



IOOF

ALLIANCES

Alliances White Paper

What does best practice look like in boutique AFSLs?

Premise

Across Australia, there are over 1,600 self-licensed advice businesses, or what we like to call boutique AFSLs, who have under 50 Authorised Representatives (ARs). Of these, over 1,300 have less than five ARs.

As the profession undergoes significant change, how well are these smaller AFSLs resourced to manage financial advice in this new era? Is there a professionalism gap between the very small boutique and the larger boutique advice business?

It seems to make sense that an AFSL of 30-50 ARs would have a greater depth of resources to deploy to its ARs relative to the scale of a business with less than 10 ARs.

As a self-licensed advice business solutions provider, IOOF Alliances decided to explore whether size really matters or if there are other things at play that make up a successful boutique AFSL. We explored what best practice looks like in a boutique, where best practice resides and whether lessons from either the very small boutique or the larger AFSL can be translated and deployed at both ends of the spectrum.

What we did

Some 115 IOOF Alliances businesses took part in our research. We explored the current challenges facing boutiques and all aspects of running an AFSL. Systems and technology, process efficiencies, interpreting, educating and deploying monitoring and supervision programs were reviewed against the

delivery of advice to help clients achieve their financial goals and objectives.

As part of our research we visited some high-quality self-licensed businesses, to see their operations in action and witness best practice deployment in real life.

Why?

Australians in increasing numbers, are turning to boutique AFSLs for their advice needs. As a growing part of the advice landscape, boutique AFSLs are viable and vital. What we wanted to understand was what best practice elements need to be in place for continued viability and ongoing success.

We also wanted to understand what makes one AFSL more successful than another and what best practice looks like within an advice business, so that it continues to meet and exceed its obligations to act in the client's best interest.

What we found is that excellence in business practices and client outcomes do exist across the spectrum of boutique AFSLs – both large and small. It's replicable and importantly affordable to implement. Larger boutique AFSLs, presumably better resourced through scale, are not necessarily custodians of best practice. Perversely, larger AFSLs can be highly challenged by complicated organisational structures that drain resources or alarmingly over time, attention has not been given to resourcing the AFSL appropriately. This can at its worst result in inefficiencies and inconsistencies in providing

advice to clients. It often means that the profitability of the AFSL is mediocre at best and its ability to appropriately monitor and supervise its representatives and meet its compliance obligations can come into question.

Large or small, the key elements of running a boutique AFSL at best practice levels are not systems technology or advice strategies deployed, but a focus on thinking about the overarching purpose of the business.

The elements of that thinking and components of best practice in a boutique advice business can be summed up as the 5Cs:



It's these five elements supported by tools, technology, processes and systems that deliver to best practice and the ambition¹ of the business. Without a strategy-informed ambition, investment in 'tools' is the wrong (but often the first) step. For example, the choice of financial planning software is one that is often made without any regard for the 5Cs.

In this paper we explore the transformational power of the 5Cs and when supported by processes, tools and services, can result in best practice appropriate to the ambition of the advice business.

1. Commitment

The best part about commitment is that it doesn't have a hard cost attached to it. Commitment is about the clarity of purpose of your advice business and investing the time to define it. Clarity about your business vision, your 'why', 'what' and 'how' is, in our experience underdone in the boutique advice space and across the financial advice profession at large.

The first 'C' is a clear commitment to a business purpose. Is your business here to add value to the community (your clients) and the advice profession? Of course, these ambitions if sought, add value to the business owner. This C is transformational. How does your AFSL create value now and how will it into the future?² Once that decision is made, then the investment required to deliver on the business promise is a lot clearer and the scope for the smart resourcing of your commitment is possible.

What's required here is :

- a well-articulated and understood business strategy
- the translation of that strategy into meaning across the business and team
- how the strategy is to be supported with catalysts (clear goals, resources) and nourishers (respect, recognition, encouragement)³.

For an advice business, this is your client value proposition (CVP). This is no longer, nor should be, a 1990s or 2000s dealer group practice managers' domain. Your CVP is a differentiated promise that meets your business ambitions and attracts the clientele that enable the business to be profitable.

A 2020 revamp of the CVP may look like this:

- Our clients are ... the challenges they face are ...
- Working with us ... they achieve ...
- The big picture of our advice looks like ...
- The way we deliver our solutions ...

Crafting your CVP gives clarity to clients and your team. It defines how you plan to stay relevant to a particular target client and the process around your advice delivery. This in turn informs your choices on a range of critical business decisions from technology, staff, process, engagement, capabilities and more.

¹ 2016, Deloitte Development LLC, Thinking big with business transformation, Six keys to unlocking breakthrough value, downloaded from <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-sdt-think-big-business-transformation.pdf>

² 2016, Deloitte Development LLC, Thinking big with business transformation, Six keys to unlocking breakthrough value, downloaded from <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-sdt-think-big-business-transformation.pdf>

³ 2011, May, Teresa Amabile and Steven J. Kramer, The Power of Small Wins, from The Progress Principle, downloaded from <https://hbr.org/2011/05/the-power-of-small-wins>

Case Study – Commitment in Action

A simple statement of ‘helping clients live a richer, happier life’ saw one boutique AFSL invest in their culture. This statement was the platform to develop the ambition of the business – to be a ‘Global positioning system for a world of wealth, investment and retirement planning options.’

In communicating in a meaningful way with clients and the internal team, the value proposition of the business was nourished and catalysed in a series of statements about the why and how of the business:

- Clear evidence-based wealth planning holds the key to a rich, rewarding life – financially, emotionally and psychologically.
- Build a strategy for life, create your wealth map detailing your values, purpose and life goals.

Underpinning the approach was supportive catalysts (clear goals, resources) and nourishers (respect, recognition, encouragement). This was simply and effectively woven into the business’ collateral and content covering topics like – ‘Are you living within your means?’ ‘A clear purpose matters’ and ‘Do your values drive your decisions?’

The underlying promise and philosophy adopted by this business required a commitment of delivery which was uncovered once the clarity of business purpose was defined and articulated.

Action questions

- **What’s your business purpose?**
Write down in a clear way what you are committing to.
- **Do you have a framework to establish your customer value proposition (CVP) and the support pieces around it?**

2. Culture

Once you have clarity of purpose, it becomes clearer who can join you on your journey. Whether you are recruiting a new team member or working in partnership with another business, there has to be a values and culture match.

If for example, you want your business to be an ongoing concern and serving your community for the long term, with a distinctive value proposition, then it’s vital to attract team members who have the same values and want to stay in the business for the long term.

Businesses who have this clarity have been able to make work meaningful for its’ employees - which is incredibly powerful.

“Of all the things that can boost emotions, motivation, and perceptions during a workday, the single most important is making progress in meaningful work. And the more frequently people experience that sense of progress, the more likely they are to be creatively productive in the long run.”⁴

As a small business with an ambition to succeed and a defined strategic goal, you are now committed to making a significant investment in business resources (time and money) to achieve this transformation. Your return on investment is often directly proportional to the calibre of the people already in the business and recruited into the business.⁵

This is a functional issue. It’s an area in the running of a boutique AFSL that warrants more depth than it’s typically afforded. It’s the human resource function and business culture.

Whether you are a large (30-50 ARs) in boutique terms or small (below 5 ARs) the method of human resourcing and the law remains the same. Arguably a boutique AFSL can be more adept in catering to the needs of, and attracting the talent of, high-quality team members.

Debra McQuinn (Director, Strategic Resources Network and F3P Brand Ambassador) wrote in a blog post that small financial planning firms ‘offer benefits larger groups cannot – you are nimble and can quickly respond to opportunities and new initiatives. Your time and success stories are invaluable, as is your business acumen and further, you are in control of how and to what extent you can invest in your people.’⁶

⁴ 2011, May, Teresa Amabile and Steven J. Kramer, The Power of Small Wins, from The Progress Principle, downloaded from <https://hbr.org/2011/05/the-power-of-small-wins>

⁵ 2016, Deloitte Development LLC, Thinking big with business transformation, Six keys to unlocking breakthrough value, downloaded from <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-sdt-think-big-business-transformation.pdf>

⁶ <https://f3p.com.au/news-articles/recruiting/top-tips-for-attracting-and-retaining-the-talent-of-the-future>

The process of culture building that aligns to your business strategy is a bit of a moving feast and it should be. There are two distinct programs of work that need to be connected. First, the formulaic method and framework of an attractive workplace culture and second a fluidity in the workplace to deliver your strategy and value proposition.

Culture framework

From a legal point of view, 'workplace policies and procedures are necessary to clearly define acceptable and unacceptable behaviour in the workplace and the implications of unacceptable behaviour. Appropriate policies also reduce the risks of breaches of legislation, such as incidents involving discrimination and bullying, and help employers manage an incident of misconduct if it occurs.'⁷

Developing a motivated team focussed on delivering the purpose of the business, your policy and procedure framework will drive team satisfaction, motivation, performance and the longevity of the workplace culture.

Guidance on building and sustaining an attractive workplace culture⁸ are outlined below and sourced from specialist financial planning HR resources partner, F3P.

- Know and promote your employee value proposition (EVP)
- Ensure your employment contracts, policies and supporting documents are legally compliant, complete and well presented.
- Create development plans for all your young talent (in association with them) including timeframes and KPIs and ensure you both deliver on your commitments.

Case Study – Culture in Action

Having identified their ambition and business purpose, our model AFSL built capabilities by attracting new team members to help achieve their long-term business goals.

A doctrine of 'leadership at all levels' was adopted across the business, goals and values defined and then matched with existing team members and gaps for recruitment identified.

The framework around this was a strong HR policy and set of resources. The HR function was elevated to clearly define roles and responsibilities supported by documented processes and policies. Much more than a set of policies, leadership coaching, mentoring and external coaching was made available for all team members.

Six years later the team has transformed, and the business has grown from 10 to 32 people – all delivering to the business' objectives and success

Action questions

- **Do you have a HR / or resourcing approach that matches your stated business strategy and ambitions?**
- **If you have the need for HR policies and process have you resourced this function?**

3. Capabilities

Much has been written academically about developing and aligning capabilities to an over-arching business strategy and then developing those capabilities so they focus on what a company does best. Known as 'The Coherence Premium'⁹ this is where a business focuses on 'what we do better than anyone' when making every operating decision. Some self-licensed advice businesses do not pass the 'coherent test' as they chase business where they don't have the internal capabilities to achieve success.

When it comes to financial planning the capabilities a business needs are directly related to the services provided to a client subset (often defined by life stage) and include things like:

- cash flow management
- insurances
- mortgage and financing solutions
- property services
- education funding and accumulation
- investment portfolio construction
- investment administration services (including SMSF, retail superannuation)
- divorce and family law
- family succession planning (business and personal)
- estate planning
- philanthropic expertise
- aged care
- counselling services.

To have a viable, relevant, financial advice business do you have to be delivering all these services? Absolutely not. This is one of the main advantages of running a boutique AFSL – you can self-select and specialise, and this is one of the most powerful reasons to be self-licensed.

Focusing on key capabilities of your business and the 'why' you do what you do, delivers greater value to clients, drives competitive advantage to realise your business ambition. Best practice in boutique AFSLs needs to take a more holistic definition that integrates the business ambition, through commercial and client insights, efficient delivery processes, technology and team members.

⁷ HR Policies and Practice, Deb McQuinn

⁸ <https://f3p.com.au/news-articles/recruiting/top-tips-for-attracting-and-retaining-the-talent-of-the-future>

⁹ <https://hbr.org/2010/06/the-coherence-premium>

According to Deloitte,

“ Ultimately leaders should move quickly past a ‘people, process and technology’ definition of capability – to one that represents a more holistic and complete picture. For any capability, it’s a definition that provides focused support for the organization’s strategic choices and touches on six dimensions: mission, insights, integration, processes, technology, and talent.¹⁰ ”

Case Study – Capabilities in Action

Our case study boutique AFSL adopted a client approach of ‘We’d like to talk to you about life first, and wealth second ... we believe it’s our responsibility to ensure its wealth with a purpose, enabling you to live your best life, whatever that life looks like.’ To deliver to this, our boutique AFSL built capabilities around having life conversations with clients to understand what they valued most.

To deliver to their business strategy and mission, this boutique AFSL adopted a new client engagement process and developed their capabilities to deliver ‘wealth map’ conversations.

Wealth map conversations required two hours with every client. At the end of these conversations, there was a clear picture of what each client valued most, with a one-page plan given to the client to guide them on all future financial decisions.

To deliver this, a process needed to be developed encompassing the advice philosophy of the business and the ‘wealth map’ conversation. Now this particular boutique AFSL designed their own process but there are plenty of softwares that deliver similar outcomes.

For the ‘wealth map’ conversation three pillars of advice were focussed on – evidenced based investments, wealth management architectures and risk insurance. The process then enabled a single way of providing advice to all clients by all ARs.

What the business achieved was a robust, documented investment philosophy and process for implementation.

The wealth management solution approach began with cashflow planning, debt management, tax structuring and contingency planning advice.

The risk insurance pillar is an integral and a complementary part of the wealth management solution and as such the specialist concurrent advice is facilitated in house and not outsourced.

Whilst these solutions are not foreign to financial advice businesses, this was a different way of packaging the business’ services to deliver an interactive client experience.

Every client experience, in this particular boutique AFSL, relates to the wealth map conversation. It’s a completely interconnected system that supports the philosophy of advice and investment. Every client conversation is guided by the wealth map. The result, a consistent client engagement process delivered by every employee in the organisation.

This is a great example of best practice capability development.

Action questions

- **Do you have a documented investment philosophy and process?**
- **Do you have a documented advice process?**
- **Do you have appropriate tools to deliver a consistent advice process efficiently to clients?**
- **Do you have the expertise to professionally deliver in house the services your FSG says you have capability to deliver?**

4. Compliance

In the current regulatory climate (post Royal Commission, FASEA CoE, ASIC activity reports 515, 636 etc) there's a heightened focus on compliance obligations and the provision of advice. This has reportedly become a barrier and burden for businesses being able to deliver advice efficiently and affordably to their clients.

There's no doubt that investment needs to be made by financial advice business to meet their compliance obligations. Right now, millions of dollars are being allocated by large institutions as a result of ASIC reports 499 and 515.

What has been highlighted is the past inadequacies of policies, processes and systems to deliver the advice process within the law.

Not only have system flaws been identified but many deficiencies have been found in the advice monitoring and supervision processes too.

You would expect that boutiques AFSLs would be the most challenged by the increase in business costs associated with the compliance of advice. However, from our research, boutique advice businesses are often better at monitoring and supervising their advisers.

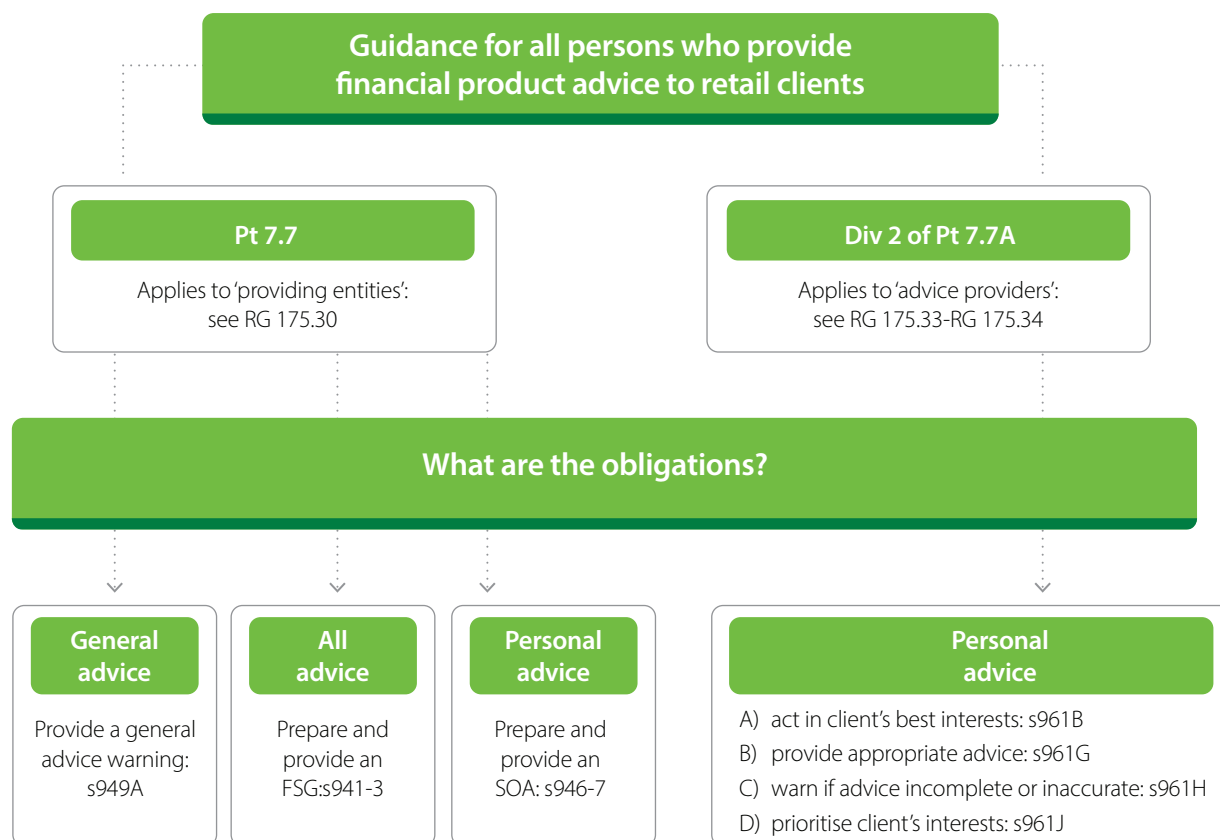
Now, it's a specific type of boutique we are talking about:

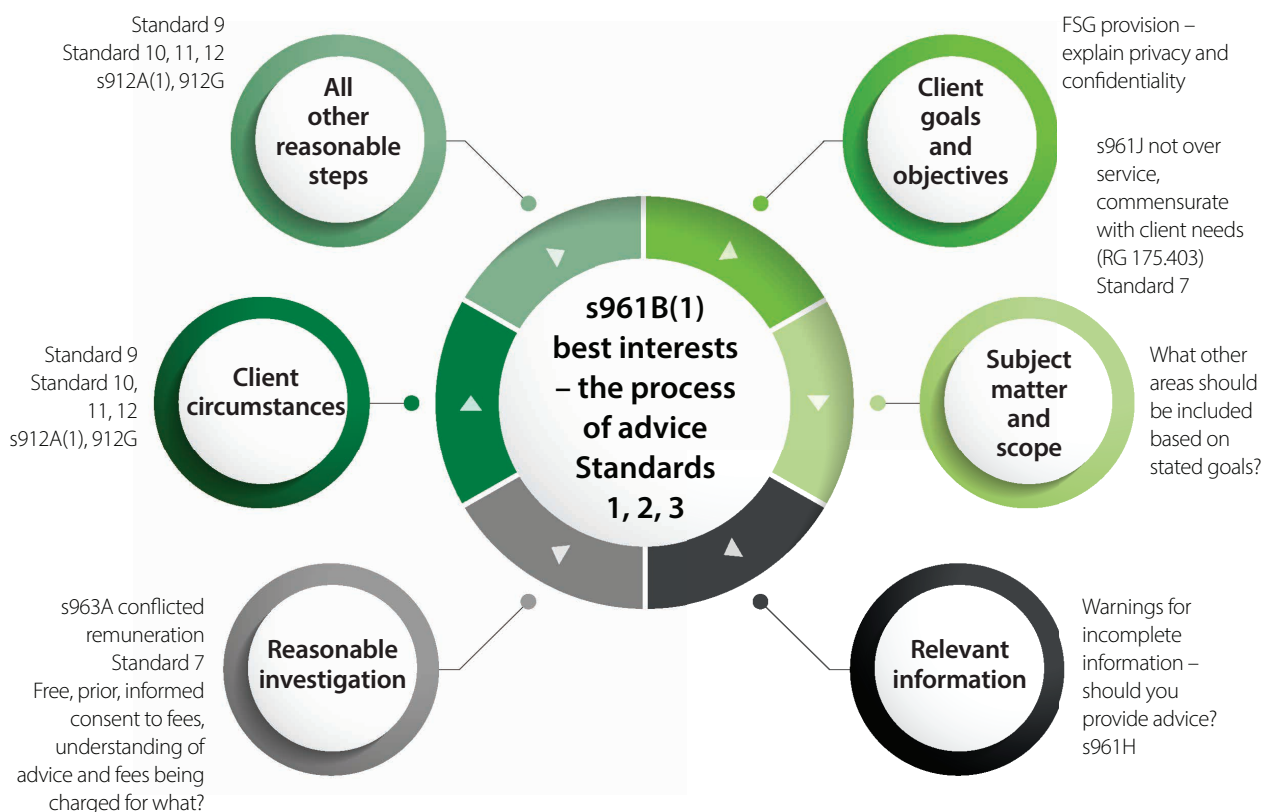
- all advisers operating out of a single office
- peer reviews of advice
- an advice process that is adhered to
- constant dialogue within the business
- a mindset of why things need to be done a certain way.

Compliance is all about understanding the why and following guidance around the delivery of advice. When this is the basis of advice delivery, as it is in many boutiques, then something like the FASEA Code of Ethics can be seamlessly embedded into the current process.

This is because these boutiques live and breathe the process of advice that delivers on the best interest duty for their clients. Looking at this in greater detail, what these boutiques have done is to understand the framework around the law and the associated regulatory guidance provided by ASIC (eg: RG175).

As a method of understanding their requirements they have then overlaid best interests duty and the FASEA CoE into workable and teachable advice flows.





Boutique AFSLs are challenged in exactly the same way large dealer groups are. A self-licensed business with advisers in multiple locations, using different systems and approaches to advice with inadequate monitoring and supervision are most likely to fail in meeting their compliance obligations. Without robust audit frameworks and processes, a boutique AFSL, like any advice business, is challenged and will fall dramatically short in delivering advice in the clients best interest.

Best practice starts with:

- Education on the ‘why’ of compliance
- Education across the contemporary regulatory focus
- A deep understanding of regulatory guide 175¹²
- Regular discussions by the leadership team and across the entire business on advice compliance
- Systems to enhance advice look through
- Peer reviews of advice
- A robust and modern advice audit process
- Investment in specialist compliance solutions providers with input into compliance committee meetings, audits and AFSL policy reviews.

The cost for having a high-quality compliance solutions provider come into your AFSL on a quarterly basis is around \$20,000 per annum. Think of this as a necessary investment to keep your AFSL open for business. It also allows you to keep doing what you need to be doing to generate income – running your business efficiently and seeing clients. Instead of spending 80-100 hours of your time a quarter trying to meet your compliance requirements.

Case Study – Compliance in Action

Here we’ve taken an amalgam of boutiques AFSLs who had a similar approach to their compliance requirements. The starting point for all was a mindset of ‘do the right thing and know why’.

To do this ASIC regulatory guides and the Corporations Law are given life in the business by running regular education sessions using a third-party compliance specialist.

- Next the businesses built quality checks into the process of advice through peer reviews as the advice piece is being developed.
- A pre-emptive review of the advice is also conducted before the advice is delivered to the client. As part of the education process a discussion around what isn’t great advice is regularly held. This can be discussing SoAs provided by new clients from their previous adviser OR from ASIC case studies.
- Then finally as client needs change education and training on key advice areas is formalised to ensure that the advisers are keeping up with regulation and strategy.

Action questions

- **Do you have adequate monitoring and supervision of the advice delivered by your AFSL and advisers?**
- **Do you invest in third party compliance oversight?**
- **Do you have appropriate systems in place (this can be technology, or as simple as third-party and peer reviews of advice)?**
- **Does your advice process demonstrate an understanding and adherence to the law, regulatory guidelines and the FASEA Code of Ethics?**

5. Client Engagement

The fifth 'C' of client engagement, when it comes to best practice, is judged by you and your clients. That's not to say that there's not something to learn, enhance, adapt or adopt in your business. What works best for you and your clients depends on your approach, offer and clientele.

For example, using a digital tool like MyProsperity¹³ may appeal as a dynamic client portal. However, it's not appropriate if your client demographic cannot engage with it; or does not align with key business objects or your advice service model.

When delivering best practice client engagement, there are two key elements to consider – learning styles and technology.

Learning styles

There are many learning styles but when it comes to grasping and making sense of concepts and information, visual and auditory learning styles are the most common. The largest group are visual learners making up 65%¹⁴ of the population.

Visual learners are predisposed to images, colours, graphs (that make sense) and pictures. For this group, power point slides, white boards, infographics, posters and other visual aids are effective in delivering content that's consumed, understood and can be recalled.

Auditory learners (30% of the population)¹⁵ respond to the rhythm of the spoken word. They learn best when there's tonal change and emphasis in a presentation. Tools like audio books and podcasts work well for their understanding and retention. They need to hear your presentation rather than seeing it on paper. And while they may not take many notes, you can check their understanding by discussing concepts and getting them to give you their take on it.

So that's 95% of the population who are visual and auditory learners, therefore it's important for you to consider how you deliver your advice.

The standard (and required) way of advice delivery is via a Statement of Advice (SoA) - a paper-based, lengthy, legal document full of compliance overlays. Often templated, software generated, SOAs are typically light on the visual appeal of icons, symbols and graphics that engage clients and do nothing for the 65% of the client-base that are likely to be visual learners.

Advice delivery certainly has not kept up with the way consumers attain and retain information.

Technology

In a significant piece of work, the Financial Planning Association has embarked on revolutionising the delivery of the SoA. The Future of the SOA interactive guide was launched at the FPA Congress in 2019¹⁶ (<https://fpa.com.au/the-future-of-the-soa/>). The FPA has been advocating (to ASIC) on behalf of its members, to use digital technology coming available in the efficient production of SOAs. This will enable SoAs to be a more effective communication tool, using icons, symbols, graphics, expandable and linked text, audio and video to better engage and inform clients.

So, when it comes to best practice engagement with existing and new clients, and enhancing their understanding to achieve informed consent, what are the strategies, techniques and tools that can be used?

These can be split up into the different stages of advice interaction:

- data gathering and discovery
- strategy discussions
- SoA presentation and review.
- data gathering (initial and review)
- activating a client portal – equipped with data vault
- digitising your paper-based forms
- using mobile technology (perhaps through your website) for delivery and confirmation
- using a digital tool for data gathering and peer benchmarking comparisons as well as visual goal setting
- strategy discussions
- using gamification on goal setting and scoping using trade-off modelling
- pinning goals to cashflow using a visual tool.

¹³ <https://www.myprosperity.com.au/>

¹⁴ <https://www.cornerstone.edu/blogs/lifelong-learning-matters/post/your-guide-to-understanding-and-adapting-to-different-learning-styles>

¹⁵ <https://www.cornerstone.edu/blogs/lifelong-learning-matters/post/your-guide-to-understanding-and-adapting-to-different-learning-styles>

¹⁶ <https://fpa.com.au/the-future-of-the-soa/>

- SoA presentation
- Highly visual SoAs
- Video delivery
- Podcast delivery
- Digital chapters
- Digital SoA production and execution
- Using a client portal for engagement and delivery of the SoA

Conclusion

Our research has delivered a vote of confidence in the value of boutique advice businesses. We've experienced how boutique AFSLs have excelled in best practice using innovative business, client and technology solutions – all of which are replicable and affordable.

In 2020, boutique AFSLs like all advice businesses are facing the headwinds of FASEA. Whether that's implementing the Code of Ethics or meeting mandatory education requirements, or both. Alongside this, there's a warranted focus on ASIC activity, guidance and reports, which has demanded an increase in compliance resourcing. Whether a large dealer group or a small boutique AFSL costs are significant and resources are stretched.

And just as those headwinds were being met, COVID-19 has impacted life as we know it with isolation and mass jobs losses. Volatile markets worldwide and anxious clients have put even more pressure on workloads already stretched in implementing regulatory requirements. Advice delivery challenges run the risk of taking an industry already in the midst of dramatic change to the edges of survival.

It's at these times the 5Cs of best practice – Commitment, Culture, Capabilities, Client Engagement and Compliance matter more than ever. During this time of unprecedented market volatility, boutique AFSLs with clear business objectives, solid client engagement processes and the team to support this will thrive and survive.

At IOOF Alliances a third of our members are working on efficiency programs and a third are ramping up their compliance resources, as they position for growth through acquisition, increasing adviser numbers and deeper client engagement.

Importantly, the message to these businesses and to all boutique business reading this paper, is exactly what we stated at the outset. Large or small, the key elements of running a boutique AFSL at best practice levels, are not the system technology or advice strategies deployed. The tools, systems and processes around the advice proposition are certainly worth exploring, but the start of best practice is thinking about your business and its' purpose.

IOOF Alliances supports and understands the complexities of self-licensed financial advisers. With our IOOF Alliances Essentials service package you'll get everything you need to run your business model and provide quality advice tailored to your client needs. Our support services help you with everything from applying for your AFSL and responsible manager training to growing your business while operating compliantly and efficiently.

Please go to our website for more details on what we offer

www.ioof.com.au/ioof-alliances

Speak to us on 1800 205 951

Or email ioofalliances@ioof.com.au

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