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The rise of annual advice agreements

A consideration for advisers seeking greater efficiencies

Jarrad Gray and Simon Betchley

The minute the current fee-disclosure statement (FDS) and opt-in requirements became law, advisers across the country hung their heads in the knowing that this was going to add nothing to their client relationships other than an increase in costs due to the additional administration.

The federal government (government) and regulators might have had a different opinion, but history now shows us that indeed advisers were correct. Consumer protections are little advanced, and the costs to acquire or receive financial planning advice has skyrocketed.

The challenges of keeping costs down

At the coalface of this constantly changing regulatory landscape, advisers have been at pains to find ways to continue to serve existing clients and moderate fees through efficiency gains.

Efficiency gains are a simple by-product of seeking to reduce the inputs required to deliver the same or better outputs. Within the clothing industry, the same quest led to a wholesale shift in the manufacturing base to cheap-labour 'cost-havens' such as Taiwan and China.

In the financial planning industry, however, the solution is not quite as simple or easy to achieve. Moving certain functions of the advice process to lower-labour-base jurisdictions while doable, encounters far more concerns around importance of data security and the Australian privacy laws, along with issues around quality of work and a lack of understanding of our complex advice landscape.

This has forced advisers to look inward at their own cost base and rigorously assess every aspect of their operations in the hope of finding savings and/or activity efficiency.

The role of annual advice agreements

One way of doing so quickly, and trending among practices, has been to abandon the FDS/opt-in regime in favour of annual advice agreements (AAAs). By seeing clients annually and having them only pay for services over a 12-month period instead of an indefinitely recurring monthly fee, FDS and opt-in notices are effectively replaced by a 12-month contract for services, with fees and services clearly outlined.

If the client does not return in 12 months' time, or never signs a new AAA, then fees do not continue, and the service agreement ceases. Efficiencies are gained in that the AAA can be aligned to a key annual review date, and a single agreement document replaces the need to send out multiple notices, often at different times of the year, depending on the relevant dates applicable.

This is clearly the direction the government and the Australian Securities and Investments Commission want the industry to head towards, as they see this as the key methodology to eliminate 'fees for no service' as highlighted in the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's findings.

Aligning technologies

The next gain in efficiency advisers have sought is how to manage and if possible, automate the annual review process around their AAAs, to save time. This is where smart firms are deploying technology to help. Systems such Worksorted, Calendly, and even Zoom, are being combined to not only ensure clients know when they are due for their review, but also allowing them to book into advisers' diaries remotely, receive confirmations directly to their smartphones and then have AAAs templated, generated, recorded and tracked within software.

Worksorted's CEO Simon Betchley confirmed that more and more firms have used the company's system in this way.

"We have seen a steady rise in the numbers of firms contacting us, looking for a system that not only helps them create and issue AAA-type documents, but [provides] a way to keep a central, auditable record that can be reported on at any time. It is apparent to us that advisers find the FDS and opt-in process an administrative burden and want a smarter way to operate around their ongoing clients," he said.

Betchley also noted the growing use of technology within this and many other areas of an advice business.

"Tech-stacks are certainly a hot topic of conversation at the moment, and advisers are looking for the most optimal way to combine systems and tech tools to achieve the best outcome based on how they like to operate—tech is definitely helping make tasks and processes become faster, simpler and more consistent," he said.

Case study—the road to operational efficiencies

AdviceRight Pty Ltd is a fictitous advice firm with 500 ongoing advice clients and holds its own Australian Financial Services licence. The staff comprise two full-time financial advisers, supported by four full-time equivalent (FTE) employee administrative staff.

The company's FDSs are produced manually each month by using an Excel spreadsheet and referencing the transaction history of the clients' funds from which fees are typically paid. There are no alerts as to when clients are due to receive an FDS and it is very key-person-dependent on the staff member who completes this task each month. This same staff member also tracks annual reviews manually, as well as opt-in requirements in a similar way.

When clients cannot be contacted by phone, other manual processes are required to communicate with clients, for instance, email or SMS. As revenue processing is central to managing compliance obligations like FDSs and opt-in, this function also managed by the same staff member by using Excel spreadsheets and bank account records held by AdviceRight.

By completing a time-in-motion audit, the firm was able to calculate that this staff member's entire role responsibilities were directed to these compliance and client-contact activities—essentially it was costing the firm an FTE equivalent in time (38 hours per week) and approximately $70,000 in wages and oncosts to maintain.

The directors of AdviceRight decided to make some key changes to the business structure and deploy technology to automate as much of the manual activities and processes as they could. This led them to undertake the activities covered in the following discussion.

Having to contact clients consistently about booking in their next review was found to be a very costly and labour-intensive exercise—it needed automating to some degree. AdviceRight decided to set up Calendly as a scheduling tool and link it to their business's Outlook email account. This allowed clients to see instantly when their adviser was available and book themselves in, without the constant back-and-forth checking and confirmation. With a global-view business diary which all staff could access and amend, employees were able to see what was happening, and when, and make any required changes instantly if need be.

The firm also realised that revenue management—so important for managing a practice's income correctly—was vital to producing the correct compliance documents. AdviceRight decided it needed a system that could not only process revenue, but also report on it effectively and have this information feed directly into templated compliance documents.

Thus, AdviceRight decided to implement Worksorted, which allowed the company to manage all practice revenue down to an individual client level and connect the revenue data to its FDS and opt-in documents seamlessly. This enabled AdviceRight to review and produce AAAs simply and easily, and eliminate the need for any FDS or opt-in statements progressively.

The company needed alerts and reporting to allow it to easily monitor which clients were due for an FDS or review each month as they transitioned over to AAAs, which the Worksorted system provided to them via an interactive dashboard display and hyperlinked fields, putting all the required information at their fingertips, rather than having to sift through Excel spreadsheets.

AdviceRight also needed to automate some of the less-streamlined ongoing client contact activities, so it utilised Worksorted's 'automated processes' module, which allowed it to take advantage of the following functionalities:

- Creating template messages reminding their clients 30 days out from their annual review that they needed to book in with their adviser. The template was built to incorporate AdviceRight's Calendly diary system so clients could make bookings themselves, or use the office phone number to call if they wished. This process, once activated, would run automatically, without the

The quote

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need for staff involvement; saving the client contact instantly to their records as a file note for easy reference.
- Using this same functionality, the firm was then able to increase its client engagement significantly by creating other processes to contact potential prospects, mark particular milestones (e.g. wishing current clients a happy birthday via SMS) and notify clients of key annual events.

The firm also decided to find an advice production tool that could connect or 'integrate' with these tools to reduce duplication of data input.

By way of these small yet significant adjustments, AdviceRight was able to take many slow and manually intensive processes/tasks and have technology do more of the 'heavy lifting'. The staff member responsible for all these activities was then freed up to simply manage and monitor these systems, which only required around 20% and not 100% of their time.

By making some key changes in its practice, AdviceRight saved around $56,000 in staff costs, improved the accuracy and integrity of its client contact and compliance, increased client engagement and eliminated the key person risk associated. It also freed up a key staff member to focus more time on other more valuable business tasks and activities.

Conclusion

When used in the right combination, fintech is helping savvy firms make decent inroads into keeping burgeoning administrative requirements at bay, and ultimately the end costs they have to pass onto clients. It puts advice firms back in control of their margins and helps them operate with greater efficiency and effectiveness. Moreover, when staff are at the helm of an organised, well-structured process that clients appreciate, they are more engaged, productive, and most importantly, happier employees.

With frustrations across the advice industry at an all-time high due the sheer weight of regulatory shifts, the trend towards AAAs complemented by a robust, efficient and tech-driven process, shows no signs of slowing down. **FS**