The Shadow Shopper Trial: Good News for Good Planners

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Forget the doom and gloom about the shadow shopper trial.

For good planners, this is one cloud that does have a silver lining. You can use it to reinforce your relationships with your clients and to position yourself way above all the criticism.

You could well finish 2003 hoping that shadow shopper trials become an annual event.

Not only can you capitalise on all the current publicity to strengthen your own practice but also to do your bit to raise industry standards.

What You Can Do …

… with your Clients

Your clients will be your first priority.

Your clients will be looking for reassurance. They will be wondering what your views are on the state of the industry and whether any of the criticisms apply to you.

You must deal with both issues.

Start by reassuring clients that the criticisms do not apply to you but explain that you want to cover the industry situation generally to provide essential background information before dealing with the specifics of your relationship with your clients.

Do not put your own credibility and integrity in question by trying to defend the indefensible.

You would be foolish not to acknowledge that the industry, as a whole, needs to do a much better job in servicing the community, as a whole. Even when one strips away all the media hype, it is clear that far too many consumers are not getting good quality advice – nearly all planners would agree with that.

But don't forget to put the industry problems in perspective.

- Since the early 1980s, Federal governments have been shifting responsibility for retirement funding to individuals while progressively making the "rules" more and more complicated by successive layers of inter-connecting legislation and regulation. They have created a great demand for advice at the same time they have made it harder and harder to acquire the knowledge and skills needed to give competent advice.
- The industry has been growing at breakneck speed for at least a decade. It's been like when war breaks out. Volunteers and conscripts are rushed straight through basic training onto the front-line. Until recently it has been possible, with the regulator's blessing, to take some-one off the street, give them a week's training and put them in front of clients. As a consequence, it is a challenge to think of any calling, let alone one that strives to be recognised as a profession, where the gap between the top 10% and the bottom 10% is so wide.
- In recent years, far-reaching regulatory changes have imposed a huge administrative and management burden on the industry.
- Product manufacturers and distributors, who themselves have a *caveat emptor* approach to business, see financial planners as a sales force rather than professional advisers with fiduciary duty of care obligations and do not hesitate to offer significant (unethical) inducements to planners to favour their products or to promote products and strategies based on misinformation. (For a complete guide on how misinformation and misunderstanding lead to unrealistic expectations about long-term investment performance ... and what you can do about it, visit http://www.risk-profiling.com/bearmarkets.htm and download 'Advising in a Bear Market, Part 2').

- Any successful new industry attracts a disproportionate share of opportunistic behaviour, e.g. the banks rush to acquire stakes in "wealth management".

In these circumstances, it must be accepted that the industry has struggled to meet the community's needs.

Nonetheless, the great majority of financial planners want to do the right thing by their clients and have a genuine commitment to their clients' well-being. Many are able to see the present "crisis of confidence" as a circuit-breaker that will lead to a complete re-think on industry standards which will allow the industry to throw off past inadequacies and move to a new level of community service.

Planners generally will welcome with open arms an industry environment that fosters quality advice and allows planners to give of their best.

You should make it clear to your clients that this is your position. You might even suggest that your clients lobby their member of parliament. But, in any event, your clients should be left in no doubt that you support improved industry standards.

Having dealt with the big picture, you should then demonstrate that your processes are soundly-based, focused on serving their needs and not subject to the common flaws. You may wish to address this, generally, in a newsletter and, specifically, in reviews and new-client meetings.

If fact, you may wish to (temporarily) restructure your new-client meeting plan to capitalise on all the negative publicity.

Use the official ASIC report on the trial as your primary source - click here to download. If you're a good planner, it's not a scary document.

Don't be afraid to use it as a reference with clients. As explained below, it actually provides a framework for reassuring your clients about your behaviour.

Rather than trying to counter the sweeping generalisations that have been sensationalised in the media, focus on the six specific criticisms that appear on page 5 in the Executive Summary, namely,

The following deficiencies were regularly found in plans assessed as part of the study:

- *failing to provide an Advisory Services Guide,*
- *failing to show how the recommended strategy and action was appropriate for the client,*
- *plans were hard to read and 'padded' with reams of generic information,*
- *plans ignored key client requirements and didn't explain why,*
- *higher-fee investments (including wrap accounts and master trusts) were recommended without showing how these were better,*
- *plans recommended selling existing investments without showing how new investments or investment vehicles would be better.*

Your strategy should be to deal with all six of these, one by one, and that shouldn't be too hard.

For example, the second, fourth, fifth and sixth items all relate to clients not understanding why a recommendation was made. Your position is that the recommendations were appropriate and in their interests. If, however, clients have doubts about specific recommendations (for which you apologise) these should be raised at the next review or earlier, if so desired. Overall, while you believe that the plan and the discussions leading up to it, should have made the rationale clear to clients, you are always looking for ways to improve. If client feedback indicates that improvements could be made, clients have your assurance that they will be made.

By following this strategy of focussing on specifics and dealing with them, you effectively defuse all the scatter-gun negative publicity. In fact, you will have taken what was a threat to your relationships with your clients and used it to build better relationships. You can, as a consequence, expect to grow your practice through the inevitable referrals.

To fully capitalise on this opportunity, it would be sensible to reinforce your words with actions. You might consider organising seminars to discuss the issues or perhaps embarking on a quality-oriented initiative. In the recent All Things Considered (www.allthingsconsidered.biz) Special Edition, industry expert, Lester Wills, recommends that planners investigate improving their risk tolerance assessment methodologies by considering ProQuest … a recommendation with which we concur, visit http://www.risk-profiling.com/trial.htm for more information on trialling the ProQuest system.

… with your Dealer

In the past, planners have often sought dealers who would not "interfere" in how they serviced their clients. The problem with this strategy is that while your processes might be best practice, other advisers in the dealer group can fall well short of minimum practice standards. (A long-time ProQuest-user, a highly competent and successful planner, chose her dealer this way some years ago. The dealer was Chapel Road.)

If your dealer's name gets dragged through the mud, you will get splashed. It's important that your dealer has an effective compliance (quality assurance) service and a commitment to good practice generally.

If they don't have these, reconsider what value they actually add.

… with your Fund Managers

Fund managers and other product providers - margin and equity lenders, in particular, have largely escaped direct criticism over their role in lowering industry standards.

Yet they are a primary source of misinformation about investing and were the main instigators of the recent ill-judged rush to gearing, see Advising in a Bear Market Part 3A.

The ASIC report, page 45, has one planner saying to a client,

"The risk profile survey rates you as 'moderate', but I want to recommend gearing so I will classify you as 'moderately aggressive'."

The integrity of the advising process has been corrupted by the product-push strategies of product providers.

Product providers need to be reminded that you have a fiduciary duty of care to your clients and that in providing you with information and advice they are warranting that it is fit for your purpose of giving objective, quality advice to your clients.

… with your Association

Industry associations have an important role to play in setting and propagating appropriate standards. While they could do this co-operatively, recent history is not encouraging.

By sheer weight of numbers the FPA has a major role. While the FPA has recognised that standards need to be raised, under the current media spotlight it has retreated to defending the status quo.

This reactionary position risks the FPA being side-lined in the now inevitable push for comprehensive standards which are not merely guidelines.

If you are an FPA member and want your association to take a leadership position, respond to the FPA's website survey of its members on whether major changes are needed to financial planning industry standards.

Vote "Yes" at www.fpa.asn.au/Members/CurrentIssues/Vote.asp, and email/phone FPA board members.

Similar actions are suggested for members of other associations.

… with Standards Australia

Australia is actively involved, through Standards Australia, in the work on international standards for personal financial planning, which is now developing rapidly under the ISO process.

There is a formal structure of committees and working groups of stakeholders from 17 countries, which are supported by informal discussion groups.

If you would like to participate in the Australian discussion group, you can register your interest by emailing group moderator, James Thomson, james.thomson@standards.com.au.

Conclusion

As with any crisis, the present crisis of confidence contains both threat and opportunity.

Individual planners can use it as an opportunity to strengthen their relationships with their clients and build their practices through the referrals that will flow.

At the industry level, the outcome is more problematic. The industry knows what is needed to lift standards but may not be capable of the concerted effort required.

Unless the industry acts quickly, it risks more government intervention.

Ultimately, the future lies in having explicit standards which are owned by both consumers and the industry, and honoured by practitioners.

