Towards a new model for advice

Transformation is gathering pace across the international advice market, but being able to demonstrate the value of advice to clients remains a challenge, say Ian Kloss and Mark Christal of Old Mutual International (OMI).

Regulatory change across the world coupled with shifting client expectations are forcing advisers on a 'transformation' journey in terms of their business model.

But where exactly they are at, and what support they might require, varies across regions.

In Asia, there is far-reaching belief in the need for regulatory change – according to the results of a May 2017 survey of financial advisers by OMI across its main jurisdictions – with 210 respondents, 85 of which were based in Asia.

Around 88% of respondents in the region cited a mix of benefits, the most popular being: ensuring greater transparency, which benefits the client; raising the bar and adding credibility; and putting a greater focus on advice rather than being sales led. And a similar number of advisers (90%) said they recognise the benefits of moving from full initial up-front fees/commission to taking less up-front and more on an ongoing basis.

Meanwhile, nearly two-thirds (63%) of them have either transitioned their business or are in the process of transitioning their model and changing the amount of business they write on a full initial up-front fee/commission basis, said the survey. Their main goals, they said, include: building better long-term relationship with clients; improving the value of the business; and lowering initial charges help improve client outcomes.

"The vast majority of advisers are evolving their charging model towards an ongoing service proposition with their customers, and they recognise the significant customer benefits this can bring," adds Mark Christal, head of region, North-east Asia and CEO for Hong Kong for OMI.

MARK CHRISTAL
Old Mutual International

VALUE OF ADVICE

At the same time, the survey saw 69% of advisers in Asia say that they find it difficult to demonstrate the value of the

IAN KLOSS
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advice they offer clients. "Financial advice is a hugely valuable service but for many years the cost, and therefore the value of advice, has not always been transparent enough," explains Christal.

This also perhaps highlights the fact that for years, clients haven't necessarily distinguished between commission and charges. As a result, they may have the impression that advice is free, which grossly devalues the important service that financial advisers deliver.

"With the client expectation and international advice landscape changing, the need for advisers to move towards clearer, transparent customer-centric charging models and to demonstrate the value they are adding is becoming increasingly important," adds Christal.

Yet he believes that many advisers will find this a challenge. A good starting point nonetheless, he adds, is recognising the importance of financial planning in helping customers reach their financial goals and focusing services for each customer individually – not just based on portfolio size.

OUTSOURCING ON THE RISE

To address some of the hurdles in delivering advice in a more relevant way, outsourcing to investment experts is becoming increasingly popular. When asked specifically in the survey about their use of discretionary fund managers (DFMs) or discretionary portfolio service (DPS), 64% of advisers said their use will increase in the next 12 months.

"Financial advisers that are both expert financial planners and qualified investment managers are probably in a minority. Investment management requires a different technical knowledge, skill-set and huge resources, and is a very different proposition from financial planning," explains Ian Kloss, head of region, South-east Asia and chief executive officer (CEO) for Singapore at OMI.

In line with this, it is of little surprise that financial planners are increasingly looking to delegate responsibility to those for whom investment management is a core business activity.

By working together in partnership with a DFM, or investing in multi-assets funds, for example, Kloss says advisers are able to focus on the financial planning aspects with their client while the investment expert focuses on managing the investments.

"This in turn will allow financial advisers to focus on the area of real value: understanding the client, meeting their evolving and complex financial needs and ensuring the plans in place will get them to where they wish to be in life," he adds. ■

Clarity on insurance offerings

The OMI survey also shows that 25% of advisers in Asia are unaware of the difference between universal life (UL) insurance and variable universal life (VUL) insurance (50% are aware and 21% are very aware).

Yet since low interest rates in the past few years provided attractive premium financing for leveraging universal life policies, Kloss says the findings are perhaps not surprising, since UL has been sold in the region for many years.

However, he believes it is encouraging that a greater proportion of advisers are now becoming aware of the alternatives – one of which is VUL.

"Although some advisers believe increasing interest rates have limited impact to premium financing, the dynamic may change when the cost of borrowing continues to rise whereas policy return cannot match or lag behind," says Kloss.

The beauty of VUL, he explains, is that it accepts transfer of existing assets as premium so clients don't have to liquidate. "Therefore, current interest rates and premium financing have little or no impact on the suitability of the product."

Further, VUL has the flexibility to invest in a wide range of assets offering a better investment opportunity whilst providing the life cover needed. "It also has the freedom to dial up or dial down the insurance as and when needed," adds Kloss.