

DON'T WORRY ABOUT THE REGULATORS

Advisers should know where to expend their energy - and worrying about the rule-makers isn't it.



{TONY VIDLER}

With respect to the market regulators and professional standards leaders, they are fighting an unwinnable battle.

And the battle they are fighting doesn't really matter to the majority of advisers, either.

The key problem that the rule-makers have is that the marketplace changes far more rapidly than best practices can be debated, defined, refined and then enshrined.

Bless them for trying though - they are just the sorts of folk I want to have beside me if my ship is sinking, because they can be counted on to bail furiously even when all is lost. Staunch, hard-working and admirable.

The regulators curse, however, is that they are never able to bail as quickly as the water comes pouring in. It is an unwinnable battle.

RULE MAKER WISDOM

Even taking into account the wisdom of the rule-makers approach to financial services regulation in NZ with the adoption of the far more pragmatic and flexible "principles-based" approach, the reality is that new product, distribution and advice models are evolving which have simply not been anticipated or envisaged.

Consumers are rapidly changing how they obtain information and make buying decisions. Labour and capital are portable, and flow freely across borders. Technology and free

information flow are changing everything in how services are defined and delivered. Rules cannot be made fast enough, or stay relevant for long enough, to deal with such rapid and fundamental shifts.

So you know what? Most of us should just ignore what the regulators are doing. I don't mean "ignore" as in "pretend they don't exist or are not important". I mean it in the sense of "we should waste no mental energy or resources on the issues they are grappling with".



FINANCIAL FUTURE ADVICE

Let them deal with their issues. We'll catch up with the details of their decisions later, because what is decided and how the market is to be regulated in the future really isn't that important for the overwhelming majority of financial advisers.

My rationale for making such an outlandish declaration hinges upon the word "that" in the previous sentence. It isn't that important because there are other things that are more important. And if we get the other more important things right, then we will have met any requirements a regulator might have of us. Ergo, worrying about what shape regulatory thinking might take is simply a waste of effort and business resources for the majority of us.

The exception to this claim that advisers should not worry about what the regulator is grappling with is the financial planner. Those advisers providing investment planning, financial planning or portfolio management are rule-bound to a large degree, and that is only likely to get worse for them. It is the area of financial services that will become increasingly prescriptive and rule-bound as it is the intersection of two of the most significant financial services issues globally.

MEETING PROTECTION STANDARDS

There is international collaboration on managing the international crime or cyber-security concerns, and New Zealand must to a large extent fit its regulatory regime in this area to meet the international protection standards and uphold this country's ability to facilitate Fair Trade Agreements and other commercial arrangements in the nation's strategic interests.

Then there is the second issue of the direct correlation between consumers' product performance and financial advice. In simple terms, what and how advisers charge or disclose in the investment area can have a direct and significant impact on the consumers' return, or performance of their investment plans.

Advisers operating in the investment area must therefore pay close attention to how regulation is shaping up as it will have a direct impact on their business structure, pricing and profitability, and service offer.

SATISFYING STAKEHOLDERS

For the non-financial-planners, which are apparently over 80% of NZ advisers, we should relegate regulatory questions and rules to their proper place. That would be "third" on the list of stakeholders to satisfy.

For the majority of advisers the highest priority concerns are - or should be - those of the customer.

The next highest priority is the shareholders of the advice business.

“ Rules cannot be made fast enough ... to deal with such rapid and fundamental shifts. ”

Then we might consider the requirements of the market regulator.

Fourth is Everything and Everyone Else. All the other stakeholders such as supplier institutions, professional bodies, Mother Earth - all of them are somewhere further down the list in importance.

Our first priority is to deliver to our customer's expectations. After all, they pay the bills and they are effectively our employers. The point in stating the obvious is that it doesn't matter what an advisers licensing status is. AFA or RFA, QFE-based or standalone. Whatever the acronym and regulatory standard is which applies to it, there is a commercial obligation in the first instance to meet or exceed the expectations of the customer.

ACCORD WITH CUSTOMER TRENDS

The principles which we have underpinning regulation and which were initially aimed at applying to investment advisers are actually in complete accord with consumer trends and mood. Transparency in costs and conflicts of interest; simplicity and clarity of language; professionals operating only within areas of demonstrable competency... these are things that consumers expect from any professional. These are also the areas where consumer's expectations are rapidly changing and rising too.

The point is that every adviser who wishes to be considered valuable and professional by their customer needs to be meeting or exceeding the rapidly changing customer expectations in these core areas of transparency, clarity and competency. The consumers will define what are acceptable standards far more quickly than regulators, and they will also enforce their view of unsatisfactory standards in these areas in the harshest possible way too: by walking with their wallets.

DEMAND BY CUSTOMERS

So who cares what the rules become for (say) an RFA? The smart adviser will be way ahead of what the rules require, because their customers are demanding more. Smart advisers also know that if we don't give the

customers the standards they expect in these areas, then alternative solutions providers will step into the breach and make the adviser unnecessary. The consumers are setting a far higher standard than the regulators are likely to in the short term, and the consequences of failing to meet the standards expected are the death of a practice.

This is why the second highest priority must be for the advisory firm to deliver what their own shareholders deserve: a viable, profitable, business.

There is of course the oft-mooted argument that without a profitable practice we are unable to continue to meet our promises to clients, and there is some moral merit in that line of thinking. But advisers are not social workers. That is not our business.

Social conscience ethic

It is true that there is a strong social conscience among many advisers, and there is also a strong "social work" flavour to how we conduct our business. It is that "social worker" element which gives rise to a common problem. Typically advisory firms deliver the same (reasonably expensive) levels of service to all clients regardless of their commercial worth. It is also reasonably common for firms to work on a 100% "at risk" remuneration model.

Imagine trying to raise funds from the public for an IPO where the business model offered all clients the same (expensive) services standards, regardless of the profitability of the various clients or lines of business.

"We give all clients the same excellent service no matter whether they are worth \$100 a year to the firm, or \$10,000"

Imagine also how attractive the business model would be to potential investors if our funding was overwhelmingly project-based and success-based?

"We receive funding on each deal which we are able to successfully negotiate to the clients and other stakeholders' satisfaction. If anyone in the decision chain is not entirely satisfied then we are paid nothing, regardless of how much work the firm has put into it. Incidentally, we incur all costs in advance and none are passed onto clients directly."

This business model is inherently risky, unlikely to be sustainable long term.

Leave the regulators to figure out what they need to figure out. The smart play for advisers right now is get to grips with, and then get in front of, your clients expectations.

Then hone that business model so that it becomes a good investment for its shareholders. They are the only two things that really matter. **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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