

Actuarial Society Retirement Matters Seminar



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FPI Financial Planner of the Year 2023

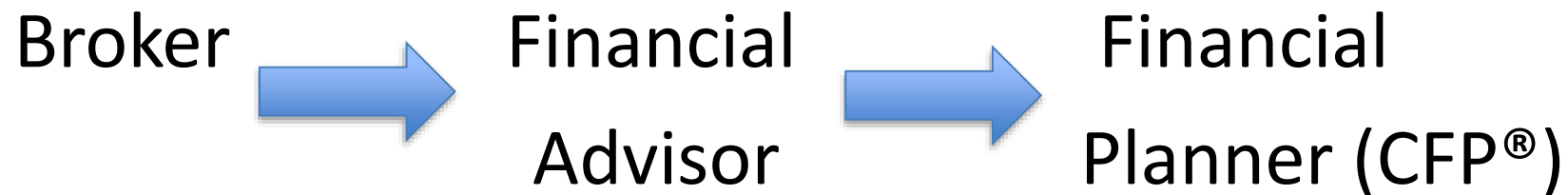


The Real Cost of Financial Advice

**Managing the conflict between Best Advice and the
Advisor's Commercial interests**



Disclaimer . . .



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The Conflict

Client Wants

Limited resources to meet all financial needs

To be protected for all risks

To maximise investment growth at lowest risk

To retire in comfort

Without impacting current lifestyle

Lowest cost

Costs eat into returns



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Advisor Sells

Best advice for limited resources

- Right products
- Best Funds
- Active management

Flexibility as life changes

Outsource admin and paperwork

Fees payable

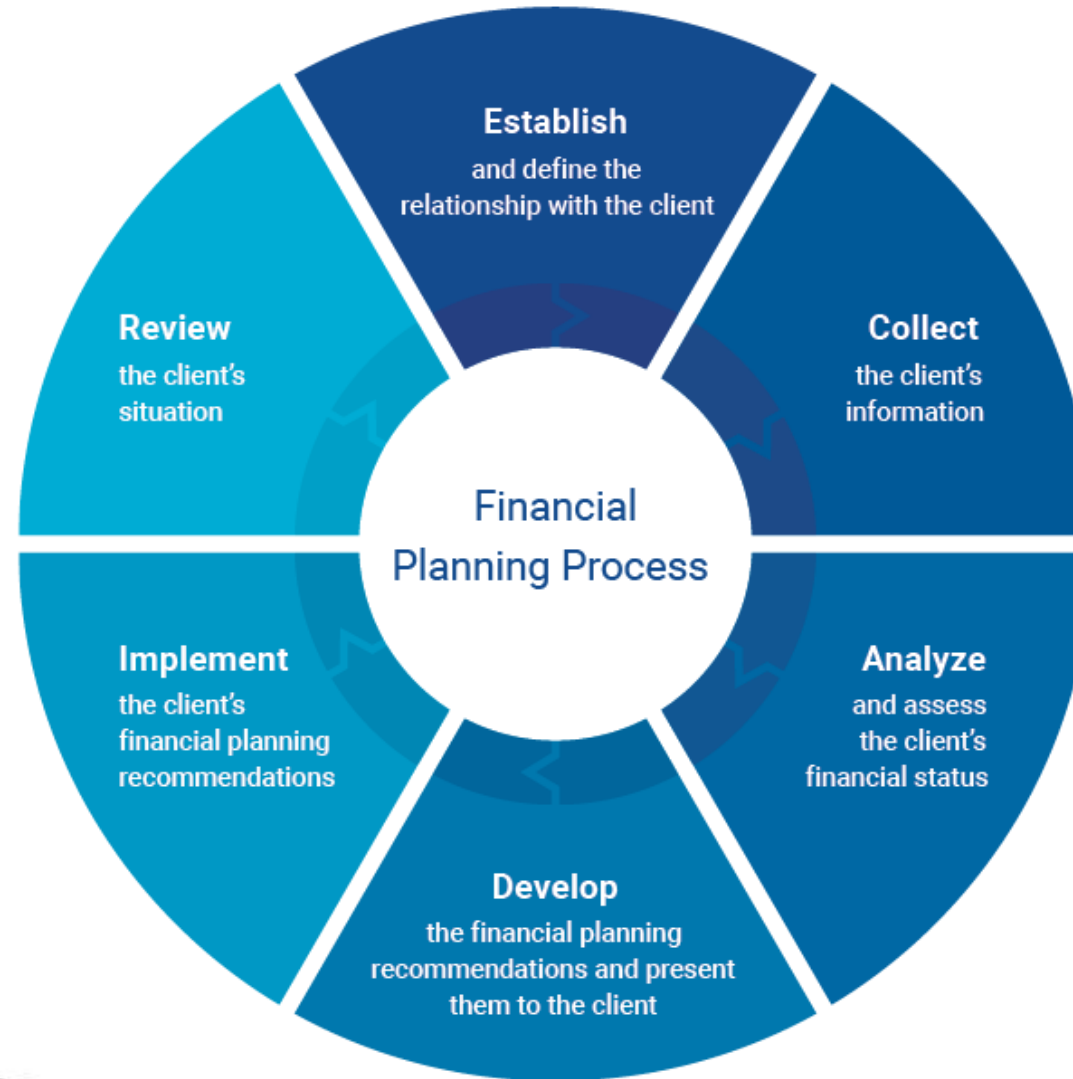
Costs eat into returns



The Journey to Financial Wellness



Role of the Advisor



Step 1. Establish Relationship

Introduce self and company

- Disclosure document
- Service level agreement / mandate

Includes

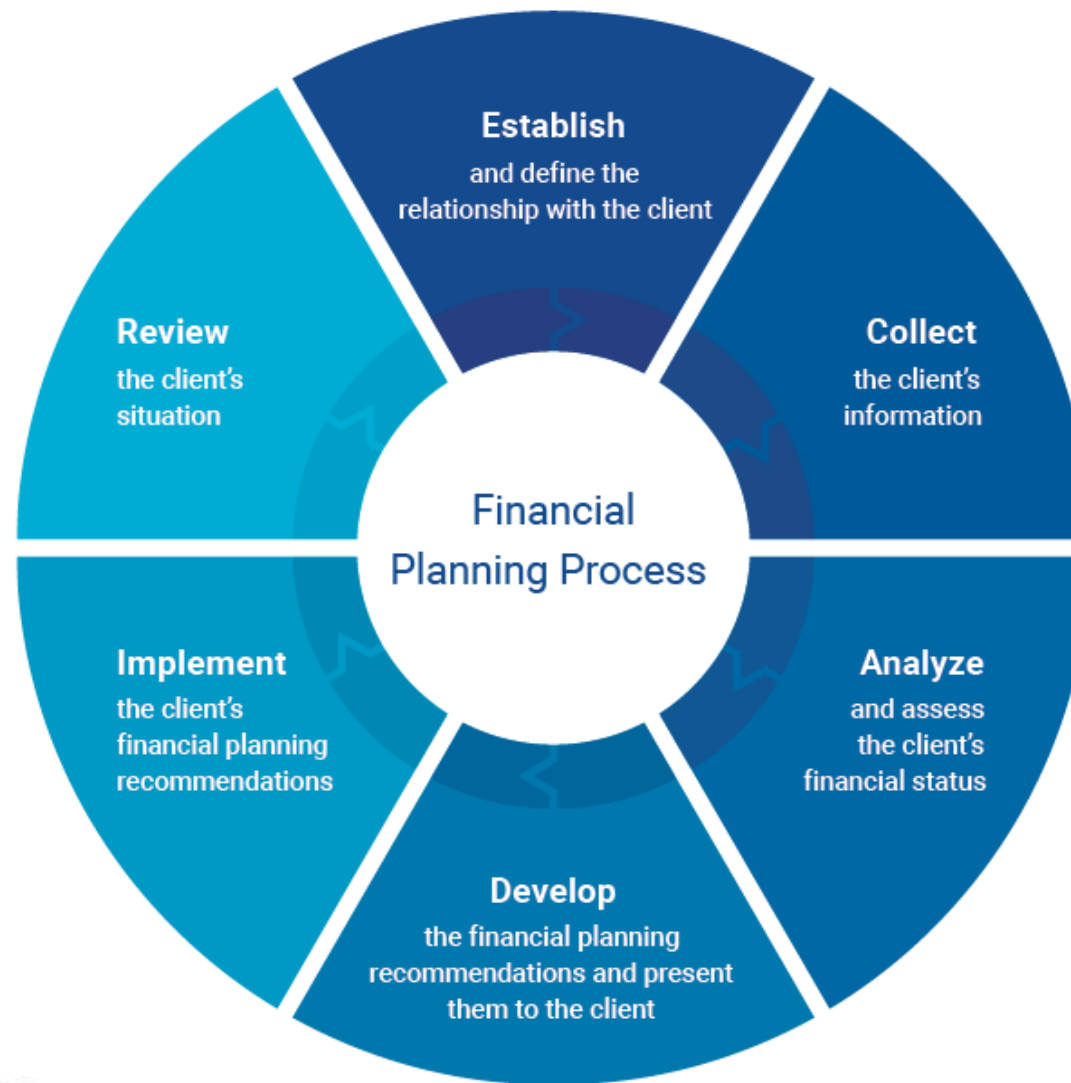
- Background, qualifications, skills and experience
- Independent or tied agent
- FSCA licences
- PI Cover
- Conflicts of interests
- Fee model

Roles and obligations, what to expect

Client consent needed - POPIA



Role of the Advisor



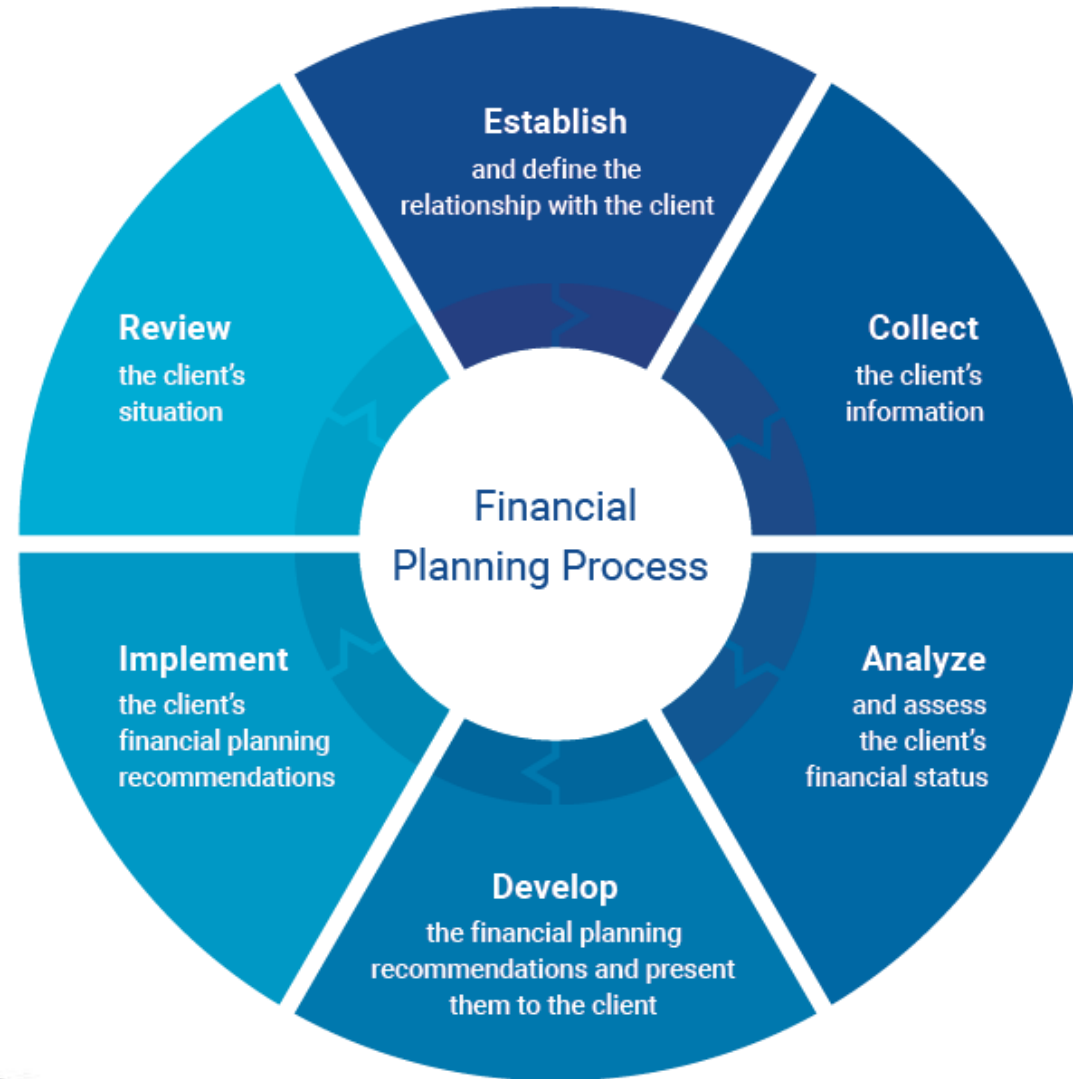
2. Collect Client Info

Financial Needs Analysis:

- Get to know client, family, personal situation, business
- Understand their fears, goals and the emotions driving decisions
- Determine risk profile, product knowledge and experience
- Determine assets and liabilities, income and expenses, life assurance cover
- Establish requirements and gaps
- Need commitment to the process



Role of the Advisor



3. Analyse and Assess

Analyse financial situation

- Current holdings and cover
- Current cashflows

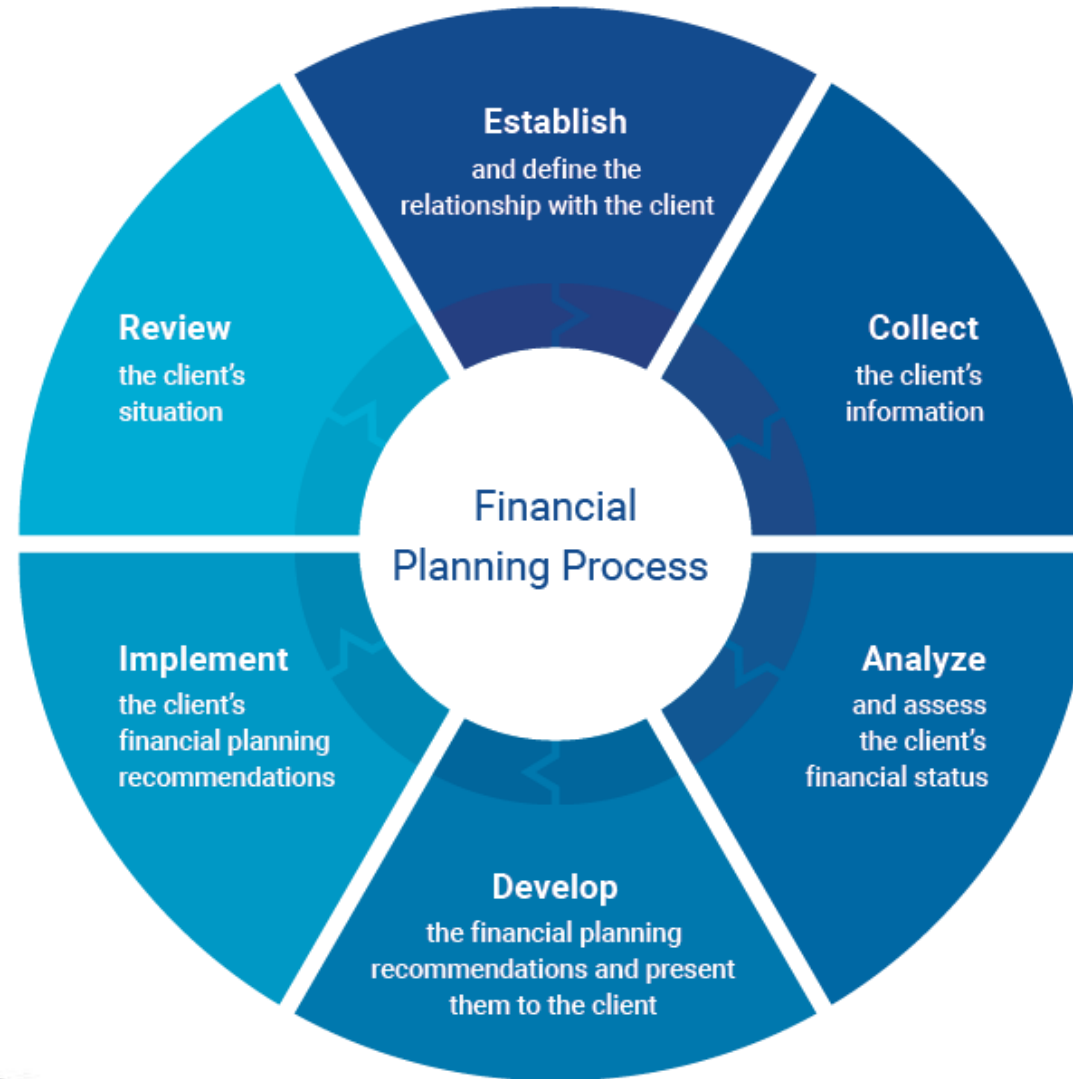
Determine where client needs to be

Taking into account:

- Tax implications
- Penalties and costs to make changes
- Affordability
- Ability to take risk
- Client understanding of the solution – buy-in



Role of the Advisor



4. Develop and Present Recommendation

Financial Plan must:

- Include solutions and recommendations
- Explain suitability
- Give info to make informed decisions

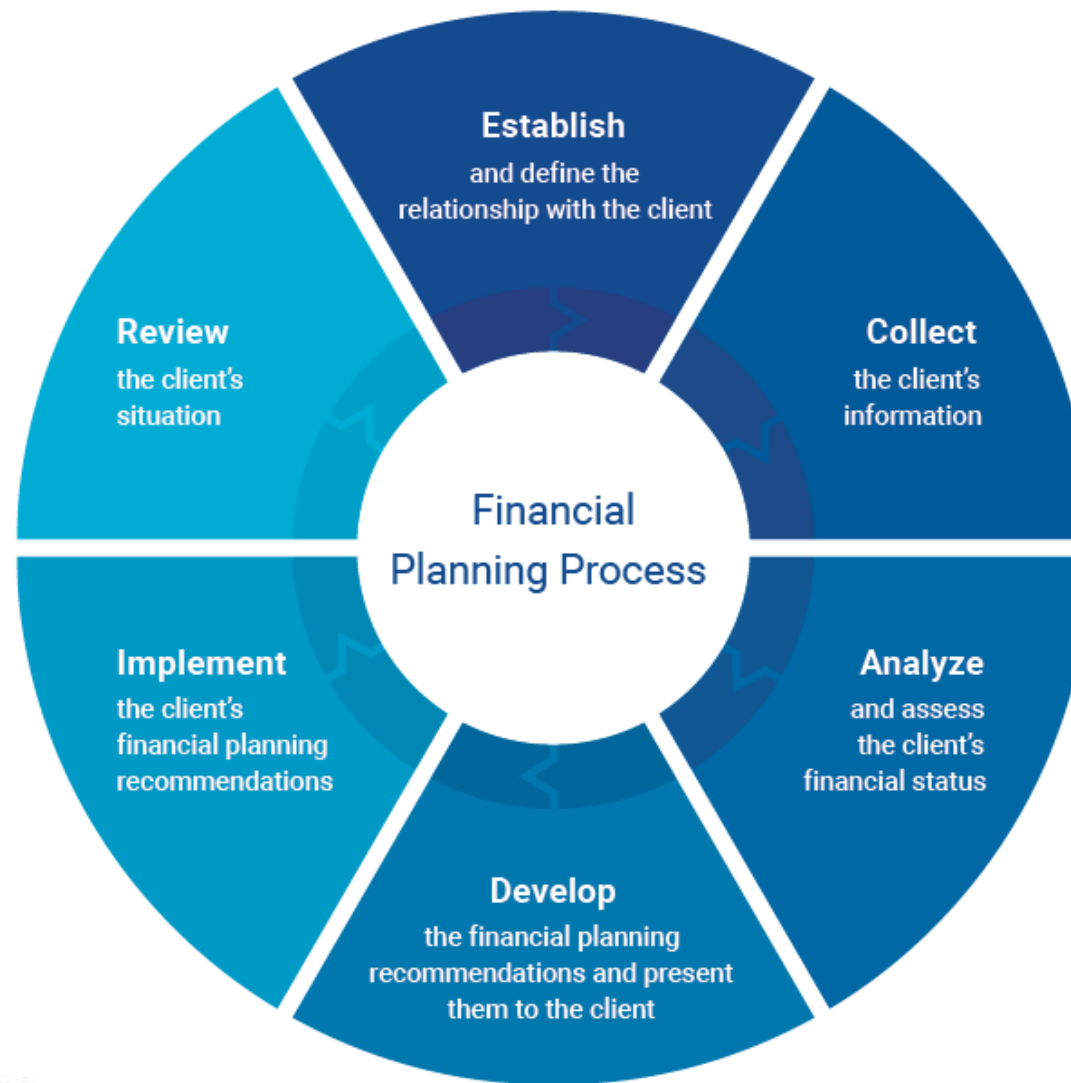
Need client buy in and commitment

Client may decide to amend or decline parts of plan

- Advisor needs to point out risks attached



Role of the Advisor



5. Implement Recommendations

Implement timeously – call centres!

Honest, fair, due skill, care and diligence – TCF (Treat Customers Fairly)

Record of Advice including products, fees, suitability

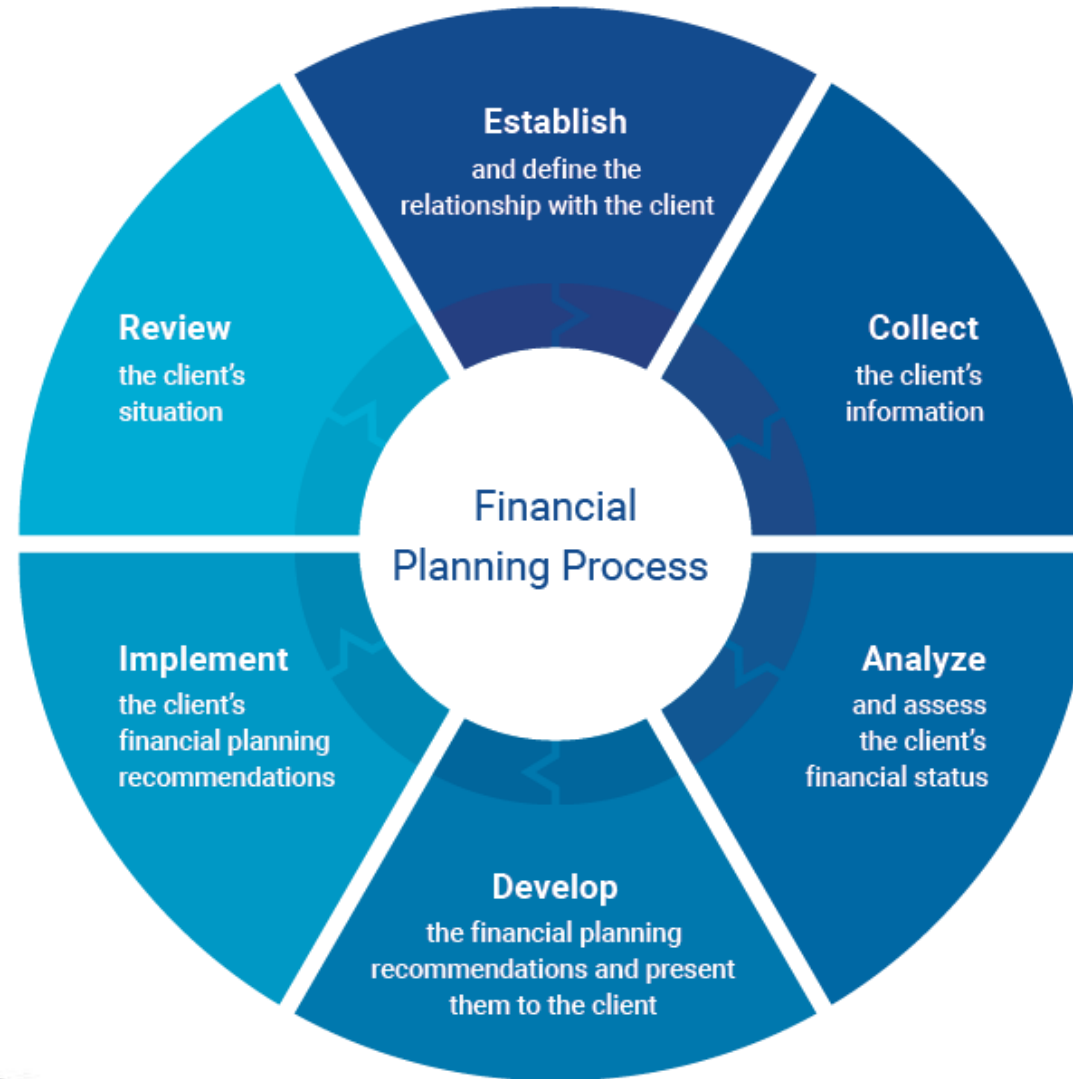
Adhere to all legislation:

- FAIS (and soon COFI)
- FICA - KYC
- POPIA

ATD and CYA



Role of the Advisor



6. Review Situation

Stick to the Plan

Amend the Plan if circumstances change

Apply current knowledge and expertise to client throughout relationship

- Product changes/ enhancements/ new
- Fee amendments
- Legal amendments
- Tax amendments
- Life cycle amendments – needs change



Investor trade-offs

Instant Gratification

Lifestyle:

- Home
- Cars
- Holidays
- Schools
- etc



Planning for the Future

Short Term Goals:

- Home, cars, Holidays, schools etc

Long Term Goals:

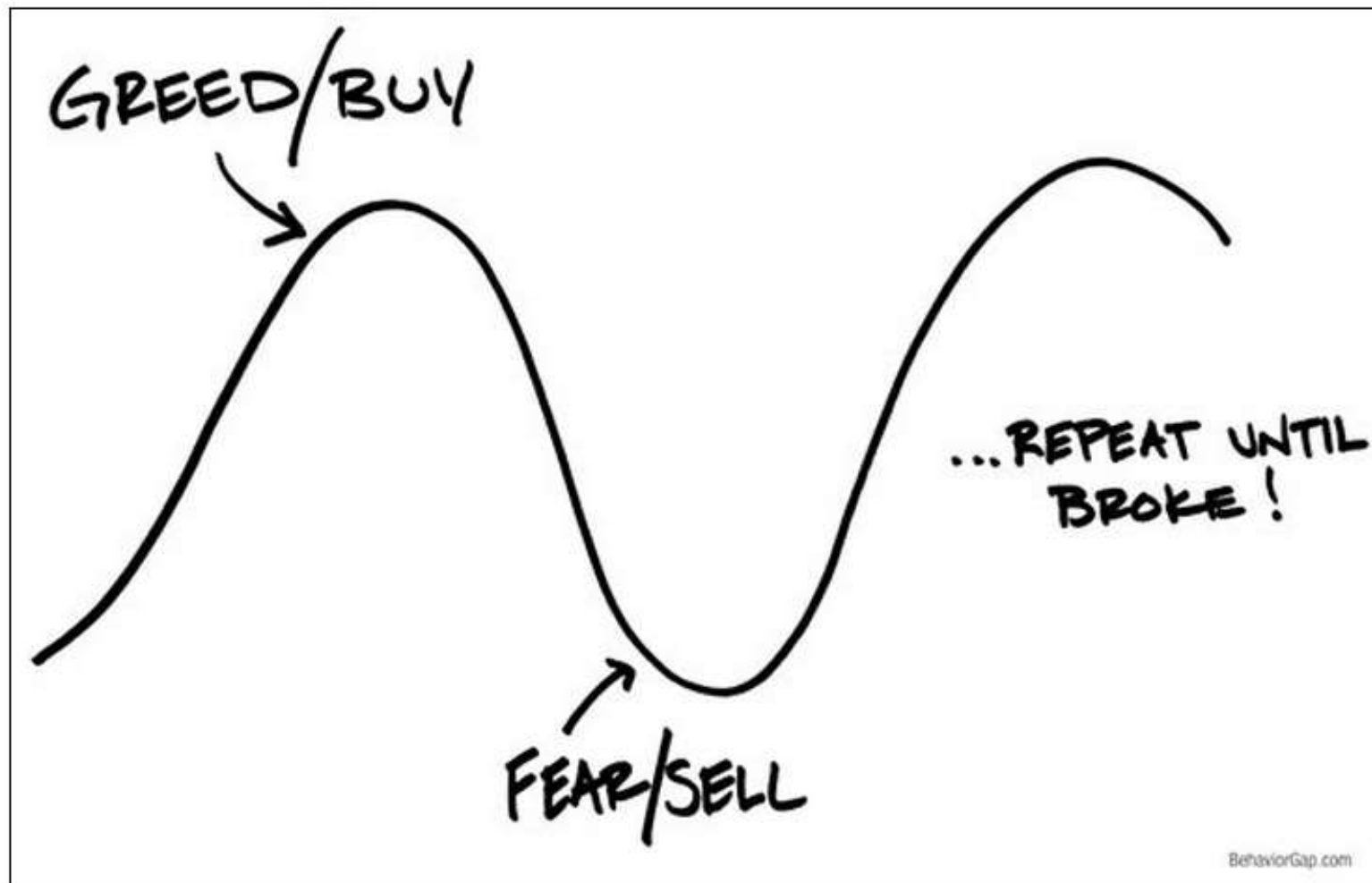
- Semi-retirement
- Retirement
- Estate planning

Unforeseen events:

- Medical expenses
- Illness and disability
- Death



Investor Behaviour



Where advisors add value (unseen)

- Define the Roadmap – from A to Z
- Manage Emotions
- Provide correct structure
 - Life assurance, investments (local and offshore), retirement, legacy, special needs, Trusts and Companies
- Tax considerations
 - Product options, timing of cashflows, using exemptions, donations, rentals, structuring income in retirement, estate duty, domicile
- Encourage savings and investment
 - Budgeting and goal setting
- Force accountability
 - Regular measurement and feedback
- Corporate Financial Planning
- Unforeseen events – family resource



Advisor costs to be in business

- Qualifications and CPD
- Experience – life learning
- Licensing and Registrations – FSCA, CMS, FPI, SARS etc
- Product knowledge and network
- Investment knowledge – including market updates
- Tax and Legal updates
- Regulation – greylisting, scams
- Reporting – FSCA, FIC, FSTC, SAHRC
- Compliance Officer, PI Cover, Practice Management and Data storage, Business Continuity and Succession
- Training and Development



Advice Fee models

- Commission – usually upfront, life cover
- Commission – as-and-when on medical aid, no cost to client
- Investment fees – upfront and annual, as-and-when
 - Annual fees increase as portfolio values increase – alignment of interests
- Time-based fee – hourly rate, dependent on who renders service. This fee set in line with qualifications and experience
- Fixed annual fee – set in consultation and agreed upfront

Fees either paid by product provider or invoiced



Building a relationship of Trust

- Lack of transparency leads to breakdown in trust
- Fees must be fully disclosed and open for discussion
- If it looks too good to be true it usually is, and what you pay should determine what you are getting
- Insurance analogy and timing of rewards – measure value over a period of time



A Win-Win Relationship

- Spend to Save
- Partnership creates accountability
- Many aspects to financial plan – not just the investment return
- Achieving financial goals is the measure of success



Thank You

<https://fpimymoney123.co.za/find-a-financial-planner/>

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