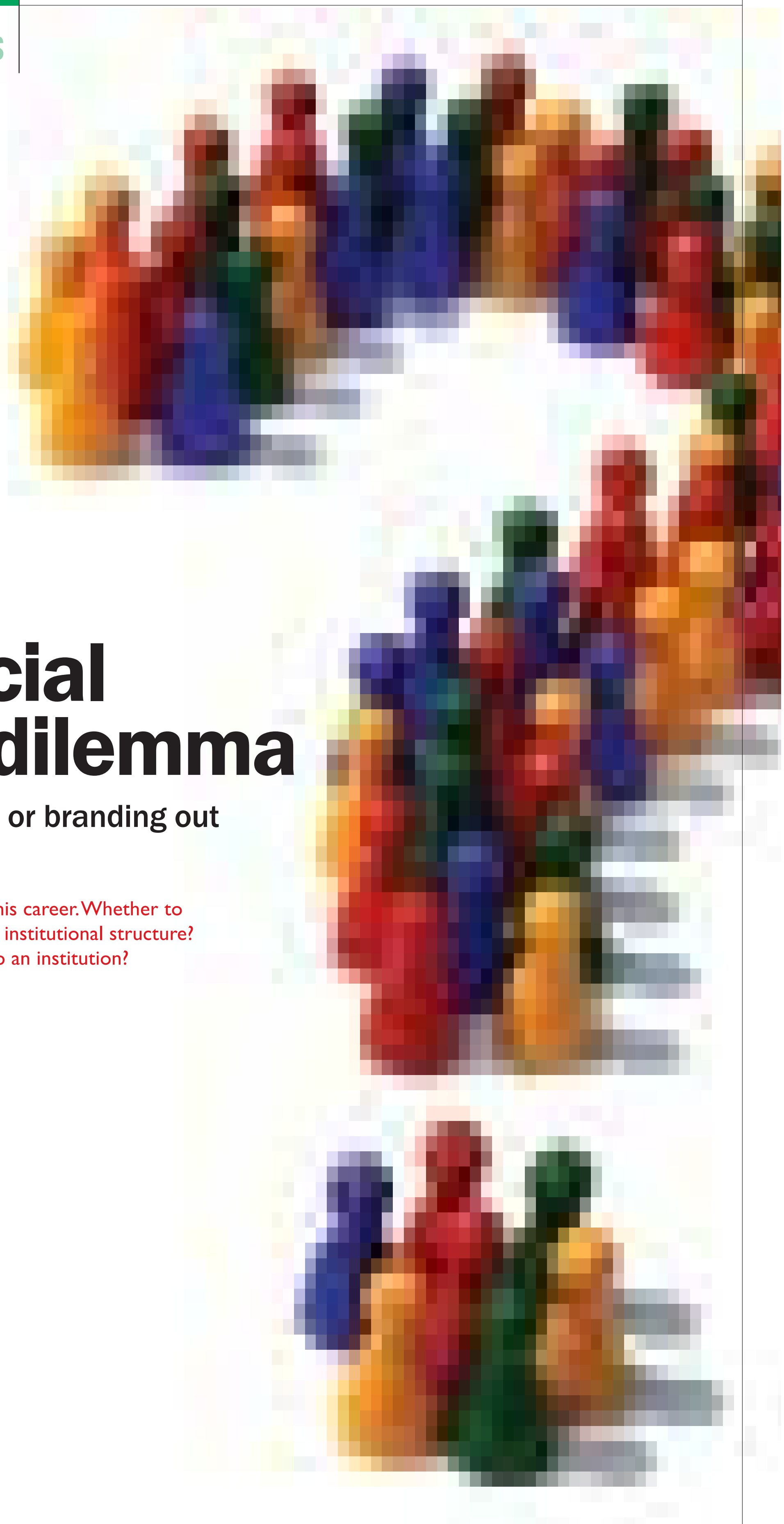
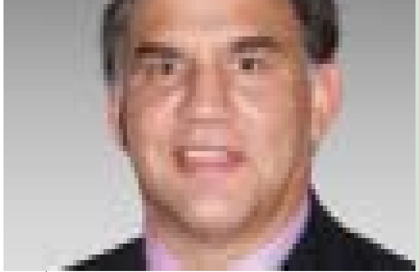


The Financial Planners' dilemma

Branding in with the crowd or branding out from the crowd?

A Financial Planner has to make choices in his career. Whether to venture independently or practice under an institutional structure? Whether to remain independent or build up an institution?



Sean Kelleher
Chairman, Financial Partners International

FPSB India posed a question on the "*challenges in building a Financial Planning practice at an institutional level*". I *will* respond- but be aware: you will be the victim of my perspective and background. That perspective can be characterised as an outsider looking in. When I originally looked into investing in Financial Planning business in India I saw an industry benchmarked to its history; an insular financial services industry in which my non-Indian education and experience would be of no value. India Inc's nascent Financial Planning window seemed to hold little opportunity to outsiders. Today that view has changed. It's an exciting view. FPSB India's position paper on SEBI consultations and the regulation of financial advisers is evidence that India's future Financial Planning standards are global and best practice orientated. In India, external experience has some value, and in India external viewers can benefit from the best of India's past, present and future.

Now it's worth dissecting the question. Scalpel please. Now cut along the word "institutional'' and ask whether the question is about the Financial Planning practice becoming institutional, or the target market being institutional, or both? This response is an outsider's shot-gun approach to attacking the question from both sides in expectation that some shrapnel will hit the target.

Rembrandt Self-Portrait, 86 x 70.5 cm; painted by Rembrandt, 1669.

Building an Institutional Practice

So what are the challenges facing the building of an institutional Financial Planning practice? This depends significantly on the type of practice you are trying to build. For clarity I will break practice-types into four blocks: individual practitioners; brands that build Financial Planning practices (the direct sales force); Financial Planning practices that build brands; and networks. The blocks are extremes of style and many shades of each type are common.

The Individual Financial Adviser- the Sole Practitioner

The individual practitioner's dilemma is the classic "professional" dilemma. Take my physio-friend; I have finally persuaded her that the size of her balance sheet is directly related to the number of doors into her clinic. Our case study physio has reached the maximum number of people she can treat in a day. Whilst the financial adviser can always concentrate on increasing the average net worth of clients as a means of improving income, our physio's costs per hour is more range-bound. The physio needs to make a decision: can I Rembrandt myself or, am I content with what I offer as a professional?

The painter Rembrandt solved the problem by recognising that he could produce more work and earn more money if he employed other good artists and trained and developed them into his style. The result was that Rembrandt's role changed from working *in* his business of painting, to working *on* his business of how to produce more paintings of a specific quality. It was a dilemma. Rembrandt's team was not as good and as passionate as The Master himself. The connoisseurs would notice but the mass market wouldn't. Translated into physio-speak, my case study needs to work out whether she can increase the number of doors and physio's inside her clinic, or, concentrate on the quality of her individual delivery.

Rembrandt and my Physio help define the individual financial adviser's dilemma. If this dilemma is not obvious in India today it will become increasingly obvious as the Financial Planning industry morphs into a profession. The good guys will need to be clear in their mind whether they are working as professional practitioners or professional managers. They have to decide on what scale they wish their business to be. Are they individuals *targeting* HNW and institutional business, or, are they *building* an institutional business?

This means the issue of scale is critical; after all, doesn't the word institutional imply scale? Whatever the scale, building a professional practice will involve challenges which, for clarity, can be broken down into three headings. Heading one relates to **"industry best-practice"** with the sub-headings: professionalism and benchmarking. Heading two relates to **"the target market of the practice"** under the sub-headings: knowledge and information. Whilst heading three relates to **"the value of the business"** under the sub-headings: continuity, equity and financial strength.

Heading one, ''industry best-practice" takes us into professionalism and industry benchmarks- who lays these down? In this regard the evolution of the FPSB India and the associated exams is absolutely critical. Problem solved. The downside is that, in theory, there should be no big unique selling point differences between one financial adviser and another. If, like doctors and lawyers, they are all professionals, then, like doctors and lawyers, whilst a second opinion might usually be prudent –it is rarely taken. Standing out from the crowd is therefore a huge challenge for the individual practitioner. The really good one's will be deemed by their clients as "Masters" and earn the referrals that this accolade brings. However, being an average professional will bring average results. A good thing or a bad thing? It depends on your point of view.

Heading two, "the target market of the practice" revolves around knowledge and information as they are the critical determinants of the size of an advisers target market. After all, an adviser who can't explain what a hedge fund is, or cover the impact of Markowitz and his Efficient Frontier is hardly likely to sell to a Professor of Financial Economics or attract an institution whose Investment Committee are committed to Modern Portfolio Thinking. Sales skills may be equally critical in closing sales, but an adviser's knowledge and access to information determines who is prepared to listen to him (her).

Knowledge and information are different things. FPSB India might become the library for knowledge and set out academic benchmarks, but staying on top of information is critical to investment performance. There are two extremes of adviser in respect of information flow. At one end you have the post-box policy salesmen. They simply pass on fact sheets and statements from product providers. At the other end you have financial advisers who seek to add value through useful information.

The "value-adding" adviser will be aware of the so-called "information gap" as a factor in separating "efficient" markets or assets from "inefficient" markets or assets in a bid to use information and research as a tool to outperform benchmarks. Whether the value-adding adviser is using third parties for interpreting information flow, or not, is irrelevant. It is important that they ***understand*** the role that information now plays in differentiating asset prices. They need to be skilled at communicating this information flow to their clients. Confused students might wish to refer to Eugene Fama's work on the EMH (Efficient Market Hypothesis). Put another way, which advisers in India today are keeping an eye on (or use third parties to keep an eye on) opportunities opening up in Africa, with Brazilian bonds and equities or are expecting the return of US mega-cap stock after seven years in the doldrums? The days when this didn't matter are dwindling.

This means individual advisers have a massive challenge — managing information, in staying up to date, and *sounding* informed. Financial Planning and wealth management is not an industry that lends itself to being out-of-date. As India's approach to investment liberalisation continues to unfold, the burden of this challenge will become increasingly obvious. At an institutional investor level where the need to diversify is more obvious, the expectation for advisers to manage information-flow will also be obvious.

INDIVIDUAL ADVISERS have a massive challenge — managing information, in staying up to date, and *sounding* informed.

The final heading can be associated with the "the value of the business" covered under the sub-headings: continuity, equity and financial strength. The problem for the individual practitioner is that he is not seen as a "going concern" from a business perspective. In a recent meeting with a well-established sole-practitioner in Mumbai the conversation turned to how the business would run if he died or retired. I took away an unconvincing picture of a financial advisory business managed by a young girl (his daughter) who would have preferred to have been a fashion-designer.

Continuity is an issue for HNW clients and institutional investors. Indeed, the aspirations of HNW and ultra-high net worth investors are fairly well laid out in the annual Merrill Lynch-Cap Gemini World Wealth Report. This industry-leading study has been bludgeoning its readership into acknowledging that the HNW's are looking for the "trusted adviser". This is a personality, either individual or corporate, who can provide full holistic balance sheet management, in-depth analysis on the full range of products and assets in order to provide an aggregated overview, and a range of skills covering the complete spectrum of advice: legal, accountancy, as well as the myriad forms of financial skills. All of this needs to be delivered on an on-going basis.

The HNW has developed an appetite for service and continuity which one person, the individual practitioner, can hardly provide. This creates two significant considerations. First the good news: that Financial Planning and wealth management industry is in demand from a group of people that can afford to pay for it. As the Indian population machine churns out more than its fair share of HNW's, isn't it reasonable to expect this global trend will become an Indian trend? In many international environments this trend is forcing a clearer distinction between B2C and B2B channels. B2C (business to client) is characterised by individual "trusted adviser" types being paid fees (rather than commissions) for delivery of advice and analysis. Delivery down this channel requires thorough professionalism.

The B2B (business to business) channel is aimed at the emerging affluent or retail segment. This segment is less willing to pay fees for advice. They are looking for product and will be sensitive to price. This leads to the bad news. The individual practitioner with his (her) newly qualified CFP^{CM} Certification has a distinct problem: he (she) must either break immediately into the ranks of the "trusted adviser" and find HNW's and institutions with sufficient funds under management and fee-paying appetite to get the "rice on the table", or, face the fact that business realities will force the professional into the hard grind of fighting policy salesmen down the B2B channel and dealing with clients unable to distinguish the professional from the policy salesman.

It's a scenario that implies that building a valuable Financial Planning business with only one set of professional hands will be difficult. Yes, the reward will be 100% ownership of the equity in the business and a 100% claim on the financial strength of the business. However, when you start adding-up the burden of responsibility implied within our three headings and seven sub-headings readers will not be surprised at the number of individual practitioners who will accept that 50% of the equity is likely to provide a higher absolute return than 100%. A 25% equity position with an even higher absolute return- and so on. Rembrandt wasn't just a great painter.

Brands That Build Financial Planning Practices:- The Direct Sales Force

Direct sales forces have been a significant part of the Financial Planning territory in India for some time. They are a blended tapestry, from fresher's seeking career start-ups and professional sales staff to a random part-time quota. They are the offspring of the need for the big financial services brands: the banks, life insurance companies as well as fund managers to hit high volume targets. They are conspicuous in the B2B channel. If the B2C channel is all about delivering quality advice in order to attract large funds from a limited number of HNW investors, the B2B channel is all about delivering margin through high volume sales.

The DSF (Direct Sales Force) is therefore an example of successful institutionalism in Financial Planning.

*The Night Watch; painted by Rembrandt in 1642. Due to the colossal size of this painting (*363 × 437 cm) *it may be theorised that it was completed with the assistance of Rembrandt's well trained pupils*.

CFP[CM] Certificants may scoff at the level of competence of the average retail-end salesman but the fact is that this channel is delivering high volumes through trusted household names. In addition, the big brands can argue that their multi-channel distribution ability has significantly boosted the awareness of Financial Planning and wealth management in many countries. That their training courses and product ranges have provided the foundation stones for the recruitment of "fresher's" into the industry. That they have been first movers with most of the high-risk product innovation that has helped the industry to evolve.

THE BIG BRANDS can argue that their multi-channel distribution ability has significantly boosted the awareness of Financial Planning and wealth management in many countries.

In addition, a lot of the Private Banking Divisions are HNW imitations of the DSF B2B models. OK, their staff is more knowledgeable than those at the retail end but ultimately, in Dubai, Coutts and Co. now call their Private Bankers "financial advisers", and BNP refer to their Private Bankers as "trusted advisers". One way or another, they are delivering Financial Planning and wealth management solutions under the cover of a big brand. If they are not doing it yet, the big brands will be operating at the B2B and B2C levels in India as well.

For an individual adviser working for the big brand, this means that the challenges outlined above under the headings knowledge and information, and, under continuity, equity and financial strength, are all less important or redundant. The financial brand takes the responsibility; the adviser can sleep at night wearing Birla, ICICI, SBI, HDFC, or some other set of pajamas, in the knowledge that the scale of the business has these issues covered.

However, this doesn't fit as well under the headings of professionalism and industry benchmarks. Especially where the headings are personal. The DSF, especially at the retail end, features a lot of personnel carrying business cards implying some form of Financial Planning skill. In reality, they carry the reputation of the big brand. CFP^{CM} Certificants may look with disdain at this end of the "professional ladder''. An end where doctors and lawyers- (professionals who do not accept amateurs)- have no obvious comparison.

You have to wonder if Rembrandt would have shown such disdain. If the first photo-copier had been available to Rembrandt, would he have moved away from training and developing a professional cadre of painters? Would his quest for increased volume have taken him towards mass-production? Would the ability to copy at the press of a button have led him into studying cost of sales and overhead statistics?

The quandary for the brand which sells itself by way of the Financial Planning practice is precisely one of quality control. Whilst at the Private Bank end there may be some element of "independence'', the *raison d'être* for building B2B and B2C channels lies primarily in distributing the brand, and only secondarily, in distributing the practice of Financial Planning and wealth management. The big brands model themselves closer to the Xerox photo-copying model than the Rembrandt "Master" theory.

Financial Planning Practices That Build Brands

Brand success is all about building trust. The ICICI's of this world have such a strong brand that they sell from the top down. The point-of-sale representative has less pressure on them being a "Master". Buyers trust the brand. For a Financial Planning practice to build a Financial Planning brand, it is imperative to tackle the issues that create brand-trust.

The big difficulty is that building from the practice of Financial Planning upwards is hard. Real hard. This relies on a huge investment into quality people at every level and especially at EVERY point-of-sale. Getting the same from a McDonald's or a Starbucks is a lot easier than getting the same from a human being at every first meeting. Xerox produce consistency at a more impressive rate than Rembrandt could imagine. Managing people is hard, managing Master's is as tough as it gets.

It's not as if the template for success is difficult. Is it not the same job spec that serves the individual practitioner and direct sales force? That takes us back to our headings. Yet, this time we know that *the challenge is all about execution at the highest quality with every performance, with a similar efficiency as a photo-copier.*

So heading one, ''industry best-practice'' becomes absolutely vital in building the Masterclass Financial Planning practice. It's not about the numbers. The body-count is irrelevant. It's the quality. Professionalism spelt out big. The successful Masterclass brand will recruit ONLY professionals for point-of-sale meetings. Fresher's need to be "buddied" into the business in a manner that ensures that, when they are "at point", they are able to stand and deliver the brand under every circumstance.

Professionalism has few variables in definition. Within the HNW and institutional definition they would expect to see: internal and external benchmarks set for knowledge-testing; they would expect advisers to be fully conversant with KYC (Know Your Client) procedures and to be fully conversant with every aspect of holistic balance sheet management.

If you are writing your "to do" list as we go, under "professionalism" you will need: internal training modules, external professional benchmarks, remuneration patterns that are aligned to qualifications, and a rigid internal compliance to ensure company standards are maintained. In addition, a well thought-out "fact find" that acts as a permanent record of the first meeting. That record should include a full view of the current financial position, future needs, the client's attitude to risk and investor experience level.

Under heading two, "the target market of the practice", the Masterclass practice would certainly be targeting the HNW and institutional end. By definition, our Masterclass is the top end of the industry anyway.

In India, there is a real case for targeting the Masterclass at the entrepreneurial and "medium tier wealth" segments on the basis that "old money" is generally difficult to move, plus, the fastest growing areas of HNW wealth is coming from the "medium tier" upwardly mobile set.

The practice would therefore need to

> What about the challenges facing practices that are built-up on a platform of primarily providing Financial Planning and wealth management, and only secondarily providing financial services solutions from the big brands? Here I see the greatest opportunity in India. The opportunity exists for a group of professionals to set themselves up as "Masters" in the art of Financial Planning. They must show that their business, their brand, is about delivering Masterpieces on a regular basis to every buyer. Their vision and mission must revolve around putting the profession first. Their benchmarks for execution and performance need to be higher than the industry generally. They need to demonstrate quality control, and they need to demonstrate that they can train and develop staff.

demonstrate standards in respect of knowledge and information to a very high level, as a support strut to every asset class and a comprehensive range of products and services. If the investor wants Argentinean debt, the Masterclass practice must be able to get it.

Back to the "to do list". I suggest that you include: an online (24/7) account aggregation system that allows investors to see the price of any or all assets at one time; access to every asset class; a comprehensive set of products covering the entire range of attitudes to risk. In addition, systematic communications channel to ensure that clients are serviced on an on-going basis.

The return for all this effort is a valuable business. The value of a professional Financial Planning brand would be colossal. "The value of the business" headings included: continuity, equity and financial strength. A practice has the continuity that an individual can't offer. A big practice can claim to be even more valuable than the big medical clinics and legal practices because of the embedded value supplied by a client base producing income from the funds under management, renewal commissions, returns on proprietary assets and from a range of fees.

The India of today throws up few examples of companies looking at the Financial Planning profession becoming a launching pad for a valuable business. As India Inc's assets grow, as its population blooms and as that population becomes wealthier this is a statement that is surely bound to change.

Networks

Between the Product Providers using Financial Planning to sell their product, and the Financial Planning individuals and practices that sell the profession first-the shades in-between are colossal. Network arrangements are likely to evolve that serve as a hybrid solution in terms of providing scale at one end, and allowing the original owners to remain in control of their business at the other end.

Franchise programmes and networks are likely to emerge as a means of allowing Financial Planning practices to aggregate. The principal benefits, as implied, are scale and retained ownership.

The five man Financial Planning band will struggle to provide the range of tools and services we have described above. Within a network or a franchise they simply pay a fee or an element of turnover to the service provider and essentially "rent out" the ability to aggregate assets; train staff; improve margins on goods and services, and so on. Network arrangements usually do not involve any reputational risk on the part of the service provider. That risk remains with the original business owners.

However, building a bigger Financial Planning practice by way of the franchise route is likely to entail a strict code of conduct for the franchisor to adhere to. The franchisee would not take the reputational risk unless they can control the management.

Conclusion

Returning to the beginning- I warned you that you would be a victim of my perspective. That is one with a heavy skew towards the best "institutional" opportunities in India being available to firms of Financial Planners building up assets under management as evidence of embedded value. The key feature of such firms would be a highly professional delivery of a range of financial advice; delivery of the all-embracing "trusted adviser". These are the firms that will be seen as most attractive to both the moneyed classes and the institutional set. Product and advice within the same wrapper.

In the short term, the major financial services brands will look like the competition. As long as that appears to be the case, that's great news for those aspiring to build a more independent all-embracing Financial Planning brand. Looking at the Indian population numbers, do you really think it can't be done?