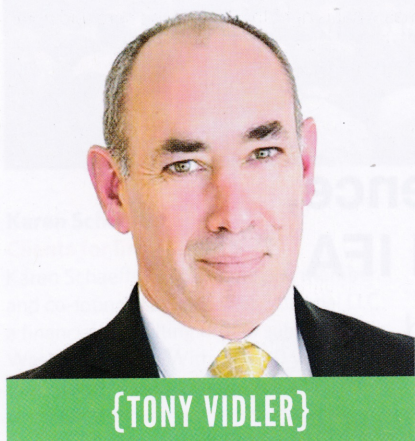


# DIG DEEPER ON ANNUAL REVIEWS

**Is process the problem or the people. Tony Vidler discusses changes in the lives of Kiwi investors.**



**Y**ou know how you go through the annual review process with clients each year and ask "has anything changed?", and then 7 out of 10 say "no, not really"? Somebody is lying. Or the process doesn't

work. It is definitely one or the other.

Statistics NZ have compiled the most comprehensive research on what is really happening in Kiwi lives with their 2014 New Zealand General Social Survey; they found: Seven in 10 New Zealand adults experienced at least one change that had a major impact on their lives in the last 12 months.

The study investigated how New Zealand adults deal with change in their lives and, in particular, how they use social networks to help deal with these changes. Social network refers to the wider social fabric of people's lives, too; it isn't a social media thing. Their community, families, and the professionals they turn to for emotional, financial and practical support, is the social network referred to.

## NOT TOTALLY HONEST?

Either Statistics NZ have suddenly become really poor at compiling and analysing data, or our clients are not always being totally honest

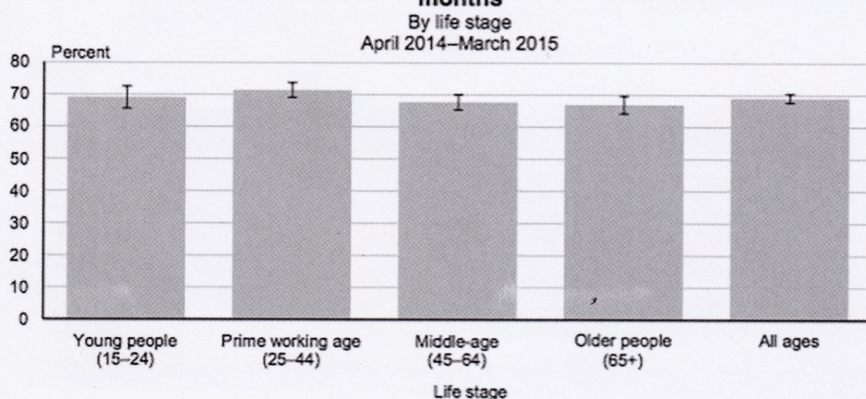
with us, because there is a massive difference between what the national data tells us about how many lives change significantly each year and what our annual review process with clients reveals.

But maybe the problem is our process. Perhaps it doesn't do the job it is supposed to do. Perhaps our process is the problem, not the people.

If 70% of Kiwi adults on average have experienced significant changes in health, finances, relationships, employment or living arrangements in the last year, and your annual review process is indicating that less than 20% have experienced any significant change in their world during that same time, you may well be a statistical exception. Or your process is utterly ineffective.

I am willing to bet that the standard annual review process the financial advice industry has employed is utterly ineffective. It is hard to believe that every adviser I talk to is a statistical

## People who experienced at least one major life change in last 12 months



Note: Error bars show the 95 percent confidence interval.  
Source: Statistics New Zealand

anomaly, yet virtually all have an annual review process which suggests that only perhaps 12%-25% of their clients have experienced a significant change in the last year. Or lower.

So what has happened and, more importantly, what can we do about it?

It seems that the bulk of the industry has moved to a uniform approach to handling the annual review requirement of best practice standards which is essentially based on the perceived needs of the regulators, and is deemed the safest path for advisers. That is, clients get sent a thorough checklist and we pass the burden to determine ongoing suitability of product or advice to the client to determine. In essence the industry sends a checklist and says "get in touch if any of this stuff happened and we'll give some more advice".

### CHECKLIST APPROACH

Not surprisingly, very few clients appear motivated to give the checklist more than a few seconds attention, and even fewer engage thoughtfully with the review process. This checklist approach is thoroughly boring, bland and does little to engage clients' minds, nor does it appear relevant to the majority of them as it arrives well after most significant changes have occurred in clients' lives.

If Statistics NZ is correct, the clients have already received the support and made the changes required by turning to their own social networks before our dull checklist arrives in the post. So the adviser becomes pretty much the last to know of any significant changes in clients' lives, if we get to know of them at all, and our process creates a sense on the client's part that we are actually out of touch with their world.

It is time for us to step back, have a good look at what we are trying to achieve, and start again when engaging clients in

**“ It seems that the bulk of the industry has moved to a uniform approach to handling the annual review requirement of best practice standards which is essentially based on the perceived needs of the regulators. ”**

ongoing reviews.

To recap: there is nothing I can find in the law or the Code of Professional Conduct that says, "The way to be compliant is to send a checklist". Our obligation is "to make reasonable enquiries to ensure (the adviser) has an up-to-date understanding of the client's financial situation, financial needs, financial goals, and risk profile, having regard to the nature of the personalised service being provided". This is the benchmark requirement for the "best practice" end of the advice spectrum. Even if we shift back from the "best practice" end to the middle of the current professional practice continuum, being the requirements of NCFS (5), we find that the objective applying to advisers is that they have "mechanisms and timeframes for reporting

and evaluating agreed financial strategies and solutions, in accordance with those agreed with the client".

### ANNUAL REVIEWS

So here is the key point: as an industry we're shooting ourselves in the foot with this stupid checklist approach to annual reviews.

Nobody that matters told us we had to do it that way.

The people who pay the bills and who we are supposed to be listening to and helping aren't engaging with the process in the main.

It is too little and it is too late for most clients, and rather than being part of a highly personalised service it becomes seen for what it is: a robotic and impersonal safety procedure designed to help the adviser's business, not the client.

Knowing what I know now I'd do things differently today. The review process would be incremental, and largely done over the phone or via video conferencing apps, every four months (so three times per year), although a face-to-face once a year at least would be an ideal component.

The key is that we must be having a personal conversation that guides the client through what has been happening in their world (quickly) over a relatively short period of time (last three-four months), and has a clear outcome for the client in the form of ongoing suitability. They are going to hear: "You're fine and what you have is all good. Gee, we might need to look at that part of the portfolio/plan/program again..."

### MEANINGFUL PROCESS

Either way it provides continual re-assurance regarding suitability and relevance for the client, and actually puts the adviser into a meaningful review process that achieves multiple objectives:

→ The adviser is present without being a nuisance, and has an opportunity to become embedded as part of the social network of the client (someone they DO turn to when big changes happen).

→ The focus is upon making sure the client has what is right for them in the here and now

→ We are all on top of the changes in life that can derail plans.

→ It is compliant, and determining suitability is at the forefront.

Above all, it puts the client back in the centre of the relationship and the process is now there to help the client, not some third party.

Wasn't that the objective of having good process and professional practice to begin with? **A**

**Tony Vidler is an adviser to financial advisers, helping them to grow their businesses via his coaching firm, Strictly Business.**

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