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New Fee Disclosure Rules and the Value of Advice

Financial advisers can always look at the new regulatory guide on fee disclosure as a compliance matter, but **LEYLA BANAEI** provides seven practical tips on how it could mean so much more.



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The financial planning industry has welcomed the regulatory guidance on fee disclosure. As usual, however, it's the adviser who is left with the challenge of how exactly to implement this new requirement with minimum impact to their business including their client's experience.

The regulatory guide (RG 245) explains the Fee Disclosure Statement (FDS) obligations and when they apply, who must give an FDS, the circumstances giving rise to the obligation to give an FDS, and the information that must be disclosed in the FDS. In line with the regulatory guide, the adviser must provide the client with an annual fee (FDS), setting out information about fees paid by the client, services provided and the services the client was entitled to receive.

The intent of the FDS is to ensure that all advisers engage clients in a transparent and professional manner when entering into service arrangements that are characterised by ongoing fees. The guidance is very clear but it is primarily concerned with administration and does not tell the adviser how to

deal with the client's reactions to the FDS or their questions about the value of the service provided.

From a client's point of view, the obligation is designed to provide them with an opportunity to assess whether they are getting value for money for the advice they receive. Therefore advisers need to be confident and clear about the service arrangement with their clients and be prepared to answer any questions about the fees charged. And this is where the apprehension lies for some advisers. How does the adviser confidently use the FDS to their advantage and use this opportunity to communicate their value story to clients?

1. Know what you're offering

Research by BRW magazine shows that the most successful businesses are those that have a clearly defined client target market and design their services around the needs of those clients, by giving them a holistic, end-to-end experience.

By designing your services in such a way that not only satisfies the clients' needs, but

makes them feel that they are being looked after above and beyond their expectations you can then be confident about your FDS conversation. Defining your services is all about mapping, improving and delivering valuable experiences to your client in their financial advice journey with you (the important word to focus on being 'client experience'), whether it is wealth creation or wealth protection, retirement planning or just ensuring that their finances are in order.

Be clear on the services you provide and why you provide these to each client segment and most importantly what experience these services are producing for your target clients.

2. Design your FDS with the client in mind

The Corporations Act does not prescribe the level of detail required in an FDS including how services and fees should be described and presented in the statement. You will need to determine the level of detail needed for your clients to communicate the required information clearly and effectively. However, there is no need to overcomplicate things. If you examine the guidelines closely and observe it purely through the lens of your clients, you will find that it is quite simple. The overall intention comes down to protecting the client but, most importantly, creating a positive, reliable and trustworthy experience for the client in the financial planning process. Minimise the negative impact on your client by designing the FDS that is easy to read and understand. Keep it simple.

3. Define entitlements vs services delivered

To ensure that the client is not misled, the guidelines outline that the adviser will need to clearly distinguish between the services actually provided and the services that the client was entitled to receive.

When designing your FDS you will need to decide how to describe the services you have actually provided to the client under your ongoing fee arrangement. For example, the client may have been entitled to attending two client information seminars over the past 12 months however the client may have been overseas and missed out on the events. So even though they were entitled to the complimentary seminars as part of their package they did not receive this service due to travel circumstances. Ensure that you clearly note such examples on your FDS and discuss them with the client.

4. Use this opportunity to express your value

The Corporations Act does not prohibit the inclusion of additional information in the FDS. The Act only stipulates that you must ensure that any additional information is presented separately so that there is no confusion on services that were actually provided during the course of the 12 months to the client. For example, any information included about future services (additional information) should be clearly separate from information about services provided or services that the client was entitled to receive over the 12 months covered by the FDS (prescribed information).

This is your opportunity to educate the client about the value of your advice and the services you can provide to support them. Ensure the client understands what services they have been receiving and if this is not sufficient what services the adviser could add to assist them further. As another example you can discuss potential future services with the client by having this information included as a separate section of the FDS. You can also educate the client about any new initiatives you are undertaking within the business and how this adds more value to their services provided.

5. Make it personal

When it comes to presenting the fees you need to be very clear on what the client is paying you to help them achieve their outcomes, both financially and personally. The easiest and most effective way to do this is to always relate the fees directly to the outcomes achieved in relation to the client's personal goals and objectives.

After all, the reason clients pay you fees is to get advice and guidance to help them achieve their personal and financial outcomes. Are you clear on your client's reasons for seeking advice? Are you familiar and have a deep understanding of your client's goals and know what outcomes they are aiming to achieve in the short, medium and long term? What we are talking about here is not portfolio returns or investment advice or tax minimisation. These are the motivations and drivers of the client that form the foundation of your advice.

By linking the fees paid, directly to the outcomes achieved for the client's personal goals and objectives you are able to maintain a high level of emotional engagement from the client during the presentation of the FDS and help the client to make a connection between the fees paid and the personal value received by them.

6. Get the timing right

Have a strategy for when you will provide the FDS to the client. The FDS can be posted, emailed or hand delivered to the client. The FDS does not need to align with a client's regular annual review but it is advisable that you present this statement in person especially when the client is receiving this document for the first time. So you may choose to change the time of your review meetings with your client to be at the same time as and when an FDS is due so that you can talk your clients through what it is, in person.

7. Make it about relationship and service, not regulation and compliance

Before sitting in front of the client and presenting the FDS think through your positioning and your presentation. How are you going to position yourself and your services to assist the client's understanding of the value they have received over the last 12 months? What is it that you want the client to experience during your presentation of the FDS?

Clarity, transparency and trust are some of the outcomes that come to mind. Be clear and transparent in your communication and explain 'what' the statement covers i.e. services received, services entitled to over last 12 months, total fees payable, out of pocket, asset based fees any other fees. Explain clearly 'how' the statement can be used by the client to their advantage e.g. ensuring that they are being serviced appropriately and understand what they are paying for.

In your presentation ensure that you cover the most basic yet important question, and always from the clients point of view. Let the client know 'why' they are being provided with the FDS when previously they have not. Will you position it such that the client understands you have a compliance obligation to fulfil or that you care about the client and your relationship with them? And you would like to ensure they are across services they are receiving? You can position the FDS to help the client understand your intention for creating a positive collaborative relationship where you and the client work as a team to ensure they achieve their personal and financial goals. **FS**

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