

## **The Financial Planning Industry at the Cross Roads – by Hugh Massie, October 2002**

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The financial planning industry around the world is at various stages of development and is practised in many different ways, primarily with a process that is highly linear and product driven. What is the identity of a financial planner?

Industry bodies are increasingly attempting to raise the profile of financial planning, and this is being helped by much-needed regulatory changes. However, there is still no clear and consistently used definition of financial planning and the role a financial planner is expected to play. In consumers' minds, the term 'financial planner' may mean anything from an accountant or lawyer who provides financial advice, to a commission-driven sales person selling fund management products.

In addition, the recent upheaval in investment markets has contributed to the acceleration of the financial planning industry moving to the crossroads. Financial planners now have demands on them to make important decisions about how they want to be measured and remembered by their clients.

One clear trend that has emerged in market surveys in the past few years is that the key differentiator in the financial planning industry will be client service. There are already a great many technologies and investment products whose long-term value proposition is marginalised due to the deficiency of client focus in the traditional financial planning approach.

Who is the advisor that has an intimate relationship with the client and has a holistic knowledge of the client's financial and life affairs? There is no doubt that the requirement for financial planning has increased in times of greater product range and complexity, greater regulatory complexity in tax and legal matters, people living longer in retirement, a greater emphasis on quality of life and very turbulent financial markets. However, now more than ever, clients are able to bypass the financial planning process, seeking advice and managing investment portfolios independently. In the long run, however, their lack of expertise may cost them far more than the financial planning fees they are avoiding, as recent economic turbulence has illustrated.

An increasing number of clients now require a trusted advisor who is independent of investment products and is able to deliver all areas of financial service. The advisor does not need to be the expert in every area, but able to identify client needs and bring in specialists when necessary.

Importantly, clients are now also requiring to be understood by their advisors. Those advisors who are more personally evolved in financial planning (that is, those who see themselves as being more than investment advisors) want to understand their client to a greater level. However, many advisors do not have the tools, expertise or the confidence to do this. The advisors are concerned about what 'life planning' actually entails and whether it is stretching the boundaries to psychology or therapy. The reality is that any relationship involves an element of psychology or human behavioural skills for both parties. The more knowledge that a person has of the "people dynamics" in the relationship, the more opportunity there is to unlock potential, establishing a better platform for the implementation of aligned and committed wealth creation strategies. The most crucial part of delivering client service is for the advisor to understand the client at their core, and vice versa.

The successful accumulation, development and maintenance of client relationships will require financial advisors to be able to 'link' life and financial issues, to be able to use their "right brain" more through a well tuned appreciation of emotional intelligence, to understand clients' inherent financial tendencies, and to manage client expectations in what is likely to be a turbulent investment environment in the next decade.

Advisory firms can approach this through training their team and/or bringing in outside specialists as resource partners. Some firms already have psychologists on their team to unlock the 'inner workings' of clients' financial minds. However, both of these approaches have significant barriers to entry, and many firms are finding that sophisticated financial behaviour profiling tools are a more systemized, less threatening and easy to implement solution.

Another area that is impacting the role of a financial advisor is their method of remuneration. Can there be a true advisory relationship in its purest sense when the advisor is receiving a commission for selling house-branded products?

The financial planning industry will not develop until the relevant industry bodies make clear and consistent statements to the community as to the role and purpose of a financial advisor. This may even result in some players being excluded.

Clearly, the financial planning industry is heading towards being a "profession" that needs to be on par with the more established professions of accounting and law. If the industry gets it right, and now is the time to do it, it could well achieve this level of recognition if not more.

These are the issues that were considered by international advisory firm Coddington in the development in 2001 of Financial DNA™, a systemised process aimed at gaining insight into clients' 'financial wiring'. A systemised turn-key financial life planning solution, Financial DNA™ enables financial advisors to revolutionise their client relationships by assisting clients to realise their inherent wealth creation potential, and mitigating professional risk through enhanced management of expectations.

The worth of financial planners in the coming decades will be determined by their abilities to exceed clients' expectations. However, a framework that is broader than just investment advice needs to be created to measure success. Foundationally, financial planning involves the management of a client, not a portfolio. Financial planners' ability to understand and address the client's life issues will be critical to providing a fully integrated solution, and to producing long-term relationships with satisfied, profitable clients.

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#### **About the Author:**

Hugh Massie is the President of Financial DNA Resources. In his work as a Wealth Mentor, Hugh specializes in human behavioral discovery using the proprietary Financial DNA® Discovery Process to liberate and empower people, families and organizations internationally to implement committed wealth creation decisions aligned to the core of who they are. Hugh is the author of a book "Financial DNA® – Discover Your Unique Financial Personality for a Quality Life".