Exploring the Challenges Facing Financial Planners in an Evolving Market

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Special Report

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Australian Financial Planners Face Headwinds

This report collates material from many sources in its research. We will focus on simple strategies that advisors can use to meet current challenges and provide a sustainable advisory business.

The unfortunate effect of the higher educational standard and extra compliance has been higher fees for clients. Some journalists even decry the Australian financial planning space as “a national scandal” or “an inadequate system” because there is no egalitarian way for all people to access financial advice.

Most Australians in the financial planning sector seem to want to provide advice to those who need it, such as someone about to go into a rest home and give up assets, but this is becoming difficult.

In the Nextwealth Survey of financial professionals, 29% said that business management was a rising challenge.

Personal challenges

A registered financial advisor must wear many hats, from an asset manager to a financial consultant to some days a psychologist, in order to direct their business towards positive growth. Delivering on client expectations is a valid consideration and here’s where people skills can create long-term, positive relationships.

Stress is crazy in this industry. In Australia, a survey of over 700 Australian advisers found that 73% are experiencing high levels of **burnout from stress,** while 67% experienced some level of **depression**. Compared to the average Australian, the report found advisers were 51% more likely to belong to a high mental health risk group. (AIA Australia’s Australian Financial Advisers Wellbeing Report, 2021.)

Dr Adam Fraser of Deakin University said, "*We found that advisers had the lowest scores in areas of wellbeing, mental and physical health and higher scores in terms of stress, burnout and work overload, than any industry we had previously studied.*"

Commenters on one article about stress in the industry noted that the FPA has not been serving its members in getting less red tape, the cause of some stress.

Then there are profitability issues. According to Seek, a registered Financial Planner can make a salary in someone else's business averaging $100,000-$120,000. Food for thought if your practice is not allowing at least this as a draw-down.

Estate planning for clients is on the advisor's mind, however, the advice business owner needs an estate/succession plan too. Succession planning is something that solo advisors tend to find a challenge (24% of those CAN surveyed), whereas those in a network or franchise had less future succession to worry about.

Answers to Personal Challenges

Estate Planning for Your Business and Self

To the challenge of succession planning in the advisory business, what about teaching someone with financial planning qualifications to take over the business and putting training systems in place? What about putting a trust in place for the transferral of income, expenses and liabilities to someone sturdy, while considering the heavy burden it also carries? Or winding up upon severe illness or death? These are personal areas to consider.

Similar to what's advised for clients, Craig West from AFAN suggests that the adviser, accountant, and lawyer should all work together on the key advisor's estate plan, considering all stakeholders as well. (Estate Planning is not just for clients, Money Management, 2021)

Business challenges

Building trust is a challenge mentioned in a Forbes Finance Council article. Bonding in person is easier than remotely, though the remote video meeting has its advantages. Advisors need to carefully evaluate their clients' situations and respond with beneficial recommendations, and this is based on trust.

Commoditisation of financial services may become a challenge; younger consumers might ask "why do I need a human to help me with finances when I can get a robot advisor?" This controversial stance lends itself to advisors being clearer still on what is being delivered – why it's more valuable than all other options. (Forbes).

Increasingly Thin Profit Margins

Lower profits and increasing costs is another big challenge for financial advisors today. Professional Planner reports in a 2020 analysis that profitability is less than 10 per cent for practices with gross revenue under $500,000. This is due to high compliance and licensing costs, less PI, and the retreat of past commissions from their books.

To find out if your revenue is high or low per client, look at the climbing client revenue averages in the chart overleaf.

BusinessHealth said (paraphrasing):

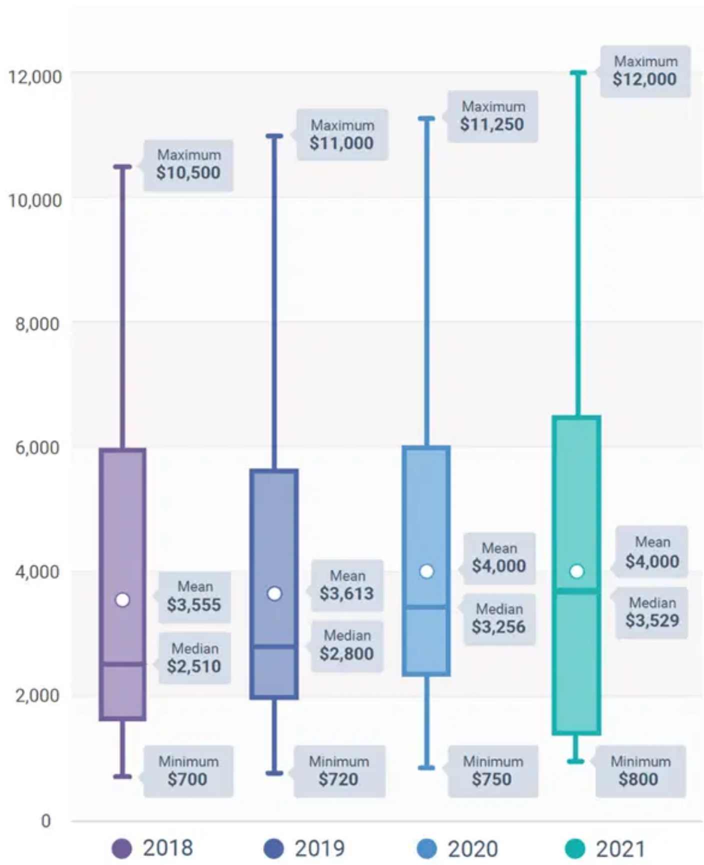
It doesn't matter if your client value average is below the industry average. What matters is charging at the right level and leaving an appropriate margin.

Pricing *Matters*

Advisers have been forced to raise their prices to keep up with the rising cost of compliance, according to Presidio Group's Jason Cook. The median advice fee has increase **40%** since 2018. According to Elixir Consulting's managing director Sue Viskovic, *"pricing has never been a more complex, or important, area of business management".*

It's a tricky balance. While 63% of Aussies surveyed would like to see a financial advisor, most also say they cannot afford to at the current price. Just one-in-10 Australians who want advice say they'd pay up to $2500 a year, while one-in-20 would pay between $2500 and $5000, the research found. (Adviser Ratings consumer research, 2022).

Statement of Advice issuing has been a major time burden and hence warranting higher fees than what the average person would like to pay. On average, FPA members charged $2,671 to prepare a SOA for new clients (figure in 2020).



Source: Adviser Ratings' 2022 Australian Financial Advice Landscape Report

Government has been, to date, slow to get rid of the typical 80-page+ Statement of Advice produced due to legislative and regulatory obligations. However, with the Quality of Advice Review changes coming in soon, there will be no strictly prescriptive Statement of Advice but instead a written record of the advice given to clients. This should bring down some of the hard costs to service clients.

Looking at it from a client perspective, prior to the 2019 changes, charging 1 to 2% percent on funds under management was high for people who buy in once to most funds chosen, so a pay-per-service model is overall, in our opinion, a better approach. This author wrote a book in 2008 mentioning the rorted practices of commission-based financial planners.

Answers to Some of the Business Challenges

Diversify your Offering

If struggling with rising expenses, there is scope to go into other areas complementary to financial planning. *Forward AI* has suggested these areas:

- Risk management
- Insurance planning
- Emergency fund management
- Investment planning
- Portfolio management
- Debt management
- Tax planning
- Budget forecasting
- Cash flow management and forecasting
- Small business planning

Of course, you may want to avoid some of the more highly legislated areas – such as tax planning – and leave that to the tax professional. Many families have complex situations, with multiple professionals engaged in advisory roles, which can lead to advice mistakes.

According to AFAN directors, the key to avoiding disjointed advice is joining in with the Accountant, the Solicitor, and the Insurance (risk) advisor in the planning stage. By doing this, an advisor can discover what assets the client owns in their name and, for example, avoid unnecessary trusts being drawn up.

See your own financial advisory network to be updated with the overall landscape.

Narrowing Your Market into Avatars with Aims

Taking the marketing practice of making an avatar for each of three market types is a way to better focus your marketing efforts. E.g. Women aged 45-60 who work full-time; Men 50-64 who run a business; etc. The aim is to *personalise* your market.

Did you know? 28% of affluent women who invest listed their top investment goal as 'financial stability'. (2020, PIMCO survey 'Calm, Cool & Invested').

An idea is to do research into who your database is made up of and then find out what those kinds of people want to achieve. It's only by knowing what people who use your services want to **do, have, and feel** that your advisory firm can adequately talk to those things and work towards those outcomes. This work is called an Empathy Map.

After this step, then it's much easier to form downloadable reports (white papers), creative advertising, email messages to nurture, website copy, blogs and more.

Answers to Some Client and Personnel Challenges

Everyone needs to be listened to, and it is this skill that can help retain clients as well as onboard new ones. Some need the caring and supportive approach and some need facts and figures.

"If you're listening to clients and truly understanding what they want to achieve, you can tailor the way you communicate your service offering to them in such a way that they perceive it to offer a huge amount of alignment and value," said Chris Morcom, partner and wealth adviser at Hewison.

Job role duties may need to change to suit the employee. Knowing the working styles and talents of everyone on the financial advisory team may help to divide the work along the lines of what each is best at. Along with a great resumé of qualifications and experience, these soft skills are vital in becoming the best advisory practice possible.

We hope you enjoyed this special report, authored by Jennifer Lancaster at Power of Words. If you would like a review of your marketing and perhaps form a strategy that uses researched reports (called *white papers*) to attract, inform and nurture new clients… then please contact us at Powerofwords.com.au or 0403125038.

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