you need to work out how much you work. When you allow for holidays, bank holidays, sickness etc., you should prudently assume that you work for approximately 44 weeks in the year. Then you might assume that 50% of your time will not be billed to clients – this time will be spent on running your own business, seeking new clients, attending conferences, compliance etc. This leaves only 20 hours per week (assuming a 40-hour week) available to be billed out.

Your billable hours therefore are:
44 weeks x 20 hours = 880 billable hours.

Your minimum hourly billing therefore needs to be:
€180,000 / 880 = €205 per hour.

Calculation of a reference billing rate like this is important to 'price' different work, even if you will never use hourly rates with clients.

Deciding the best fee method for your business

Continuing our example, you then need to consider whether you are going to bill by time or by task. While there are some advantages in billing by time, these are

largely outweighed by the negatives associated with this approach. It creates an environment of justifying time rather than creating value. It also doesn't place enough value on the experience that you are bringing to your clients as it only focuses on the time spent. In addition, clients value certainty in adviser costs.

Charging by task rather than by fee is usually preferable to clients for clearly identifiable pieces of work for a number of reasons:

- Charging by task brings certainty to the client of the cost. Yes, if it takes longer to carry out the work, you the Financial Broker carry this cost. However you have a good sense of how long on average the work takes and can charge accordingly.
- Billing for the task brings the focus on to quality and not time spent on the task.

Using our example earlier and the finding that the financial planning stage takes 11.5 hours on average, this might suggest that this Broker should charge a fee of approximately €2,350 for the financial planning stage.

The Broker would then need to calculate out a rate for the average time spent on other value adding activities such as reviews etc. to ensure they are fairly rewarded by their clients.

Indeed advisers may decide to charge a fee to cover ad hoc queries and ongoing servicing. This is work that is currently done for nothing, which is quite unique to this profession! No other profession carries out ongoing work for free.

Charging your fees

At this stage, we have identified the following:

- What you should be paid for – the services you deliver
- How much you should be paid.

The final question is how you should actually receive this money. The answer to this question is by any of the methods that were looked at earlier! However if you receive part of your fee as a commission from a product provider (which a client may wish to do to avoid VAT being payable for example), this commission is now paid for the ***services you provided*** to the client and not the product sale. It is now paid on the value that you added to the client.

In many cases, clients will prefer to remunerate you by commission rather than by paying a separate fee, and this will often be the most appropriate method. Some factors to consider are:

1. VAT is payable on fees but not on commission. PIBA are currently investigating the situation regarding VAT and will be reverting to members with guidance.
2. For individuals making personal contributions to certain products (personal pensions, PRSA's, AVC's), the full payment to the product provider usually attracts full tax relief. As a result, a payment by commission to the Financial Broker effectively gains tax relief while a separate fee will be paid from after tax income.
3. The administration, collection costs and risks to the Financial Broker may make small fees uneconomic to collect (for both the Financial Broker and the client) whereas the insurers can facilitate this easily through the commission system.
4. Separate financing of a large advisory fee may be beyond the scope of low to middle income earners whereas they may not view the fee as being as daunting when collected via the policy.

The combination of all these factors may make commission the agreed and best route. However this is only in relation to the actual collection of your remuneration. The critical change is to clearly articulate your value proposition and to clearly link your remuneration back to the services that the client actually values.

Communicating your fee proposition

The time to discuss the fee proposition with your client is at the initial meeting, as you discuss your value proposition. After all, your client will want to know how much your expertise costs, rather than heading down some uncertain road in relation to the value they will receive and the cost of this. Again the important point is that the charge may be taken from the product; however now it will be done with the full understanding of the client who will now realise the value they are receiving in return.

There are many examples from other markets of the challenges associated with communicating a fee proposition being greater in the Financial Broker's head than in reality. According to Nick Cann of the Institute of Financial Planners in the UK, of those firms he has seen convert to a fees-based service, pretty much without exception they have been caught out by the number that have been prepared to pay a fee for a service. This in part may have been because the firms concerned did not price themselves high enough, thus not placing sufficient value on their services. These firms now have a problem raising the fee rate by any significant amount without considerable discomfort. However the other issue for some of these firms was that the conversion challenged their ability to meet their obligations under all the service

agreements with the staffing levels they had at the time; and hence they could not operate the model as profitably as they might have done.

Summary

This section looked at the all-important challenge of linking your value proposition to drive the revenue in your business. It looked at how you can link your revenues to your actual effort, rather than being reliant on a product sale.

There are many different ways in which Financial Brokers can be paid, each with their own advantages and disadvantages. Each Broker needs to consider which is the right mix of these methods to suit their business.

Finally the issue of fees was examined with the important overarching conclusion being that irrespective of whether you are paid by fee, commission or another method, the payment should be earned by you and agreed by your client based on the valuable expertise that you deliver and not the products that you sell.

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