

# It's good for clients, it's good for us

David Newman argues that remuneration is only one element of the transition from industry to profession

Many will miss Alan Kohler from the pages of *Professional Planner*. His articles were always trenchant, entertaining and took no prisoners - his valedictory piece in the September issue on commissions versus fee-for-service being a case in point.

Alan raised some highly relevant points on the difficulties of providing unbiased advice and a transparent fee structure when operating on the commissions payment model. At Partnership Financial Services (PFS) we take the simple view that what's good for the client is good for us, and that the client's best interests are best served by a fee for service.

It would seem that many planners agree, with 53 per cent believing pure fee-for-service advice represents the long-term direction of the industry, according to the survey recently conducted by *Professional Planner* and Core Data-brandmanagement. The finding that many companies that have made the transition from commissions to fee-for-service have increased revenue by 16 per cent and profitability by 18 per cent bears out the philosophy that self-interest is best pursued by first taking care of the interests of clients.

Having said this, we recognise that most planners still operate on the commissions model. And while less inherently transparent than fee-for-service, those planners committed to clearly disclosing exactly how much they charge and what the client gets in return, can certainly provide acceptable levels of openness. It is transparency and proper disclosure, in other words, rather than the payment method, which is the real debate.

## BECOMING A PROFESSION THROUGH FIDUCIARY STANDARDS

It is also the PFS view that fee-for-service is only one element of the transition of financial planning from a product manufacturing and sales industry to a true client-services profession. If we look at how best-of-breed practitioners worldwide seek to differentiate themselves from the vast ma-

jority of product sales people, one obvious point of difference is their emphasis on fiduciary standards. And growing numbers of clients are seeking from their financial adviser a true strategic partner and fiduciary rather than an investment guru with hot share tips.

Even within the industry, many advisers have only a broad notion of what is meant by the term "fiduciary standards". Go beyond, to the investing public, and the understanding is vaguer still. But best practice fiduciary standards are well defined by the Centre for Fiduciary Excellence, or CEFEX ([www.cefex.org](http://www.cefex.org)), and are founded on seven precepts, namely:

1. Know standards, laws and trust provisions.
2. Diversify assets to the specific risk/return profile of the client.
3. Prepare an investment policy statement.
4. Use "prudent experts" and document due diligence.
5. Control and account for expenses.
6. Monitor the activities of "prudent experts".
7. Avoid conflicts of interest and prohibited transactions.

When we think of some of the more sensational investment disasters to have befallen our industry in recent years, it's easy to see how they would never have come about if the financial planners involved had been required to adhere to each of these standards.

There is, of course, no requirement at present, nor any apparent appetite to impose these best practice investment fiduciary standards. But from a purely competitive point of view, maybe that's not necessarily such a bad thing - because in the present market, those planners who do aspire to the highest standards of integrity, transparency and best practice can achieve a very clear point of difference by undertaking voluntary certification, as PFS has chosen to do.

Annual audits to validate fiduciary standards may sound like an onerous process - yet another swath of paperwork and regulation for advisers to

negotiate their way through. Another cost to be borne by investors. But for advisers who already subscribe to the ideals of fiduciary good practice, the requirements require less wholesale revision than ensuring processes already in place are correctly systemised and documented.

And for investors, how much greater is the cost of capital loss or suspension of redemptions, not just in terms of investment loss, but the indirect impact on lifestyle and relationships?

## CLIENT EDUCATION BRINGS REWARDS

Achieving a distinctive positioning in the marketplace, which appeals to more sophisticated clients, produces well-established rewards. While it's true that the value of certification for fiduciary standards is not well known among many high-net-worth clients right now, nor was the value of fee-for-service only ten years ago. Educating the upper end of the market is not only good for business, but it begins the trickle-down effect which we've already seen democratise many other financial services in the past.

It is my hope that in years to come, most investors, be they corporate high fliers or mums and dads wanting to take care of their super, will expect much the same from their financial planner as they do from their doctor or accountant. When they visit, they will expect to pay for their consultation certainly. But they will also expect to see certification on the wall establishing fiduciary credentials. When that day comes, we will know that our industry has finally, become a profession. ■

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Submissions to *Practitioner Perspective* are welcomed. Please e-mail them to: [simon.hoyle@conexusfinancial.com.au](mailto:simon.hoyle@conexusfinancial.com.au)  
Submissions should be 700 to 800 words long. Please include a high-resolution photograph if possible.