THE DOVER GUIDE TO CREATING A FEE FOR SERVICE FINANCIAL PLANNING PRACTICE

NOVEMBER 2010

DOVER FINANCIAL ADVISERS

1 November 2010

To the reader

A welcome and an invitation

Welcome to the Dover Guide to Creating a Fee for Service Financial Planning Practice. This guide has been created to help financial planners transition from traditional commission orientated business models to the new fee-for-service model applying from 1 July 2012, and to help traditional accountants understand what they need to do to compete with accountants once these new rules apply.

The Guide is deliberately practical and hands on, with real examples throughout. It displays our experience and expertise in setting up and running profitable and valuable fee for service financial planning practices. It's something Dover has been doing for years, and has done very successfully.

The Guide shows you how you do this. It examines the background to the changes, it looks in detail at what is a fee for service model and what its advantages are. It shows how you can create a client value proposition that establishes you as the primary advisor to your client, to the exclusion of competitors, controlling the nine essential competencies needed to take your clients through the different stages of their financial planning life cycle.

The Guide explains how Dover can help you do this. Dover provides a unique service that supports you in your practice and reinforces your role as primary advisor to your clients. Dover has set up numerous successful fee-for-service financial planning practices. We know what works and what does not work and how you can make sure your practice is a success.

Finally, in Part Four Dover looks at the specific ideas you should explore as 1 July 2012 approaches, to take full advantage of the possibilities that are presenting to you, and provides a case book business plan, based on a real life firm that successfully transitioned to a fee for service model over ten years ago. This study allows us to highlight the commercial advantages of this model and how it achieves better outcomes for both you and your clients.

The goal is to improve your client outcomes, and increasing the profitability and value of your practice.

I trust the manual is of some assistance and interest to you. Please do not hesitate to contact me if I can be of any further assistance to you, or if you feel Dover is the dealer group for you.

Yours faithfully

Terry McMaster
Director

PART 1 THE FUTURE OF FINANCIAL ADVICE AND THE DAWN OF A NEW PROFESSION

Introduction

On 26 April 2010 Mr Christopher Bowen, the then Minister for Financial Services, Superannuation and Corporate Law, announced far reaching and sweeping changes to the Australian financial planning industry.

These changes comprise the Future of Financial Advice reforms and collectively comprise the most significant development in the history of the Australian Financial Services Industry. In twenty year's time the Future of Financial Advice reforms, with the central tenets of advice neutrality and advisor duty of care, essential characteristics of any professional occupation, will mark the end of the financial planning as a product distribution industry at the beck and call of the fund managers and insurers, and the start of financial planning as a true profession, with significant overlaps and inter-connections with the legal and accounting professions.

The specific changes[1] are:

(i) commissions are banned on new products other than insurance products with commissions seen as a "conflicted remuneration structure". Both initial commissions and trailer commissions are to be banned;
(ii) financial planners must act in the best interests of clients, ie in accordance with a duty of utmost good faith, (although this is already required case under existing case law ;
(iii) the introduction of product neutral advisor charging regime;
(iv) asset based fees not permitted on assets bought with borrowed money;
(v) the removal of an exemption for accountants to advise on SMSFs unless they are also financial planners;
(vi) simpler client information disclosure rules;
(vii) increased ASIC powers to ban specific advisors;
(viii) a financial planning professional standards review;
(ix) the review of the concept of a "wholesale" or "sophisticated" client; and
(x) a possible statutory compensation scheme for financial planning clients.

The changes are just announcements and are not law as at November 2010.

Further reading on the specific changes

You can read a more detailed account of the proposed changes prepared by the Australian Government here: Down load the Future of Financial Advice Package.

You can read a more detailed account of the proposed changes prepared by Minter Ellison here: Minter Ellison on the FFA 29 April 2010.

[1] This guide concentrates on changes (i) to (iv) as these are the changes impacting the fee for service model issue. Only passing reference is made to the other changes.

Financial planning as a true profession

The status of financial planning as a true profession is an emotional issue. Many long-term financial planners understandably take offence at not being treated as true professionals. But the fact is anyone rewarded by a commission and who is not required to act in the best interests of their client, ie is not subject to a duty of utmost good faith, is not acting as a true professional.

This will change on 1 July 2012. From 1 July 2012 financial planning will be a real profession, and eventually will enjoy the same status as accounting and the law, and may well prove to be even more important and value adding than these two long established professions. Certainly the skills required of a competent financial planner will make them more relevant and valuable to most people. Superannuation, tax planning, Centrelink, life counselling, investing, budgeting and estate planning are definitely more relevant and useful skills, and create value for clients.

Further, from 1 July 2012 financial planners will be required to put their clients' interests ahead of their own interests and will not be able to receive commissions connected to their client's investment decisions. Some will fall by the wayside, and leave the profession or at least leave the client advice segment of the profession, but most will prosper, and enjoy new rewarding and exciting areas of practice, income streams and strong (and tax free) capital growth. These advisors will enjoy the up-lifted social perception and status connected to being part of an essential and value adding profession that touches most people at some stage of their economic journey.

A fiduciary duty of care, ie, a requirement that the client's interests be maximized at all times and all conflicts of interest be avoided, is an essential element of a profession. Without it a group of practitioners, no matter how skilled, cannot be recognized as a "profession". For example, the Australian Council of Professions (Professions Australia) defines a profession as:

'A disciplined group of individuals who adhere to high ethical standards and uphold themselves to, and are accepted by, the public as possessing special knowledge and skills in a widely recognized, organized body of learning derived from education and training at a high level, and who are prepared to exercise this knowledge and these skills in the interest of others. Inherent in this definition is the concept that the responsibility for the welfare, health and safety of the community shall take precedence over other considerations[2].' (emphasis added)[3]

In the years to come we will look back at 1 July 2012 and identify it as the key date in financial planning becoming a true profession, on equal standing with the law or accounting.

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[2] Which means, of course, a fiduciary duty must apply the professional/client relationship

[3] Dr John Southwick, 'Australian Council of Professions' view', during proceedings of a joint conference on competition law and the professions, Perth, April 1997Sourced on the ACCC website 16 October 2010

What are others saying?

Dover is not the only organisation that sees things this way. For example, the Australian School of Business writes:

*"Peeyush Gupta, co-founder of financial advice firm ipac securities and executive in residence at the Australian School of Business, points out the wealth management industry was well on the way to professionalising itself before the financial crisis. Moreover, on a worldwide basis, the industry compared well. "Disclosure laws in Australia, which require all fees and commissions both upfront and ongoing to be disclosed in writing, were well ahead of most OECD [Organisation for Economic Co-operation and Development] countries," Gupta says. "Notwithstanding this, there have been some persistent critics of the industry, calling for further regulatory reform." The industry would be better off continuing to be proactive in its own development rather than waiting for more legislation, Gupta suggests. "**If its image is to be improved, one option is for it to reorganise itself as a profession comparable to other traditional professions, like law and accounting**[4]." (emphasis added)*

The Accountants' Views

Mr Robert C Browne of the Institute of Chartered Accountants has written an interesting and provocative article regarding the status of financial planning as a profession, and argues, in summary that at the time of writing it had a long way to go. We do not agree with Mr Browne's article but refer readers to it for general information and background on this interesting issue.

An extract from Mr Browne's article is reproduced at appendix 1.

The full article can be viewed here: **Reinventing Financial Planning**.

What do accountants need to do?

Mr Browne's criticisms of the financial planning profession are interesting.

Mr Browne overlooks a critical fact: the Corporations Law requires accountants to be financial planners if they are to provide their clients with the services traditionally connected to accounting practices. For example, an accountant cannot:

(i) recommend that a client become a trustee and member of a SMSF;
(ii) recommend that a SMSF open a bank account;
(iii) discuss share investments with a client;
(iv) discuss risk insurances with a client;
(v) advise on superannuation contributions;
(vi) recommend a superannuation investment options;
(vii) recommend a client sell their business premises to their SMSF; or

[4] Extracted from www.knowledge.asb.unsw.edu.au on 15 November 2010.

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(viii) recommend a client start a super pension;

without breaching the Corporations Law[5].

Accountants in public practice must be licensed with an AFSL under the Corporations Law if they are to remain relevant their clients and able to compete with financial planners from 1 July 2012.

The challenge

More than 90% of Australian financial planners derive most of their income from commissions[6]. Changing to a fee for service based model will be extraordinarily difficult for most, and many will fall by the wayside. Survival requires adaptability, and the best players will do more than just survive: they will prosper, and win clients and market share from the competition including accountants and business lawyers, as well as other financial planners.

E & W Strategic Partners some it up well when they say:

'The danger for many financial planning businesses is thinking that simply converting to a fee for service pricing will suffice. While it is a critical step to break free of commissions, it fails to take advantage of the many growth opportunities that come from adopting a commissions-free model. This, in part, is why many practices have had only varying success in the past in integrating commission free models into their businesses, due to the limited approaches taken[7]."

Dover shares this view.

Dover believes the commission reforms create an unrivalled opportunity for financial planners to expand the range of services they provide their clients and to establish themselves as the primary advisor to their clients on all financial matters, and not just matters relating to financial products.

The commission reforms establish financial planners as true professionals and create an environment where growth and success is more achievable than ever before.

The FPA View

The Financial Planning Association of Australia independently announced on 1 May 2009 that all its members would transition to a fee for service model by 30 June 2012. The FPA saw this change as inevitable and necessary to establish financial planning as a profession. Jo-Anne Bloch was reported as saying at the time:

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[5] You can read a comprehensive list prepared by the NTAA of what accountants can and cannot do in the SMSF sphere here: NTAA list of what accountants can and cannot do.

[6] E & W Commission Free Planner Practice Program, page 4

[7] E & W Commission Free Planner Practice Program, page 4

"A move away from commission based remuneration is the key to protecting both consumers and the reputations of financial planners."

"We fully recognise that this might be a difficult time to discuss such a change, but we also recognise that change is afoot whether we like it or not. Our members are tired of the endless distraction and fruitless debate that commission based advice brings. FPA members demonstrate a commitment to professional obligations that others in the marketplace don't and they want to be recognised for their professionalism, for the fact that they are unencumbered by product bias, focused on advice and that they put their clients first.

We will consult fully with our members, and product providers, to ensure a mutually appropriate transition period," Ms Bloch said.

"We have recommended this position which we feel is essential for the longevity and success of the financial planning profession and for the continued protection of consumers".

You can read the full text of the Financial Planning Association of Australia's announcement here: FPA 1 May 2009 Announcement.

The specific reforms

These landmark changes are not yet law, but following the September 2010 re-election of the Labor Government, and strong industry support, it’s hard to see the Government backing off and watering down its plans. The Government has consciously and deliberately reacted to the financial and personal damage caused by Storm, Westpoint and Opes Prime, and the collapse of the agri-products industry, to create higher professional standards that will in turn create a higher profession out of the financial planning industry.

Mr Bowen lists the specific reforms as:

- A prospective ban on conflicted remuneration structures including commissions and volume based payments, in relation to the distribution and advice of retail investment products including managed investments, superannuation and margin loans. The measure does not initially apply to risk insurance.
- The introduction of a statutory fiduciary duty so that financial advisers must act in the best interests of their clients, subject to a 'reasonable steps' qualification, and to place the best interests of their clients ahead of their own when providing personal advice to retail clients.
- Increasing transparency and flexibility of payments for financial advice by introducing 'adviser charging' that will help align the interests of the financial adviser and the client; is clear and product neutral; and where the investor will be able to opt in to the advice in response to a compulsory, annual renewal notice.
- Percentage-based fees (known as assets under management fees) will only be charged on un-geared products or investment amounts and only if this is agreed to with the retail investor.
- Expanding the availability of low-cost 'simple advice' to provide access to and affordability of financial advice.
- Strengthening the powers of the Australian Securities and Investments Commission (ASIC) to act against unscrupulous operators.
- The examination of a statutory compensation scheme by Mr Richard St John, who has significant corporate law experience.

Further reading

You can read the full text of Mr Bowen’s April 2010 announcements here: Mr Bowen's FOFA Reforms Announcement.

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REFORMS TO FINANCIAL ADVICE – ADVISER REMUNERATION

FORMS OF ADVISOR REMUNERATION THAT ARE NOT PERMITTED FROM 1 JULY 2012	
Initial/upfront commission	Advice fee charged as a percentage of the client's initial investment. The fee is an arrangement between the product provider and the adviser or the adviser's licensee and built into the product. The fee may be funded by a matching contribution or entry product fee.
Trail commission	Charged as a percentage of the client's assets (for example annually). The fee is an arrangement between the product provider and the adviser or the adviser's licensee and built into the product. The fee may be funded by a product administration fee.
Fee for service charged as an asset based fee on geared products or investment amounts.	Advice fee charged as a percentage of the client's funds under management and paid by the client to the adviser or licensee in relation to the provision of advice.
Any form of payment based on volume or sales targets	Whether this is in the form of a payment, from a product provider, or from any financial services business, in relation to the distribution or advice for retail financial products.

FORMS OF ADVISOR REMUNERATION THAT ARE PERMITTED FROM 1 JULY 2012	
Fee for service charged as an asset-based fee on un-geared products or investment amounts.	A fee for service, agreed between client and adviser, charged as a percentage of the client's funds under management and paid by the client to the adviser or licensee in relation to the provision of advice. This fee can be deducted from the client's investment, at the direction of the client.
Shelf space fee payments (not based on volume)	Payments not based on volume that flow to and from the platform, including a product access payment (provided that payment is not based on volume).
Other types of fee for service for advice	May be charged, for example, as an hourly rate, flat fee per service provided, fixed annual fee (a retainer) or performance or outcome based fees. This may be paid up front, deducted from the client's investment funds at the direction of the client or through a payment plan (if offered by the adviser).

These tables are adapted from the Future of Financial Advice paper released by Treasury in April 2010.

PART TWO: TRANSITIONING TO A FEE FOR SERVICE MODEL

Introduction

This part of the Guide looks at the practical aspects of transitioning to a fee for service planning model, what fee options best suit your practice, getting started in a fee for service model and how to get your team on board and owning the change. We look at what technical competencies are needed, and how you can access them, when fee notes are tax deductible, and what are the advantages of a fee for service model. We focus on creating a client value proposition and what you should be doing now to get your clients ready for the new rules from 1 July 2012.

What is a fee for service financial planning model?

A fee for service model is one where the client pays you for the work you have done for the client, not the product provider. The client's payment may be based on one of four main models:

Method	Example	Comments
The time taken to complete the task at an agreed hourly rate, say $250 to $350 an hour.	A SOA will be prepared costing $2,500, being ten hours work at $250 an hour, plus implementation time by para-planners at $120 an hour based on time expended (estimate ten hours)	Typical of accounting firms Very appropriate to unique "once off" tasks. Not suited to repetitive tasks. Creates an advisor incentive to make it more complicated than it needs to be
An agreed fee for completing the task, irrespective of how long it takes.	$2,500 for completing a comprehensive SOA plus $1,200 for implementing its recommendations	Clean. Suited to repetitive tasks such as comprehensive SOAs. Creates an advisor bias to efficiency: effectively penalised if work is not completed efficiently.
An agreed percentage of funds under management.	1% of FUM up to $300,000 for preparing and implementing a comprehensive SOA based on $300,000 of FUM	By focussing on just FUM it misses most of the matters relevant to the client, and does not create an incentive for the advisor to handle those matters
Success or performance fee	Say $2,000 per year plus 20% of any return above the average of the all ordinaries index	Limited to wealthier high end clients

Permutations abound. For example, a firm may quote a time based fee up to a maximum of say $3,000, or an agreed % of FUM, plus a performance fee for any above average results. But when the variations and permutations are analysed the can always be broken down into one of these three methods, or a combination of them.

The amount of the fee will generally reflect the amount of work needed to complete the agreed tasks, the degree of difficulty involved, the risks connected to the advice, the prices charged by competitors for similar tasks and what the client is prepared to pay, ie their fee expectation. This is the case whichever method is used.

COMPARISON OF FOUR MAIN FEE FOR SERVICE BILLING METHODS

Fee model	Disadvantages	Advantages	Likely client applications
Time based fees	Can create an incentive to over-complicate advices to increase "time on the clock" and hence client fees. Can create an incentive and reward for inefficiency (this can be reduced by imposing "caps" eg "time based up to a limit of $3,000". Basing fees on time reduces scalability and makes growth more dependent on attracting and retaining key staff.	No conflict of interest. Fees can be verified by reference to time sheets and in this sense are "transparent". Suits on-going relationships with recurring tasks (cf to one-off advices). Familiar to clients, and perceived to be associated with high professional standards (accounting / law)	Suited to one off transactions and practices that do not have a homogenous client base
Agreed fees	Risk of "mis-quoting" is born by the practice.	No conflict of interest. Limited scope for dispute/complaints based purely on fees. Encourages efficiency .Scalable. Greater ability to connect value to the client with the price paid by the client.	Suited to a homogenous client base and where client presentations are similar and recurring. Use of precedents can create efficiencies
% of FUM	There is a conflict of interest and a bias to recommending a limited class of investments and ignoring other investments. The practice's income is linked to the market's performance, and is to that extent not able to be controlled. Poorly perceived by clients: there is a lot more to financial planning than this. Does not reward the firm for work done in other areas, eg tax planning or general business advice. Exposed to competition from more complete advisors.	Built in performance reward for the practice. Easy to measure. Minimal change from existing commission based practice model. No need to develop new competencies.	Suited to practices that concentrate on advising on managed funds and similar retail products, and which can persuade lients to opt in to the on-going fee arrangements.
Performance based fees	Can be hard to measure and may lead to dispute. Incentive to focus on certain investments to the detriment of other client needs. Lose income and clients if the market falls.	Goal congruency: the interests of the advisor and the client are aligned. Limited potential for a conflict of interest. Clear and transparent. Income increases if the market rises.	Suited to high end clients, who require a more active asset management program and closer advisor involvement.

Pseudo commissions

Under the fee-for-service model the advisor bills the client directly. The Government's announcements indicate that product provider may facilitate the payment for the client, by deducting an agreed amount from the investment and paying it directly to the advisor[8].

The deduction can only be made with the positive agreement of the client each year. Platform providers and managed funds are, on the strength of this statement, devising new systems to in effect replace the existing commission systems with this fee deduction facility, as a kind of pseudo commission system.

It will be interesting to see the extent to which clients agree to this pseudo commission system. Our guess is that few will. And in particular very few will agree to fees being deducted from their account each year on an on-going basis as a kind of pseudo trailer commission system.

We have spoken to many advisors who intend to rely on this pseudo commission system, and otherwise ignore the new fee arrangements[9]. We are skeptical of this business plan, we expect these financial planners will be in for a big shock come 1 July 2012. They may keep income from legacy products, but new business will disappear and they will have to make drastic and fast moves to stay viable.

The advantages of a fee for service model

The advantages of a fee for service model relative to a commission model include:

(i) all or some of the fee may be tax deductible, whereas generally commissions are not tax deductible. This reduces the after tax cost of the service to your client by up to 46.5%, creating a significant advantage for the fee for service model. The deductibility of fee for service fee notes is discussed below;

(ii) the potential for a conflict of interest is reduced or even eliminated because the advisor does not have any interest in the outcome of the client's decision, and in particular is not paid by a third party whose interests are different to the client's interests. This means the financial planner can genuinely present as a professional on equal footing with accountants and solicitors;

(iii) clients will value the advice, provided it is created in a professional and competent manner;

(iv) there is an incentive for efficiency, particularly in the fixed fee model, and an incentive for the advisor to draw in resources (ie junior staff) that match the degree of difficulty connected to the task;

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8 See "A Platform for Growth" by Adam Courtenay 28.9.10 in the SMH for an discussion of the issues A Platform for Growth.

9 One group specialise in corporate superannuation funds and currently derive most of their income from small trailer commissions paid on the individual member's account balances, most of whom they have never met. They told us they expected the members to "opt in" without any problems. The expectation that the members will agree to a voluntary payment to a person who is not providing them with a service and who they have never met beggars belief.

(v) greater transparency. Clients know exactly how much the advisor is being paid and who is paying it;

(vi) greater client recognition and retention. Clients perceive the advisor as being just that, an advisor, who is a professional and who is on their side, and not as a salesman getting a commission. This translates to improved client retention rates and an advice based long term business model, rather than a sales based short term business model; and

(vii) the financial planner can provide a greater range of financial services to clients, competing and succeeding in areas traditionally occupied by accountants and some business lawyers, which creates extra profit, extra (CGT free) value and, importantly, extra challenges for the advisor and, more importantly, better results for the client.

Getting started in a fee for service environment

Most DIY manuals on fee for service transition programs concentrate on fees, even to the complete exclusion of services. This manual is more experienced, and concentrates on services, and in particular what services you need to provide to survive and prosper from 1 July 2012. Fees come after services. Get the services right and the fees will follow.

This is an important emphasise, because in practice fees come after services and without services you will receive any fees. You have to get the service right if you want to be paid fees.

Low fee expectations

Research shows that at 26 October 2010 the average Australian believes financial advice should cost just $300 up front[10]. This amount is plainly unrealistic, quality advice just cannot be achieved at that price, and clients who expect it will either need to change their expectations or get what they pay for, ie not much. But this research highlights the issue of low fee expectations.

An article describing this research is reproduced at appendix 2.

How do you change low client fee expectations?

This is difficult and very much depends on which client has the low fee expectations. Some clients will have been conditioned to low fee expectations by a previous advisor, or even their previous relationship with you. Some may genuinely believe there is not much to what you do and that they should not have to pay for it. Others will just be out to minimise their costs without any regard to what is fair and reasonable, and necessary to create the on-going client relationship.

You need to educate and condition your clients to paying for your services.

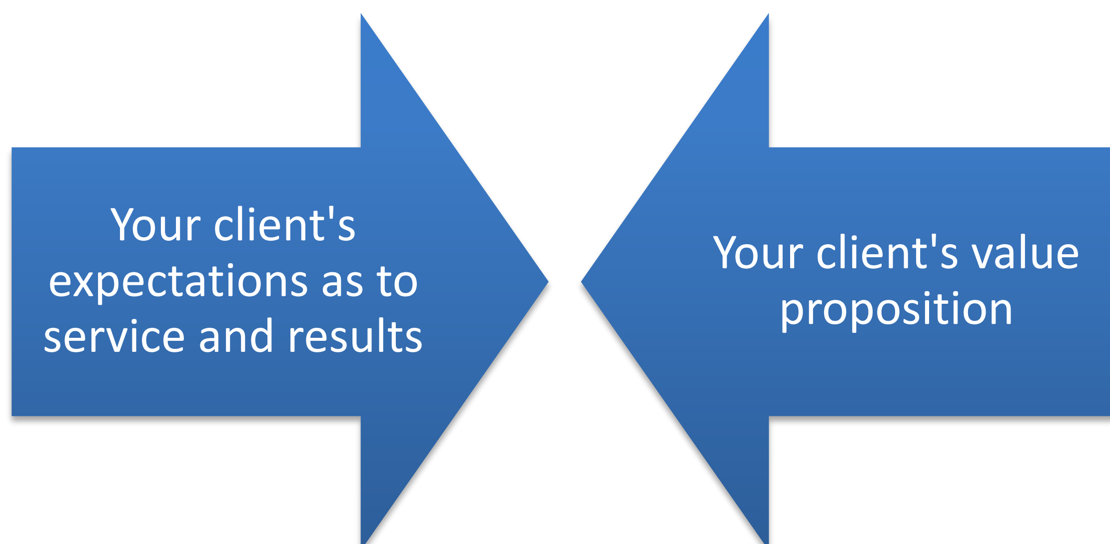
[10] Investment Trends' Planner Business Report, as reported by Ruth Liew in Financial Standards 26.10.10

First, make sure you have the right service, ie the right client value proposition, and this is explained and exemplified below. Make sure the total client experience, including your space, your staff and the presentation of your work is well perceived by your clients and that they understand and appreciate the value of the work you have done for them.

Second, be transparent. Be clear, open and genuine about your fees and how they are calculated. Make sure they are in writing, and in a form that satisfies all relevant ASIC and Corporations Law requirements, not to mention basic "best practice" principles. In summary, never do anything for a client without clear and written instructions: this goes a long way to avoiding disputes.

Third, if this does not work and you are left with a client who is not reasonable about your fees and simply wants to reduce costs then you should ask that client to leave your practice. Try it. It's quite liberating. There are literally millions of potential clients out there and there is no point in wasting your time on someone who does not appreciate what you are doing for them. Invariably this frees up your time for value adding work that enriches you, and a client who appreciates what you do and is prepared to pay you for doing it.

To overcome low fee expectations you have to determine what your client value proposition is: and believe me, this proposition should focus on making your clients more money than you cost them, so that you are in fact a value adding proposition and not just an unnecessary cost!



Your client's value proposition

What should your "client value proposition be? Before you answer this question, you should first ask "what is a client value proposition?" Answering this question requires you to research/examine/reflect on what your clients expect of you and what is of value to them. Talk to your clients. Talk to your ex-clients. Talk to your future clients, ie the type of client you want to be part of your practice in the future, and then acquire the competencies and create a service that meets those expectations.

Matt Fogarty has written an excellent article dealing with this question[11]. Let us quote a short extract here:

"A Client Value Proposition (CVP) is a business's promise and commitment to its clients. It provides the reasons why a client should deal with their business, not another, along with the benefits articulated and communicated in a manner easily understood by the client.

Many business people struggle to come to grips with the concept of a CVP – somehow it seems too abstract. Surely the value we provide is in the integrity of the advice we give our clients to help them achieve their goals! Unfortunately, when dealing with human emotion and behaviour, things are never that simple. A CVP is a mix of tangibles and intangibles; a cocktail of client experience, expectations and outcomes that requires a degree of systemisation and process efficiency.

The success of any CVP lies in how the practice manages client experience and delivers on the expectation created.

The concept of a CVP is often hard to define from scratch. Take the time to consider and even ask clients why they deal with you, instead of relying solely on your own point of view.

Take a moment to consider the following:

- *What client needs are being serviced by our practice?*
- *What does value really mean to our target clients?*
- *What do we actually provide our clients?*
- *Are there any gaps in what we provide and the expectations our clients have?*
- *When building your CVP, start by determining what your practice is good at. List the five key things the practice does exceptionally well. Consider the personality and culture of the business, unique points of difference, obvious and not so obvious competitive advantages.*

Once this list has been created the next challenge is to turn these perceptions into reality by articulating them into realisable benefits and service deliverables for your clients."

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[11] Financial planning, investment and self managed super fund article by Matt Fogarty 1 September 2005 accessed from www.atcbiz.com.au on 26 October 2010. The article is reproduced at appendix 3 so readers can access this informative article in uill.

What should your client value proposition be?

So, now we know what a client value proposition is, we can answer the question "What should your' client value proposition be?"

Dover believes your client value proposition should comprise being competent in the nine essential technical competencies of a fee for service practice that acts as the primary advisor to its clients on financial matters.

This means you are able to increase the net wealth of your clients by significantly more than your fee. This means rational clients will choose to use your services rather than your competitors and your practice will increase its profits and its (CGT free) capital value.

Remember, it's your client value proposition, not your value proposition. You must focus on creating permanent value for your clients without undue risk or complexity.

Ultimately financial planning is about increasing your client's wealth.

If you cannot do this you are in the wrong profession.

It's Your

Client's Value Proposition!

It's your client's value proposition

Fundamentally, financial planning is about

helping clients increase/maintain their wealth.

Unless your practice does this it will not last long.

And if your practice does it you will be very successful.

The nine essential competencies for a successful financial planning practice

These nine essential competencies for a successful fee for service financial planning practice are:

(i) estate planning and business succession planning;
(ii) general business advice;
(iii) basic taxation planning, including choice of structure;
(iv) finance, and negotiations with financiers, including the management of non-deductible debt;
(v) superannuation planning and particularly self-managed funds;
(vi) record keeping, bookkeeping, accounting and basic tax compliance;
(vii) risk insurances[12];
(viii) property, including property acquisitions and tax planning strategies; and
(ix) shares and other securities including managed funds.

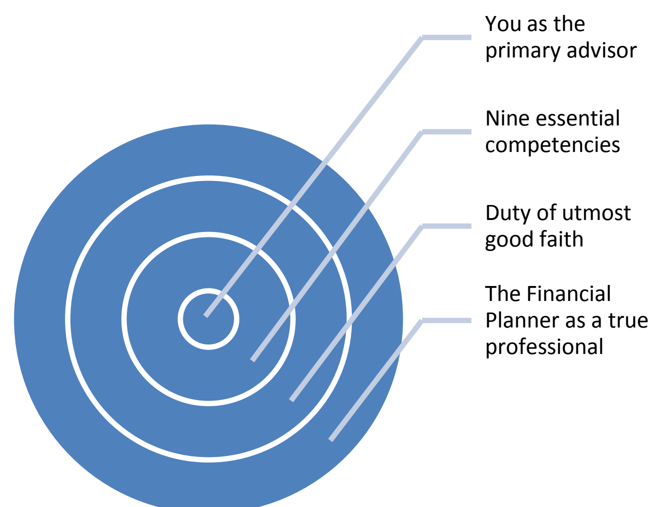
You must be your clients' primary financial advisor

Your business plan must establish you as your clients' primary advisor on all relevant financial matters, to the exclusion of other competitor advisors, and ensure you control all aspects of the advice process. This control is needed to guarantee quality to your client, to keep costs under control and to ensure you are not excluded from the advice process in any way. This control is also needed to maximise your client loyalty, your income and your practice's value.

You must become a business general practitioner or "GP". You need to know and understand the nine essential competencies, and be able to guide your clients with care and genuine empathy through the challenges each competency presents.

You must be able to meet your clients' needs in each competency, but also recognise complex cases where it is necessary to call in specialist assistance, on your terms, to advise you on what needs to be done to promote your clients' interests.

The Financial Planner as the Primary Advisor



[12] Commissions are not banned in risk insurances, for now. But the FOFA reforms flag this will be re-considered in the future.

How do you acquire this knowledge?

It's fair to say most financial planners in 2010 do not have the skills and experience to advise competently on all nine competencies. Some do. But most do not. If you are one of those who do not the good news is there is plenty of time before 30 June 2012 for you to acquire the knowledge and to integrate this knowledge into your practice and your client statements of advice.

Keep perspective, you do not need a law degree to learn all you need to know about estate planning and wills. You do not need to be a licensed real estate agent to advise your clients on buying or selling a property. And you do not need to be an accountant to advise a retiree on how to run a self-managed super fund. For most experienced financial planners, particularly those with relevant (ie business orientated) degrees, the relevant knowledge can be acquired through a systematic process of self-education and book-based learning, supported by selected short courses run by government and private bodies.

Remember, your client will not expect you to have "mastery' level knowledge of each of the nine competencies, (although they will probably expect mastery level of at least one or even a few of them). What they are looking for is an awareness of the main issues, an ability to identify problems and an ability to solve the problem in a practical and economical way, including referring to specialists where needed.

For example, if you advise your clients on wills and estate planning you will be aware that the "patter" ie the verbal explanations provided to clients, is remarkably the same in each meeting. Often even the jokes are the same[13]. It's actually not hard, at least in most cases. What is hard is being alert to the circumstances where the standard patter and explanations is not appropriate, and when as specialist needs to be called in.

What courses are available?

Institutions like Kaplan offer financial planners a variety of formal courses to improve their skills and knowledge. The National Tax Agents and Accountants run fantastic SMSF seminars, and these are open to all and are not limited to their members. The CPAs and the ICAA also offer excellent training and again attendance is not limited to their members.

Open Learning Australia offers the only degree course in financial planning in Australia, and there are no prerequisites for enrolment. Study is at your own pace, through internet based distance learning, and covers the full range of knowledge required to advise on these nine competencies, as well as other essential areas.

You can view the Open Learning materials here: Open Learning Materials. These materials are worth perusing: it's a remarkably appropriate course for a financial planner, and an effective way to up-grade client skills and maintain your knowledge of financial planning principles as well as learn about new areas of practice.

If you are uncertain about your ability with the nine essential competencies you should seriously consider completing this degree course.

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[13] I can assure you smiling joking about death is much more effective than a grave and dour demeanour

When do you need to call in an expert?

You cannot be 100% expert in each competency. No one is. You do not help your client by purporting to be 100% expert when you are not, and you open yourself up to a serious risk of a negligence action if you make a mistake.

Some financial planners think calling in an expert is a sign of weakness. It's not. It's a sign of competency. It's the mark of a professional who places their client's interests ahead of their own interests and is interested in optimal client outcomes rather than short term billings. Intelligent clients see it as a sign of strength and confidence and not a sign of weakness.

Bringing in an expert seriously reduces your potential liability if something goes wrong: you can prove you took all the steps a reasonable advisor would have taken to make sure your clients' interests were protected. Its no excuse to a court to say that you were too embarrassed to get help, or that you thought your client would think less of you if you admitted that you were not technically competent to deal with the matter before you.

If you have any doubts about where, say, the Financial Ombudsman sees the financial planners' duty of care lying have a look at solicitor Peter Townsends' comments on the Basis Capital Case, which you can download here: FOS Beats Ripoli in Raising the Standard[14]. In this case a financial planner was ordered to pay a former client more than $100,000 in compensation for amounts lost on an investment that was inappropriate to the client's financial profile.

Competent professionals refer clients on all the time. No one is best at everything, and you owe it to your clients to refer on whenever it's in your client's interest to do so.

A competent financial planning professional knows when a client problem is beyond his or her skill level and an expert needs to be called in. It's an intuitive process and each case is different. For example in the case of an estate planning exercise the circumstances where s financial planner may need an expert may include:

(i) larger than normal wealth;
(ii) second or third marriages;
(iii) mentally disabled or otherwise disadvantaged children;
(iv) high probability of imminent death, such as advanced cancer;
(v) extra-marital children;
(vi) dependant adult relations; and
(vii) relatives facing bankruptcy or divorce proceedings.

The acquisition of the required level of knowledge to advise on wills and estate planning generally, and to know when more expert knowledge is needed, is well within the technical skills of most financial planners.

[14] Extracted from the website of Townsends Business and Corporate Lawyers 12.11.10.

How does Dover help you?

Dover helps its representatives by providing expert advice and assistance in each of the nine essential competencies.

Dover representatives can access this support without compromising their position as primary advisor to their client and Dover works through the representative and does not have direct contact with their client.

The ten thousand hours rule

"Keep practising and within a few years you will become very good at what you do."

This sentence may strike a chord with anyone familiar with the work of Malcolm Gladwell and particularly "Outliers, the Story of Success" published by Penguin Books in 2008. Throughout this book Gladwell repeatedly refers to the "ten thousand hour rule" and posits that (almost) anyone who practises a skill for ten thousand hours will become good at it. He then takes on examples ranging from air traffic disasters to baseball to Bills Gates writing MSDOS to prove his case. Outliers is an instructive read, and one we highly recommend to anyone interested in understanding success.

In the context of creating a fee for service financial planning practice the "ten thousand hours rule" should be seen as a metaphor connecting time and effort with results. You do not need to practice for 40 hours a week for five years to acquire the knowledge needed to run a good fee for service financial planning practice. It takes much less time than this. But it does take time, and effort. How much time and effort depends on your state of knowledge now, and our guess is virtually all financial planners can make the jump by 1 July 2012 on all ten areas of practice if they start working on it now.

Technical competency self-audit

A good place to start is to devise your own technical competency self-audit to help identify what you need to do to develop or otherwise access the skills needed to run a comprehensive fee for service based financial planning practice.

An example format is shown on the next page.

The Dover Experience allows all financial planners to offer their clients the skills needed to run a comprehensive fee for service financial planning practice.

DOVER FINANCIAL ADVISERS

Technical competency self-audit process: one suggested approach

Area of competency	Self-education Action required	Business plan strategy	Mandatory referral arrangements with third parties	How can Dover help
General business advice	Maintain general reading and develop business plan preparation skills. Complete readings from major financial planning text books	Develop a pro-forma business plan to be offered to all clients running businesses or contemplating starting a business. Develop a pro-forma marketing plan	IT IM consultants. Business lawyers to advise on structure and asset protection issues. Accountants to complete taxation, workcover and related applications and registrations	Dover provides business planning manuals and templates for business plans
Basic taxation planning	Commence diploma of taxation at Curtain University through Open Learning Australia.	Understand tax implications of different business structures. Understand and implement negative gearing and advanced gearing strategies.	Accountant/tax agent to ensure strategies are implemented correctly in client tax returns	Dover's accountants advise on specific tax issues and to provide tax advice for inclusion in your statements of advice
Finance and negotiations with financiers	Complete certificate IV in Financial Services (Finance/Mortgage broking)	Advise clients on choice of lending products and interest rate management including strategies to pay off non-deductible debt	Not required.	Dover provides debt management strategies, refinancing and complex loan applications
Self Managed Super Funds	Complete Kaplan SMSF course Complete readings from major financial planning text books	Advise on set up and related issues Advise on planning strategies Advise investments & insurance	Engage SMSF manager/auditor/tax agent to provide SMSF back office.	Dover can provide a complete SMSF back office service including audit and tax agent certification for between $700 and $1,000 per fund
Accounting and	Complete Certificate IV in bookkeeping and MYOB short courses (unless hold	Advise clients on basic concepts and	Accountant tax/agent needed to complete and lodge	Dover can provide a complete accounting and tax compliance support service at $35

tax compliance	relevant undergraduate degree)	provide bookkeeping service	tax returns	an hour.
Risk insurances	Complete ASIC accredited course	Advise on life insurance, income insurance and trauma insurance	Not required.	Dover provides a complete risk insurance service for a fixed fee per policy and the representative keeps all commissions
Estate planning	Attend FPA seminars on estate planning for financial planners. Assemble a "readings" collection to provide to clients at meetings	Advise clients on an on-going basis on estate planning and related issues, including regular will reviews	Estate planning lawyers to complete wills and related documents on your instructions and to handle complex cases directly with your clients.	Dover has expert solicitors on staff to help representatives advise on estate planning issues
Property consulting	Complete REIV or equivalent Agents' representative course.	Advise clients on up-grades and down-sizes to the home, and on residential and commercial property	Consider engaging buyers advocates or similar consultants	Dover has NSW and Victorian qualified real estate agents on its staff
Shares and other securities	Kaplan ASX Accredited Listed Product Advisor course.	Advise clients on shares and similar securities	Not required	Dover can assist with sample portfolios and research reports
Managed funds	Complete readings from major financial planning text books	Advise clients on managed funds	Not required	Dover can assist with sample portfolios and research reports

Who is your competition?

Your competition is all other financial planners, as well as most accountants, some business lawyers, and other financial advisors such as mortgage brokers. It's not just other financial planners any more. And if they are not with you they are against you, and competing for the same client advisor dollar.

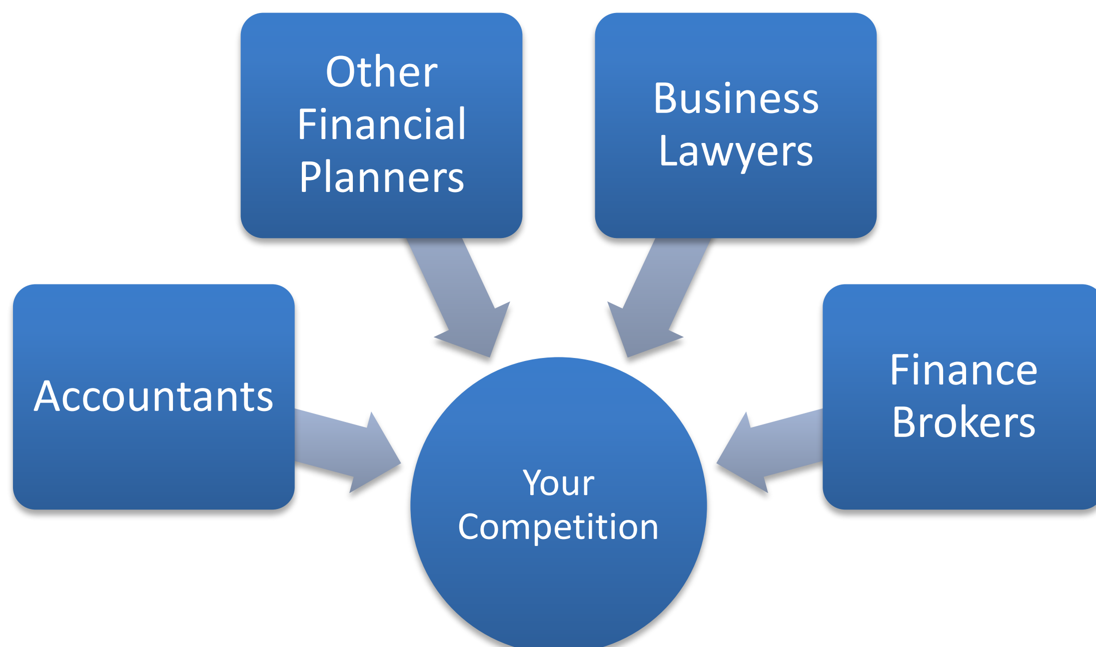
Your competition will all be after the same space as you: the role of primary advisor.

Your competition will want to be financial GP who controls the client and who represents the client in all other dealings with professional persons.

Your clients have a choice of paying your competition or paying you. You must create a value adding proposition that supports and justifies your fees if you want your clients to choose you rather than your competition.

It's a Darwinian model and if you are not fit you will not survive. And if you are not fitter you will not prosper. You have to be proficient in all nine technical competencies if you want to run a profitable and successful practice.

If you do not evolve you will lose your income and the capital value in your practice.



A practical tip: create a homogenous client base

Practices that have homogenous clients, with similar features amongst most clients, are more profitable than other practices. There are many reasons for this.

First, homogenous clients are more suitable to standardisation and systemisation. What worked for yesterday's client will probably work for today's client, and tomorrow's client too. You can get better results for better prices, and this in turn leads to even more clients. Growth compounds and client numbers build until you have a significant and self-perpetuating practice.

Second, it's easier to get better. If you are dealing with similar problems all day every day it's logical that you will get better at solving those problems. Client presentations start to repeat, and you can see the patterns, and you can develop precedents, templates and systems that allow you to handle larger volumes of clients more efficiently than your competitors.

Third, marketing is easier. Word of mouth referrals are stronger within a smaller group and advertising can be more specific and focussed. It's more cost efficient to sponsor say, a teacher newsletter than it is to advertise in the Sydney Morning Herald.

Finally, the power of the precedent means you can create better statements of advice for your clients at a lower price and with a better profit margin. It pays to invest in your precedents and to make sure you are doing more for your clients at a lower price.

Fee for service practices work better if you have a homogenous client base.

Introducing our case study: Black Rock Advisors

Let us introduce two of our Dover representatives, Bez and Matthew.

Bez and Matthew decided five years ago to specialise in a particular professional group, say teachers. They had some experience with teachers, and they felt it was a nice group to work with, had realistic expectations and appreciated an educative approach to all advice work.

They implemented a simple business plan featuring:

(i) selling their old practice, except for the teacher clients, thereby realizing a nice tax free capital gain;
(ii) re-investing the capital gain in new owned premises in Black Rock, Victoria,, with the "right" look for their new venture;
(iii) creating a portfolio of low cost standardized statements of advice for common teacher presentations, including younger teachers, middle age teachers in their peak cost years and older teachers at or approaching retirement age. These statements of advice can be produced in more detail, more comprehensively, faster and more efficiently than their competitors can;
(iv) developing "products" for teachers which fit within the average teacher's budget, including SMSF strategies, will and estate planning packages, negative gearing strategies and tax planning strategies. These products create a

client value proposition by reducing tax liabilities and improving superannuation performance which meant clients were making money by seeing them before they even discussed investments;

(v) they also create an on-going connection with the client, in that they see the client for tax and SMSF reasons at least once a year, which creates, as they say, a thirty year relationship rather than just a thirty day relationship, and a practice with permanent value;

(vi) they developed key alliances with a tax agent whereby the tax agent created "the teacher's package" to make sure their clients got the best possible tax results including all possible deductions. The alliance contract stipulated that the tax agent could not advise the teacher directly and had to channel advice and the tax returns through Bez and Matthew, and created a restrictive covenant for three years if the relationship terminated for any reason;

(vii) they developed a similar "controlling alliance" with an SMSF administrator/back office service, negotiating "wholesale rates" but remaining the SMSF front office and charging clients retail rates;

(viii) they developed a similar alliance with a wills solicitor to provide an estate planning service; and

(ix) they created a commission rebate scheme on life insurance and income continuance insurance to help attract in new clients and retain existing clients and to make this service more cost efficient for their clients.

Bez and Matthew's strategy is a great case study in how to move from a traditional commission based financial planning practice to a more professional and comprehensive fee for service model.

We come back to Bez and Matthew in Part 4 of this Guide, and look more closely at how they created a profitable and valuable fee for service practice, and the business plan that helped them do it.

The key is developing a homogenous client base

The key to Bez and Matthew's success is their homogenous client base.

Teachers know Bez and Matthew are good at what they do and have created tax effective strategies that work for teachers, at each stage of their career and retirement.

Bez and Matthew advise teachers better than anyone else, and that's why their practice is so good.

They charge their teachers set annual fees for completing agreed services including property and tax work, and this means their fees are tax deductible and represent much better value for money than their competitors.

What’s the message here?

We would all like to be the best financial planner in Australia. But that’s unrealistic and probably not going to happen. But if you focus on a particular segment of the market, in terms of occupational group, retirement status, wealth and income level and even geographic location, you have some chance of being the best financial planner in that segment.

This is what Bez and Matthew have done, and they now enjoy a happy client base, made up of intelligent clients who respect them and regard them as trusted advisors, and who want to use them on a continuing basis for the rest of their lives.

And if you do this it means you will have a much better practice, and achieve much better client outcomes, than otherwise would have been the case.

What about your team? How do you get them to change with you?

What about your co-owners? What about your staff? What about your other stakeholders? Getting your team on board with the transition to a fee for service model is an essential pre-requisite for success. They have to own the idea, and be 100% committed to making it work.

By the way, they do not have a choice. Commissions are banned from 1 July 2012.

The best way to get your team on board is to ask them to read this manual and other materials dealing with the transition to a fee for service model. Read the newspaper and journal articles, and go to the conferences. It’s happening, and they really have no choice but to get on board[15].

Brain storm at team meetings

Call a team meeting to discuss the changes, the problems it creates and the opportunities it presents. Get your team to brainstorm the problems for you, with no idea to out there or different. Listen carefully to what they have to say.

Ask your clients what they think. At one level you can conduct a full scale detailed analysis of what your clients want, formally asking your clients to respond to a set of questions and inviting them to comment further as needed. Or, perhaps more professionally, you can ask certain key clients what they are looking for and what it is you can do to improve your service to them.

[15] This is not strictly true. They can also leave the industry: we expect many will. Many financial planners will not complete the transition successfully and will ultimately leave the industry.

Some ideas for change

Think about:

(i) the need for a dedicated time management/practice management system and billing system. These have been around for years in the accounting and legal professions and will be picked up quickly by financial planners;
(ii) the need to change Financial Services Guides, client service contracts and similar documents;
(iii) the need to change marketing strategies including website design and presentation;
(iv) the need to re-educate clients about remuneration options, including:
(v) client letters, e-mails, meetings and telephone calls. Use all forms of client communications to repeatedly and systematically get the message across well before 1 July 2012 so clients are not surprised and client retention rates are maximized,
(vi) an options menu, if you have one,
(vii) a demonstration that the new model will create more value for the client through lower after tax costs and better and more services, and
(viii) general client marketing materials;
(ix) the need to maintain client relations during the transition period;
(x) the need to change to a dealer like Dover so you get the support you need with the nine essential competencies to run a successful financial planning practice;
(xi) the need to acquire a base level skill level in each of the nine essential competencies and to establish connections with a dealer like Dover to access the expert third party technical support needed in each of these competencies;
(xii) the need to recruit new staff to take full advantage of the new business opportunities presented by the fee for service model.

When should the change management process start?

Do not leave the change management process until the last moment. It's better to change sooner than later, and you should not underestimate the effort or time needed to complete the change. Most staff resist change, some more than others. And you need to demonstrate the negative reasons for changing (ie not becoming redundant) as well as the positive reasons for change including, ultimately a higher salary/profit share, a higher skill level and greater career satisfaction.

Managing the change to a fee for service financial planning model will be a very significant process for most firms. But managing change in a professional practice is an on-going process and this will not be the last time your firm has to adapt to a significantly different operating environment. The following article neatly summarises how to implement change effectively and is recommended reading for all financial planning practices.

How to implement change effectively **by Stephen Carroll, extracted from the www.ehowcom website on 27 October 2010**

"At times it may seem that operations are going well. There is, however, an inevitable ebb and flow effect that will influence your business. The good times can only last so long. When one is poised to face these times of needed change, they will always be the victor. Your commitment to creating an environment of change, however, is only the first step. The "buy in" to these ideas This knowledge and understanding needs to translate all throughout your team. Understanding your people and the influence that change will have on them as a team will be a positive card to have in your back pocket when the time comes.

Think to the past when you have been involved with change; whether you were the recipient of change or you implemented it. What were key events during the change process that made it easy or difficult to endure? Use this foreknowledge as a tool to help understand those that are recipients of change.

Change will always demand a new way of thinking or a new process to follow. Change brings a loss of predictability, habits and ways of thinking. People are generally comfortable with familiarity even when it is unpleasant. These factors and others contribute to resistance against change. When people are faced with change, it is crucial that they understand it, make a choice to participate, learn new behaviours and skills and obtain feedback and reinforcement. Most importantly people need a period of time to prepare for the change and decide for themselves if the change is necessary.

The reality is that you will need certain people to support the change for others to feel comfortable about supporting it. Looking to those closest to the action for opinions and support is your way to get traction out of change. Most of the time it should be their voices that recognized the need for a change in the first place. The individuals that you enlist should be natural leaders whose opinions are heard and followed. Invite key employees to meetings or in passing to discuss ideas for change. Prepare your managers with questions to ask and scenarios to present. You will be pleasantly surprised by how intuitive your employees can be. They have valuable input and ability; don't let it fall by the wayside while you make all the decisions from on high.

Communication is crucial in managing change.. People sometimes need to hear something a certain number of times or in different ways before it will really sink in. Time needs to pass to give opportunities for people to think about the change and to make mental preparations. The period of time between the announcement and the date of change should depend on how complex the change will be. It is your responsibility to give your employees the tools they need to succeed. Be prepared on how you might answer questions such as "Why us?", "Why now?", "Do we have a choice in this?" Explain to them why it is important for your organization to make this change, or the negative effects that could ensue if these changes are not made. Inspire them with a vision of what they could become. Ask them their opinions of what they feel the benefits/consequences of this change could be. It is good for them to know that you hear them. Even if a point is made that does not coincide with the direction the organization is taking, respond in a way that reassures them that you care about

what they have to say. Talk with your managers and leaders often to make certain that the material being communicated is consistent.

Track the success of the change process so people see that they're making progress and can feel a sense of accomplishment. Throughout the change process seek feedback from "nay sayers" as well as key leaders in your organization. Their observations can be valuable in discerning key events and their impact on team members and guests.

Create a culture of change. Just as evolution teaches us that organisms must adapt to an ever changing environment, so must we see our business as an organism. A machine will produce precise, controlled results over a period of time. Those results, however, will not be favorable for long. "One best way" is a comfortable phrase to say; but "There is always a better way" will be of more benefit. Peter Vail described this phenomenon as "permanent whitewater". The constant changes and stages an organization must go through to achieve greatness."

How big should your practice be?

Generally speaking, bigger is better. A properly constructed team is worth more than the sum of its parts. Choose colleagues who are compatible but not cloned, and who have distinctly different but complementary skills. Two peas in a pod is not a great business strategy. An older male financial planner, with traditional skills in managed funds and insurances, should team up with a younger female financial planner, with knowledge of tax and share selection, so they can complement each other.

The skill leverage is exponential. Two times one is only two. But two times two is four, and three times three is nine. And it just gets better from there. The more people you have, with distinctly different but complementary skills, the better your firm will be and the more appealing it will be to existing and potential clients.

Generalisations are dangerous, and will always be wrong, but we expect an optimum number of financial planners in the same office serving the same client base is between four and five. There will be some overlap of skills, but some will be stronger in some areas than others, and each will have their technical strengths and weaknesses and client preferences. Some financial planners may be better at estate planning, and some financial planners may be better at share selections and business plans.

Female financial planners may be better with female clients.

Older financial planners may be better with older clients.

Younger financial planners may be better with younger clients.

In summary, four or five financial planners, of varying ages and mixed gender, with different social backgrounds and areas of expertise, should be able to combine together to provide a complete service to all clients in the relevant segment. The combination will increase revenue, lower costs per planner and decrease overall risk due to succession planning and emergency[16] planning processes. Overall this means less risk, more diversification, more profit, more cash flow and more CGT free value in your practice.

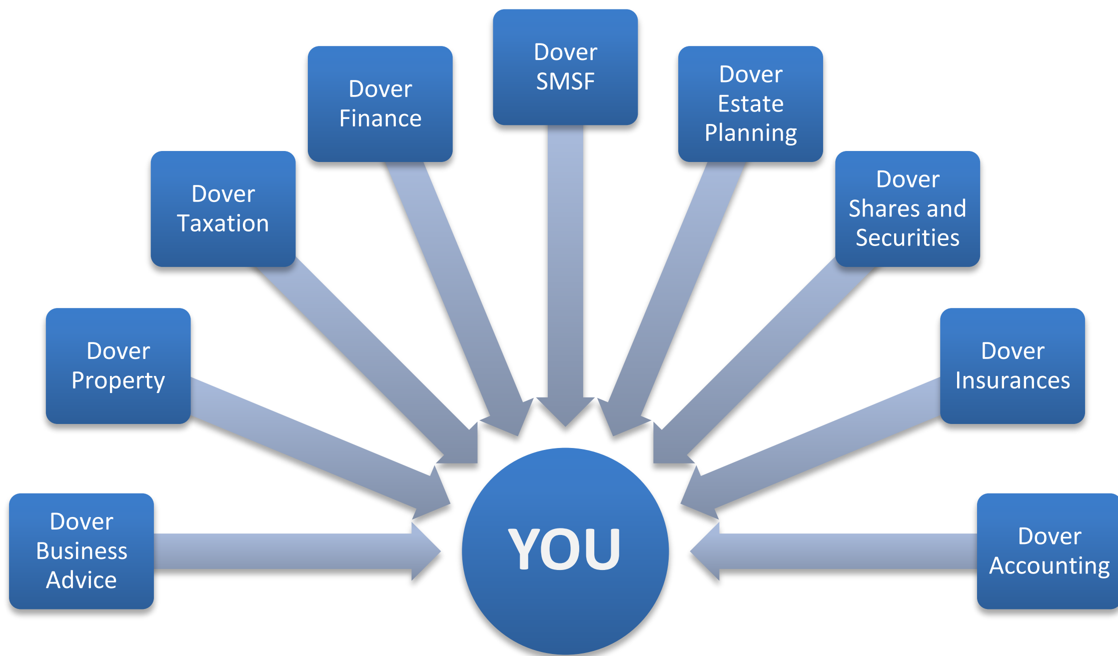
What if you do not have or want any colleagues?

The good news is Dover helps you get big without having to take on staff or partners.

Dover allows you to access the Dover Experience to provide a full service financial planning practice covering all ten areas to your clients without increased costs or risks and without giving up control of your practice in any way.

You can learn more about how we do this at The Dover Profit Improvement Program on the Dover website or contact Terry McMaster on 03 9583 6533 and terry@mcmasters.com.au to discuss how we can help improve your practice today.

[16] That is, if you are sick or injured a colleague can handle your workload and your practice does not disappear overnight



Why you have to be in control

We can recall a meeting with Jim, a financial planner, some years ago. He was delighted to have negotiated a deal with a local accountant where he referred his clients to the accountant in return for a small fee, about 30% of the first year accounting fees charged by the accountant.

Dover warned Jim that this was a remarkably small fee, since most accountants are used to paying three times that amount as a non-deductible capital cost, but that the real concern was the loss of control and a potential competitor for the role of primary advisor in the years to come.

Sure enough problems arose. They culminated in the accountant opening his own financial planning practice and taking over the clients, including the work done by Jim.

Jim is wiser now, having learnt the hard way to never refer work unless he controls the workflow and remains the client contact point for all referred work, and there a non-compete clause in the referral contract.

How to make your time based fees for SOAs as tax deductible as possible

One significant advantage of time based fees, and comprehensive statements of advice that cover the nine essential competencies, is that all or part of your fee may be a tax deductible loss or outgoing in the hands of your client. We have to say “may be” rather than “will be” because ultimately deductibility depends on the circumstances of the client, and the actual content of the statement of advice. But generally at least part of your fee will be deductible, and in many cases all of it will be deductible.

Obviously you should be aware of the issues and within the parameters of professional propriety do what you can to ensure your fees are as deductible as possible in your clients’ hands.

Creating templates, procedures, and a client attitude conductive to deductible fee notes gives your practice a significant cost advantage over competitors. It means your fee notes will be up to 46.5% less than your competitors, on after tax basis. Pointing this out to clients in the first meeting helps reduce fee resistance and helps make sure your clients get the on-going service and attention they deserve.

Are commissions deductible?

Generally commissions are not deductible. But time based fees can be deductible provided certain conditions are met, particularly when you are providing a comprehensive and on-going service.

If your fees are tax deductible they cost your clients less. This cost saving is one of the big advantages time based fees have over commissions, although this is barely mentions in the financial planning press.

How do you maximise the deductibility of your fee notes?

Deductibility is maximised by:

(i) allocating time appropriately over different tasks and, in particular, making sure the time allocated to deductible tasks is accurately recorded and able to be verified if your client is questioned by the Australian Taxation Office;

(ii) charging smaller multiple recurring fees over a period rather than larger once off up-front fees, and connecting the smaller multiple recurring fees to on-going advice and services over time rather than a large up-front job;

(iii) careful wording of tax invoices to emphasise/affirm the connection with existing income sources and business and investment activity, and to emphasise the “review of existing investments” aspect of your advice, and to de-emphasise any non-deductible work completed for your client;

(iv) addressing tax invoices to business entities where the work predominately relates to a business entity if possible;

(v) ensuring your SOA content emphasises deductible matters such as tax advice, business advice, employee remuneration issues, employer superannuation, existing sources of assessable income, business issues, investments generating recurring assessable income, business succession planning; and

(vi) ensuring SOA content de-emphasises non-deductible matters such as wills.

Remember that the tax law includes apportionment rules for dual purpose expenditure so your tax invoice may be partly deductible and partly non-deductible (ie be private or capital in nature) with the apportionment completed on the amount of time the advisor spends on each purpose, or some other sensible basis.

Your fees will be generally deductible in your client's hands to the extent they relate to your client's assessable income and they are not private or domestic in nature. The table on the next page summarise the position, but should not be accepted as stating hard rules because each case is different and subtleties and technicalities abound.

Specific legal advice should be sought before concluding a cost is tax deductible.

Table summarising the deductibility of fee for service financial planning fee notes	
Content	**Deductible?**
Business advice	Generally yes. May be a question regarding the deductibility of advice for prospective businesses compared to existing actual businesses
Business structure advice	Generally yes. May be a question regarding the deductibility of advice for prospective businesses compared to existing actual businesses
Superannuation	Generally yes, if it relates to employer contributions . Advice to a SMSF will generally be deductible (but at the low or nil effective tax rate faced by the SMSF) Otherwise no.
Risk insurances	Generally yes, for income continuation insurance Generally no, for life insurance not in a SMSF Generally yes, for life insurance in a SMSF (tax invoice to the SMSF)
Debt management	Generally yes, if the interest is deductible . No, if the interest is not deductible.
Investments	No, if it relates to new investments, unless paid in instalments over life of investment, and connected to on-going advice/service Yes, if it relates to existing investments
Tax planning	Generally yes, depending on who has done the work
Estate planning	No (unless it relates to a business's succession planning issues)
Retirement planning	No (unless it relates to a business's succession planning or a SMSF's payment of benefits)

The Australian Taxation Office's view on the tax deductibility of investment fees

The Australian Taxation Office released Taxation Determination 95/60 on 6 December 1995 dealing generally with the deductibility of investment fees. This is a relatively short determination and is reproduced below. You can access it at the ATO website at ATO TD 95/60

Income tax: are fees paid for obtaining investment advice an allowable deduction under subsection 51(1) of the Income Tax Assessment Act 1936 ('the Act') for taxpayers who are not carrying on an investment business?

1. When a taxpayer seeks advice in relation to the most appropriate investment or investments to make, the taxpayer may participate with an investment adviser in developing an investment plan. In many cases there will be a continuing relationship with the investment adviser. A fee is payable for drawing up a plan. A 'management fee' or 'annual retainer' is payable if advice is provided over the period of the investment(s), usually upon an annual or semi-annual review of the performance of the investment(s).

2. In discussing what makes expenditure deductible under subsection 51(1), Lockhart J said in F C of T v. Cooper 91 ATC 4396; 21 ATR 1616 (at ATC 4399, ATR 1620):

'The phrase "incurred in gaining or producing assessable income" in the first limb of s. 51(1) has been construed to mean incurred in the course of gaining or producing assessable income...

'For expenditure to be an allowable deduction as an outgoing incurred in gaining or producing the assessable income, it must be incidental and relevant to that end; ...

This test of deductibility has been explained in subsequent judgments of the High Court, so that to be deductible the expenditure must be incidental and relevant in the sense of having the essential character of expenditure incurred in the course of gaining or producing assessable income ... The essential character test is also applied to determine if the expenditure is of a capital, private or domestic nature...'

3. In view of the above, we do not think that the fee for drawing up the plan is deductible for income tax purposes. This is because it is not expenditure incurred in the course of gaining or producing the assessable income from the investment(s). It is too early in time to be an expense that is part of the income producing process. It is an expense that is associated with putting the income earning investment(s) in place, in the same way as certain kinds of investments attract entry fees, and has, therefore, an insufficient connection with earning income from the investment(s). See F C of T v. Maddalena 71 ATC 4161; (1971) 2 ATR 541 and the discussion of that case by Hill J in Cooper , (supra) at ATC 4412, ATR 1635.

4. *Expenditure on drawing up the plan is incidental and relevant to outlaying the price of acquiring the investment(s) , and is so associated with the making of the investment(s) as to warrant the conclusion that it is capital or capital in nature: see Sun Newspapers v. Federal Commissioner of Taxation 5 ATD 87 per Dixon J especially at ATD 95. The expenditure may qualify as an incidental cost to the taxpayer of the acquisition of the assets(s) [i.e., the investment(s)] for capital gains tax purposes. See subsections 160ZH(1) and 160ZH(5) of the Act.*

5. *On-going management fees or retainers are deductible under subsection 51(1). In Taxation Ruling IT 39 we discussed expenditure incurred in 'servicing' an investment portfolio. The Ruling discussed the decision in F C of T v. Green (1950) 81 CLR 313 which allowed a taxpayer a deduction in relation to the management of the income producing enterprises of the taxpayer. The Ruling concluded that expenditure in 'servicing' the portfolio should be regarded as incurred in relation to the management of income producing investments and thus as having an intrinsically revenue character. However, to be wholly deductible, all of a management fee must relate to gaining or producing assessable income. If the advice covers other matters or relates in part to investments that do not produce assessable income, only a proportion of the fee is deductible.*

6. *Over the period of an investment plan advice may be received suggesting changes be made to the mix of investments held. This would normally be part and parcel of managing the investments in accordance with the plan. This advice may be from the original investment adviser or from a new adviser. Provided the advice is not in relation to drawing up an investment plan it will be an allowable deduction as set out in paragraph 5 above.*

7. *We have been asked what is the position where a taxpayer has existing investments and goes to an investment adviser to draw up an investment plan. For example, a taxpayer nearing retirement may have a number of small investments, is expecting a superannuation payment (eligible termination payment (ETP)) and decides to put in place a long term financial strategy incorporating the investments arising from the ETP. In our view, a fee paid to an investment adviser to draw up an investment plan in these circumstances would be a capital outlay even if some or all of the pre-existing investments were maintained as part of the plan. This is because the fee is for advice that relates to drawing up an investment plan. The character of the outgoing is not altered because the existing investments fit in with the plan. It is still an outgoing of capital for the same reasons as set out in paragraphs 3 and 4 above.*

Commissioner of Taxation
06/12/95

Part 3 How Dover Helps You Create a Fee For Service Practice

Introduction

In part two of this Guide we explain how from 1 July 2012 providing a comprehensive financial planning practice means establishing yourself as the primary advisor to clients, to the exclusion of competing advisors, and providing services in nine essential competencies. The financial planner does not need to have an advanced knowledge of all nine competencies, but must be able to identify where expert advice is needed and to control a system for accessing that advice for his or her clients.

These nine essential competencies are:

(i) estate planning and business succession planning;
(ii) general business advice;
(iii) basic taxation planning, including choice of structure;
(iv) finance, and negotiations with financiers, including the management of non-deductible debt;
(v) superannuation planning and particularly self-managed funds;
(vi) record keeping, bookkeeping, accounting and basic tax compliance;
(vii) risk insurances[17];
(viii) property, including property acquisitions and tax planning strategies; and
(ix) shares and other securities including managed funds.

How Dover helps you

Dover Financial Advisors is the only AFSL that can provide its representatives with real life practical hands on experience across all aspects of running a comprehensive fee for service financial planning practice.

Dover Financial Advisors has more than seventy experienced professionals across accounting, financial planning and the law available to help you help your clients become wealthier

Dover helps financial planners help their clients

In part three of this Guide we look at how Dover helps its advisors provide services in the nine competencies. We examine each of the nine competencies and explain how virtually any financial planner can provide these services to his or her clients no matter what their professional background or how small their practice is.

If you are not a Dover representative you should make an appointment today to discuss how you can become a Dover representative.

Dover presents the best client value proposition possible: we cost you less than your current AFSL and we do more for you than you current AFSL.

You win on both counts.

[17] Commissions are not banned in risk insurances, for now. But the FOFA reforms flag this will be re-considered in the future.

The Dover Financial Planner as a business advisor

Why business advice?

Businesses are the best investments.

If a financial planner presents a comprehensive financial plan to a client it should at least consider the possibility of the client starting or acquiring a business. Obviously this is not current industry practice. Businesses do not generate commissions. But commissions will be gone in just over eighteen months. So why wouldn't you recommend that a client start or acquire a business?

The financial planner who expands his skills to include advising on new and existing businesses will be very busy and will have a very profitable and valuable practice.

The best advice to twenty seven year old plumber, with a one year old child, a dependant wife, and another on the way, is to stop being an employee plumber and to start his own plumbing business, ideally engaging apprentices and other plumbers and creating a good strong diverse base of income.

The advice completely transcends all other advice. It's step number one on the road to financial success. If it's done properly, his profits will increase, his income will be more secure, he can own more home faster, he can pay more superannuation, he needs more insurance, he can invest in other assets and he can enjoy better tax planning including sharing profits with his wife and other family members. One day he will sell his business CGT free.

Until then you will have a very active client, in your gratitude, for life. With much more work for you than otherwise would have been the case. And your client will regard you as his primary advisor, the first port of call on all major decisions and a constant source of encouragement and good ideas. And he will be prepared to pay you for this advice.

The same goes for virtually every young client (and some older clients) who come to your door. It does not matter what field they are in. The idea is universal, and you should at least be raising it for discussion. It does not have to be a business start up: we have had good results suggesting younger clients buy a share of their employer's business or even all of a business. For the right client this can work very well.

Businesses are safer than employment

Most employees get their cheque from one source, their employer.

Most businesses get their cheques from multiple sources, their clients or customers.

The safest and fastest way to create wealth is to build a quality business that does not rely on one client or even one source of income, and which has a market value that others are prepared to pay for.

At best, employment is a precarious occupation. Done properly, setting up and running a business is a low risk and conservative option that protects your clients from the vagaries of the market and opens the door to a much larger income and a much faster wealth accumulation.

How can Dover help you?

Dover has set up literally hundreds of businesses ranging from large primary production businesses, to training organizations, to aged care homes, to marketing companies, to large sea food providers, to IT businesses, to manufacturers and of course, our forte, medical and dental practices. This includes the legal processes, the accounting processes and the business planning and financing processes.

Dover can help you establish yourself as your client's primary business advisor, as part of a modern and professional financial planning practice. This is where you need to be if you want to create a profitable and valuable financial planning practice.

Dover's legal support service

Dover advisors can also call on Dover's experienced and expert legal team for low cost, practice and effective advice on commercial law matters related to small and medium sized businesses. This means they can present to their clients as source of legal advice, by arranging advice direct from the Dover legal team and staying in control of the client advice process at all times.

Dover's legal team is available to all Dover representatives and allows them to in effect offer legal services to their clients while staying in control of the advice process at all times. Dover's legal team charges Dover representatives significantly lower prices, leaving space for their own fees and making sure all tasks are completed promptly, properly and at the lowest possible cost to the client.

Dover's legal team has decades of experience with all aspects of professional practices including:

(i) taxation planning strategies for financial planning practices, including advice on choice of structure for financial planners;
(ii) trade practices law for professional practices;
(iii) superannuation planning strategies;
(iv) setting up professional partnerships, associateships, companies and trusts including family trusts; unit trusts and hybrid trusts;
(v) employment law issues for professional practice staff;
(vi) practice purchases including valuations and due diligence, and start ups;
(vii) practice sales, including negotiation with purchasers;
(viii) leasing practice premises;
(ix) dispute resolution processes;
(x) practice finance;
(xi) estate planning, with a particular knowledge of testamentary trusts;
(xii) partnership agreements, joint venture agreements; associate agreements, unit-holder agreements and shareholder agreements;
(xiii) self-managed superannuation funds;
(xiv) succession planning strategies;
(xv) financial product and ASIC compliance advice; and
(xvi) service trust documentation processes.

You can learn more about the Dover legal team here: The Dover Legal Team.

The Dover Financial Planner as a property advisor

The family home is the most valuable asset owned by most clients. It's got a great track record, its capital gains tax-free and clients love talking about it. Yet most statements of advice do not mention the family home. They do not mention whether it should be extended, up-graded or downsized.

The family home is basically ignored in the majority of statements of advice. In fact many authorised representative agreements specifically prevent

It's a pity because creating strategies to improve the family home is always popular with clients and a great way to get the advisor client relationship off to a great start. Show mum how she can get a better kitchen, more personal space, a better street address and bigger tax free capital gains for the same after tax cost as she is paying now and you will have a client, and a friend, for life[18].

Residential property investment is a booming sector and most clients are more interested in homes than they are interested in shares and similar securities. They see homes as safer and more stable, and they can drive by and see it, and even touch it if they want to. Yes, they cannot sell a fractional share of it (they can, actually, but not that easily) and sometimes houses can stay on the market for a while before a seller comes along. But unlike shares and similar securities they are easier to borrow against and this creates an effective liquidity that, overall, makes property a very interesting investment.

The tax benefits are good too: negative gearing is one of the last remaining tax-planning strategies open to taxpayers, particularly employees facing high tax rates. Its no coincidence that property prices have jumped since the government halved the deductible superannuation contribution amounts: negative gearing strategies can compensate here, and are a comparable tax benefited investment strategy.

The tax benefits and cash flow advantages of negative gearing are shown in the table on the next page: being able to create and explain concepts like this is a critical skill for financial planners.

[18] The same goes for Dads and cars. Show dad how he can afford more car for the same after tax cost and you will have a client and a friend for life.

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McMASTERS'
Accountants, Solicitors, Financial Planners

CASH FLOW CALCULATOR FOR A RESIDENTIAL PROPERTY INVESTMENT

Purchase of property	
Purchase price	$1,000,000
Additional costs (%)	5%
Total cost	$1,050,000
Cost of purchase consist of	
Equity contribution	$200,000
Amount to be borrowed	$850,000
Interest rate (on borrowing)	7%
Economic Assumptions/Other Information	
Rental yield	3%
Annual rent increase	4%
Depreciation term (years)	5
Depreciation estimate	$60,000
Building allowance estimate	$400,000
Rates and other outgoings	$2,000
Tax rate (taxpayer)	46.50%

Investment analysis

	Year 1		Year 2		Year 3		Year 4	
	Tax	Cash	Tax	Cash	Tax	Cash	Tax	Cash
Gross Income								
Rental income	$30,000	$30,000	$31,200	$31,200	$32,448	$32,448	$33,746	$33,746
Less costs								
Rates and other outgoings	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
Interest expense	$59,500	$59,500	$59,500	$59,500	$59,500	$59,500	$59,500	$59,500
Depreciation expense	$12,000	$0	$12,000	$0	$12,000	$0	$12,000	$0
Building allowance	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0
Tax benefit	$0	-$24,878	$0	-$24,320	$0	-$23,739	$0	-$23,136
Total deductions/cash out	**$83,500**	**$36,623**	**$83,500**	**$37,181**	**$83,500**	**$37,761**	**$83,500**	**$38,364**
Taxable amount (loss)/cash deficit	**-$53,500**	**-$6,623**	**-$52,300**	**-$5,981**	**-$51,052**	**-$5,313**	**-$49,754**	**-$4,618**
Tax benefit of tax loss	**$24,878**		**$24,320**		**$23,739**		**$23,136**	

Holiday homes

Don't forget holiday homes. With careful tax planning your clients can get the best of both worlds: a tax effective residential property investment and a nice place to take a break when there is no tenant in residence. Yes, they can be volatile, but with a booking economy and a growing population the long-term prospects are excellent, for some locations at least.

No matter what your view of residential property as an investment, from 1 July 2012 you will have to at least consider residential property with your clients if you want to be competitive and not lose clients to the firm down the road that offers a more complete service.

Incorporating property into your professional services

Consulting on property is actually natural territory for most financial planners. The investment analysis for property is substantially the same as the investment analysis for shares and similar securities and concepts like gearing, diversification and risk/return represent familiar home grounds.

There is a huge amount of technical material available[19] on the Internet and your local bookstore. It's a good idea to specialise in your local area, assuming you believe it has good capital gains prospects and generally meets all appropriate benchmarks.

How can Dover help you?

Dover has a small team of registered real estate agents who are licensed to practice in Victoria and NSW. Berivan Yilmaz is the director in charge and she has worked in real estate sales and management for over ten years before joining Dover in 2005. Berivan is also an accountant and financial planner, and holds an under-graduate degree in marketing and a Masters degree in accounting.

Berivan is involved in more than 100 property purchases a year and is available to help Dover representatives create a property consultancy within their financial planning practices.

[19] A good starting point is the property section of the www.moneymanager.com.au website.

The Dover Financial Planner as a taxation advisor

The Dover legal team is currently handling a complaint to the Financial Ombudsman Service. We are acting for the financial planner who prepared a comprehensive statement of advice. The SOA included structural advice for a small business and, as the authorised representative was not qualified to comment on tax matters, contained a sentence the effect that the client should confirm the advice with the client's own tax advisor.

Bad idea. The client did confirm the advice with her own tax advisor, ie her accountant. And guess what? The advisor disagreed with the advice. It's not surprising: they almost always do. They have to if they are going to keep the client. Just think about it for a minute: if the tax advisor says something like "Yes. That's a good idea. I wish I had thought of it. You should do that, and yes there are good tax results too. Wish I had thought of that as well…" The client' next question will be "Well, why didn't you think of it?" And then "Well, why should you be my tax advisor if you didn't know that?"

In this case the tax advisor has taken things further and said "and we can do everything the financial planner said he can do, and cheaper. And you can complain to the FOS to get out of paying the fee if you want to."

So now the advisor has lost a client, lost a fee and has to deal with a belligerent FOS that is completely ignorant of the Machiavellian motivations behind the (accountant drafted) client complaint. The FOS is very "consumer friendly" so guess who is wasting his time trying to explain things now?

If you refer your client to an unknown quantity, or more probably, an unfriendly party, ie the incumbent accountant, for a tax opinion you are basically kissing your client good bye. The last thing the incumbent accountant will do is agree with you and endorse your plan. The incumbent accountant is your competition, not your supporter. Do not be so naïve as to expect without fear or favour comments on the merits of your strategy. That's not the issue. The issue is "who is the primary advisor to this client?", and watch the incumbent accountant take you head on irrespective of your case. He or she will argue that you are wrong and they are right.

You can't win. Never ask a client to check your advice with their accountant.

You have to have a better strategy than that.

The best strategy is to develop sufficient knowledge and skill to develop sound tax planning strategies and then arrange formal advice confirming your strategies from a recognised expert tax agent or solicitor, and to rely in this formal advice in your SOA, and not invite your client to involve their incumbent accountant[20].

On the positive side, identifying a significant tax saving early in the first or second client meeting as part of your SOA preparation process is a great way to start the

[20] At the time of writing the ability of financial planners to advise on tax matters is uncertain, with a temporary 12 month exemption from the new Tax Agent Services Regime pending further review.

client advisor relationship. I can re-call one evening meeting some years ago and I noticed a family photo with what appeared to be a Downs Syndrome child's face smiling beautifully at the front. I diplomatically enquired and my concerns were confirmed. I asked about the child's treatment in the parents' family trust arrangements, and was advised the child was only receiving a minimal distribution.

I observed the child was deemed to be an adult for tax purposes and was taxed as an adult on trust income, meaning the family would be up to $15,000 cash/tax a year better off if things were done properly. Needless to say, we were engaged as advisors and our professional relationship continues to this day.

And every time I visit I look at that photo and smile. That child's life has been significantly better because of the extra tax benefits available to her parents in those early years.

Cars, rental properties, trust structures, superannuation, interest/debt management, and overseas travel: normally there is something that can be done for a client to legitimately improve their income tax profile, and save tax. A financial planner should spend time identifying what can be done and should incorporate the results into the final statement of advice.

How can Dover help you?

Dover has a team of tax agents and solicitors who are experienced in all aspects of your clients' tax affairs and who are able to provide expert advice on how to minimise your clients' tax liabilities and how you can in effect achieve a better tax planning result for your clients than they are experiencing now.

The Dover Financial Planner as a finance advisor

We have never seen a self-made millionaire who did not use debt. And we have never seen a self-made bankrupt who did not use debt. Debt creates wealth and debt destroys wealth. On balance, debt is positive and creates more wealth than it destroys. A successful financial planner has to understand debt and when it can be used to create wealth, and when it should not be used.

Perhaps the worst we have seen was an attempt by a bank financial planner to recommend margin lending to an 80 year-old nursing home resident. We had to explain that it did not matter that it was a good margin-lending product, it just was not appropriate to the client. Happily the bank supervisor agreed and the idea was canned and the advisor caned, with appropriate apologies all around.

On the other hand virtually everyone who has borrowed to buy property in the last twenty years has experienced a significant increase in wealth. Most Australians are in debt to debt: it has served them well and made them money. Most older Australians wish they had taken on more debt when they were younger to buy and hold property.

Most clients, particularly younger clients, have debt. If you can help them pay that debt off faster than otherwise without significantly impacting lifestyle then you will be very popular. Strategies include:

(i) reducing principal repayments and making larger extra deductible super contributions, with a view to using the tax free benefits to pay off loans at age 60. It does not suit everyone, but it does suit a lot of people, particularly those closer to age 60;
(ii) borrowing to pay costs where the interest is deductible and using the extra free cash flow to pay off separate expensive non-deductible debt;
(iii) consolidating multiple loans into larger, cheaper loans at the lowest possible interest rate;
(iv) paying credit cards off before interest bills are triggered;
(v) arranging inter-generational family finances to pay off non-deductible home loans as fast as possible; and
(vi) paying off margin loans with cheaper and safer debt secured against property.

A competent financial planner nurtures relationships with selected banks, and creates mutual trust. If you go out of your way to refer work to a particular banker in a particular bank, it’s reasonable to expect him or her to go out of her way to help you with a problem case or an urgent case as the need arises.

How can Dover help you?

Dover has a team of advisors who work constantly with banks to get the best possible deal for clients and to make sure all debt is as tax deductible as possible.

The Dover financial planner as a SMSF advisor

Dover has authorised representatives with up to 500 self-managed superannuation funds. These self-managed funds represent a significant part of their overall practice, and means they are in constant contact with their clients about insurances, investment strategies as well as SMSF and superannuation issues.

There is no reason why Dover cannot help you create a similar SMSF practice as part of your financial planning practice. Dover can handle the set up, documentation, compliance, audit and tax returns while you focus on value adding strategic advice, insurances and investment advice.

Most superannuation funds are SMSFs and SMSFs will get bigger and more numerous from 1 July 2012: from then on there will be no commission advice bias to retail funds, and there will be a big jump in the popularity of SMSFs and clients controlling their own SMSF advice.

The Dover Saigon SMSF office

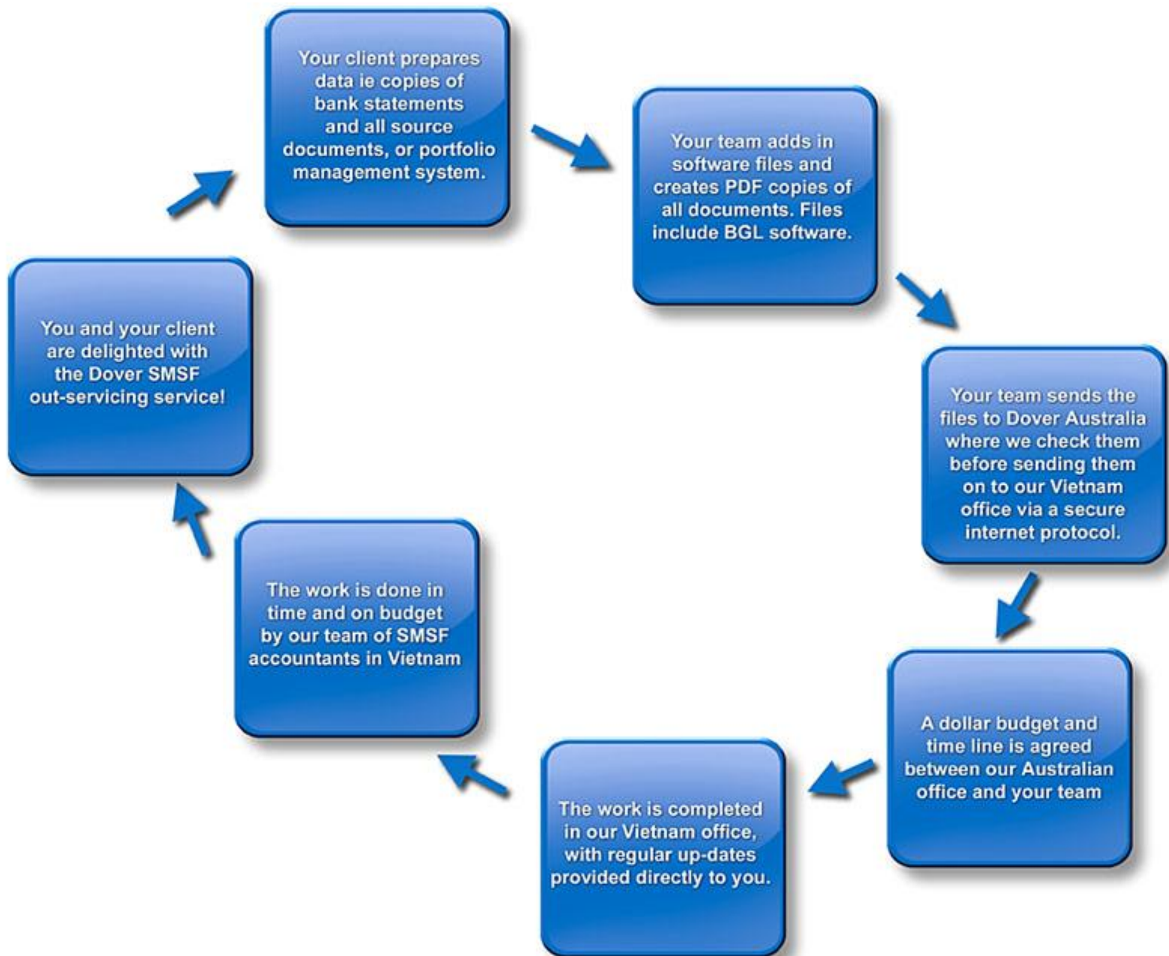
Dover set up an SMSF office in Saigon in 2008. It was started by two team members we recruited from Melbourne University in 2003, and trained intensely in SMSFs for five years before sending them to Saigon to open a "representative office" in the CBD area of Saigon.

The Dover Saigon team is very good at SMSF accounting and audit work. Ten of the Saigon staff have almost completed MBAs from Swinburne University (Dover pays) they also qualify as CPAs at the same time.

The Dover Saigon team just keep getting better, and now have the capacity to complete work for our representatives SMSFs. We see this as a real value add proposition that is good for everyone involved, including our Saigon team.

The Dover Saigon SMSF office is available to help you develop a SMSF practice that creates extra profits and extra tax free CGT value for your practice.

The Dover SMSF process



The Dover financial planner as an estate planner

Dover has an experienced and expert team of legal advisors on hand to help its representatives advise clients on all aspects of estate planning including the preparation of wills and related documents.

Dover has prepared the Dover Guide to Estate Planning, written by expert and experienced solicitor, Mr Phillip Lambourne, who completed 12 years with the well regarded law firm Harwood Andrews before joining the Dover group in early 2010. Phillip is a on a number of LIV committees and regularly speaks at legal profession conferences and seminars on estate planning and related matters.

You can download the Dover Guide to Estate Planning here: The Dover Guide to Estate Planning.

The Dover Guide to Estate Planning has two purposes:

(i) it educates and trains Dover advisors in the main principles attached to estate planning; and

(ii) Dover advisors provide it to their clients to help them explain how estate planning works and what they should be doing now to ensure their estate is dealt with in accordance with their intentions.

The Dover estate planning fact finder

You can download the Dover estate planning fact finder here: The Dover Estate Planning Fact Finder and send it to Philip and his team at Dover for assistance with all your estate planning issues including preparing testamentary trusts at advisor rates of only $375 plus GST. This is less than one third of retail prices and is set deliberately low to encourage Dover advisors to create and expand estate planning practices as way of creating new income streams and extra value in their practices.

Estate planning and superannuation

The Dover estate planning team can also help you provide superannuation planning services to your clients and make sure their SMSF arrangements work with their estate planning so their desires are achieved.

The Dover Financial Planner as an insurance advisor

Many Dover advisors run substantial traditional risk insurance practices and have significant experience and expertise in these fields. They enjoy the almost unique circumstance of having 100% of all commissions refunded and not having to pay any extra to a dealer group for providing a simple commission handling process.

But not all do.

For those that don’t have a traditional risk insurance practice Dover provides a unique service that lets accountants and financial planners who traditionally have referred life insurance work to other firms to instead offer a life insurance service to their clients - and profit by doing so.

The model is very simple. Dover handles all of the administrative and licensing disclosure requirements for the insurance policies for a low fixed fee - normally about $500 plus GST per policy, and then rebates all commissions to you, including trailer commissions, for the life of the policy.

Dover oversees all of the compliance, client liaison and application functions, as well as handling all client monies on your behalf. Monies received on your client's account are disbursed to you promptly in the month following receipt under our unique commission rebate scheme.

This service allows you to benefit from your client's life insurance needs without the stress and distraction of running your own insurance practice.

The extra commissions belong to you for the life of the policy, dramatically increasing your cash flow and the (CGT free) value of your practice.

Life insurance, income continuance insurance and trauma insurances are one of the few areas where commissions will remain legal after 30 June 2012, assuming the recommendations currently before the Government pass into law[21]. Developing new income streams rather than giving them away for nothing is a key part of a successful financial planning strategy.

A recurring income stream is an important part of any business, and developing a robust insurance practice significantly decreases the risk and increases the CGT free value of your practice.

The Dover experience means every financial planner can provide risk insurance services to their clients.

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[21] There has been some suggestion that this could change and insurance commissions may be banned too.

The Dover Advisor as a shares and other investments advisor

This essential competency focuses on shares and similar investments including index funds and other types of managed funds. It is very much the traditional financial planning function and the Dover approach is set out in the Dover Guide to Financial Planning which can be downloaded here: The Dover Guide to Financial Planning.

This guide focuses on the steps to be taken by advisors up to the preparation of a detailed financial plan, or statement of advice and provides guidance and suggestions on how to get the most out of this process to make sure clients statements of advice are as effective as possible and all compliance requirements are satisfied.

The preparation of an effective statement of advice is detailed in the Dover Guide to Preparing an Effective Statement of Advice, which can be downloaded on the www.dover.com.au website.

Managed funds pay advisors commissions for recommending managed funds to clients. From 1 July 2012 commissions are banned. You do not have to be Einstein to work out what happens next: put simply, once the commission bias is removed, and advice neutrality is achieved, financial planners will be less likely to recommend managed funds to clients and more likely to recommend property, direct shares, index funds and similar investments that do not pay commissions.

This means financial planners will have to be competent in advising on direct shares, index funds and similar investments from 1 July 2012 on if they are to be the primary advisor to their clients.

Dover recommends advisors take a conservative approach to which property, shares, index funds and managed funds they recommend to clients and in particular that they do not recommend aggressive investments and that they avoid high levels of gearing.

There is no point taking your clients to the edge. Stay conservative at all times and reduce risk for your client, yourself and your AFSL.

Think about it. Once there is advice neutrality, ie no commission bias towards recommending specific investments, and a rule against % based fees on geared investments, why would you recommend anything aggressive or highly geared to your client? There is no revenue incentive to do so. But there are plenty of complications if things go wrong.

In summary, Dover sees a move to more conservative, less aggressive and less geared investment strategies from 1 July 2012, where excesses will be avoided. Effective financial planning will include much more than mere asset selection, and will be a wholistic and comprehensive process that covers all aspects of a client's financial profile and aims to increase the client's wealth without excessive risk or costs.

Managed funds will be just a very small part of this process.

Part Four: Draft Model Business Plan

The draft model business plan is a device to help readers explore options along the road to becoming a full fee for service financial planning practice by 1 July 2012

It is based on a real life pair of Dover financial planners who in 2005 changed from a traditional commission based financial planning practice to a fee for service based practice, specializing in teachers. Bez and Matthew now run a profitable and valuable practice with three employee financial planners and act for more than 1,000 teachers based right around Australia. The practice is loosely connected to an accounting practice and has a "wholesale" contract for tax returns and SMSF services under which the accounting practice has agreed to channel all dealings through Matthew and Bez and to not compete with them in anyway.

The financial planners and their brief biographies at 2005 are:

	Matthew	Bez
Age	45	43
Qualifications	Bachelor of Science RG 146	Advanced diploma of financial services RG 146
Professional background	Life industry including time as regional manager and a BDM	Managed funds industry including time in marketing and product development
Years of experience as financial planners	7	10
Practice specialization	Risk insurance products	Managed fund and portfolio selection
AFSL	Large group owned by a life office	Large group owned by a life office
Fees	Commission based	Commission based
Legal relationship	Partnership of individuals	Partnership of individuals
Income level	$120,000 pa	$800,000 pa
Location	Sub-rented office space at accountant's office	Sub-rented office space at accountant's office

Matthew and Bez and their respective spouses were not wealthy and do not derive significant other income from income. They each own their home and each had around $100,000 in a life office super fund.

In 2005 Matthew and Bez brainstormed their ideas, consulted with selected key clients, and then resolved to create and implement a business plan to assist in transitioning their traditional commission/FUM orientated practice to a full fee for service practice specializing in teachers.

This resolution occurred when they realized they were inadvertently specializing in teachers, and found working with teachers more pleasant and professionally rewarding than working with any other type of client. They realized they were good at it, and would get better if they specialized in it, and that this would in turn attract in more teachers as clients, via word of mouth referrals and targeted advertising and marketing strategies.

Executive summary

On 1 July 2005 the firm was re-named, relocated, re-resourced, re-financed and re-staffed to comprise a fresh new business providing the full range of financial planning services to teachers.

The old practice was sold for $200,000, and this amount was derived as a tax-free capital gain under the small business CGT concessions. Matthew and Bez used the $200,000 as a deposit on an office in Black Rock, in bayside Melbourne, and borrowed $400,000 to complete the transaction.

The new offices were designed to create a more professional image, and to physically separate Matthew and Bez from other professionals, thereby stressing their independence and control over their services.

The firm increased its range of services and took steps to generally establish itself as the primary advisor to its clients. Bez and Matthew completed short courses to acquire the nine essential technical competencies. Now they are not limited to providing insurance and managed funds to clients connected to the local accountants, from whom they previously rented office space. They now control the advice process.

The firm abandoned the commission model starting from 1 July 2005, and will move to a mix of fees based predominately on fixed fees for agreed tasks, including statements of advice and annual reviews and further statements of advice.

The firm resolved to acquire competencies appropriate to their clients in each of the nine essential competency areas. It did this by developing a series of manuals, based on the specific needs of teachers, and filled with real life teacher examples. These manuals worked at a number of levels, including:

- creating a platform for self-learning. That is, Berivan and Matthew acquired a high level of knowledge in each of the nine essential technical competencies in order to complete the manuals in an appropriate way;

- as a marketing device. The demonstration of technical knowledge is the best way to market a professional services firm, particularly when the target market is a very intelligent and well educated group of professionals; and

- as an educative device, that removes the need for repetitive and non-productive work, and can be easily incorporated by reference into a statement of advice, which keeps costs down and quality up.

What makes the Dover model work so well?

The Dover model worked well for Matthew and Bez because it allowed them to run the sort of financial planning practice they had dreamed of. Low cost, high service, no interference and respectful staff and directors meant Dover equipped them to create and run a comprehensive financial planning practice based on the fee for service model years before anyone else.

The Black Rock Advisors model:

The Business Plan

Bez and Matthew implemented a simple business plan featuring:

(i) selling their old practice, except for the teacher clients, thereby realizing a nice tax free capital gain;

(ii) re-investing the capital gain in new owned premises in Black Rock, Victoria,, with the "right" look for their new venture;

(iii) creating a portfolio of low cost standardized statements of advice for common teacher presentations, including younger teachers, middle age teachers in their peak cost years and older teachers at or approaching retirement age. These statements of advice can be produced in more detail, more comprehensively, faster and more efficiently than their competitors can;

(iv) developing "products" for teachers which fit within the average teacher's budget, including SMSF strategies, will and estate planning packages, negative gearing strategies and tax planning strategies. These products create a client value proposition by reducing tax liabilities and improving supera performance which meant clients were making money by seeing them before they even discussed investments;

(v) they also create an on-going connection with the client, in that they see the client for tax and SMSF reasons at least once a year, which creates, as they say, a thirty year relationship rather than just a thirty day relationship, and a practice with permanent value;

(vi) they developed key alliances with a tax agent whereby the tax agent created "the teacher's package" to make sure their clients got the best possible tax results including all possible deductions. The alliance contract stipulated that the tax agent could not advise the teacher directly and had to channel advice and the tax returns through Bez and Matthew, and created a restrictive covenant for three years if the relationship terminated for any reason;

(vii) they developed a similar "controlling alliance" with an SMSF administrator/back office service, negotiating "wholesale rates" but remaining the SMSF front office and charging clients retail rates;

(viii) they developed a similar alliance with a wills solicitor to provide an estate planning service; and

(ix) they created a commission rebate scheme on life insurance and income continuance insurance to help attract in new clients and retain existing clients and to make this service more cost efficient for their clients.

Bez and Matthew's strategy is a great case study in how to move from a traditional commission based financial planning practice to a more professional and comprehensive fee for service model.

Bez and Matthew's approach to the nine essential technical competencies for a successful financial planning practice is set out on the next page.

Area of technical competency	Action taken	Comments	Dover involvement
General business advice	Not really needed as most clients are employees.	Clients take comfort in the "real world" business orientation but there is little need for these services on a day to day basis	Minimal
Basic taxation planning	Developed detailed check-lists for common deductions, superannuation salary sacrifice strategies, TRISS strategies and negative geared property strategies. Tax-deductible overseas travel is a common deduction.	They found standardized "before and after' tax calculations prepared by their tax accountant helped to convince their clients to adopt their recommendations. Standardization and systemization allowed fees to be lowered while achieving significant recurring savings year.	Dover created the check-lists
Finance and debt management	Reviewed each loan each year to ensure clients have lowest possible interest rates. Created relationships with local bank managers to smooth rate re-negotiation processes. Loan reviews were a fixed part of the annual review process.	Saving clients even small amounts on their interest bills each year reduced fee resistance and helped demonstrate the value of their advice and the worth of their fees. Being "independent" meant they could always recommend the best loan without any restrictions or conflicts of interest.	Dover idea
Superannuation planning and SMSFs	Introduced a low cost SMSF set up and compliance service, based on $2,000 per SMSF per year, with back office sub-contracted to Dover at $700 per SMSF per years.	Created "the Teacher's Guide to SMSFs" based on "the Dover Guide to SMSFs". Opened up a whole new advisory business including: • risk insurances, • SMSF investments, • estate planning, and • retirement planning.	Dover handles the SMSF back office work and Dover created the "Teacher's Guide to SMSFs"
Tax return compliance	Took responsibility for their clients' tax returns	The tax return fees were billed to Matthew and Bez and they included these in their "tax deductible annual review fee".	Tax returns were prepared on a "wholesale" fee basis by Dover's accounting team
Risk insurances	Continued a traditional risk insurances practice	Created "the Teacher's Guide to Low Cost Risk Insurances", which led to a increase in the number of new clients	Dover handled the insurances back off on a fixed fee basis and paid 100% of all commissions to Berivan and Matthew
Property	Introduced a residential property "buying" service and included property as a recommended investment in every SOA, where appropriate to the client. Created a practice specialty in property based negative gearing strategies.	Created the "Teacher's Guide to Negative Gearing Property Strategies". This led to an increase in Matthew and Berivan charged 0.5% for identifying and negotiating the purchase of a property, and also provided an on-going management service. This also increased the size of the average tax return fee.	Dover idea. Dover created the Guide and its accounting team handled the tax return preparation process.
Shares and other securities	Created a "top twenty" recommended shares list, and a model portfolio, with complimentary research for all clients, and provided information on index funds and similar investment options to all clients in all SOAs.	Included the portfolio details on their website and up-dated it each month to reflect their changing views and changing world conditions. They encouraged clients to run the portfolios themselves using low cost internet brokers.	Dover idea.
Estate planning	Created a relationship with a local solicitor whereby the solicitor prepares wills and related documents on their instructions, with the estate planning advice being run through their firm	Created an "Estate Planning for Teachers" guide to allow teachers to learn more about the principles of estate planning	Dover's legal team created the Guide and prepared the wills at $300 per will.

General strategy

The firm increased its profits from essentially a salary equivalent basis to a return on equity basis, and increased the dollar value of its annual profits from around $150,000 per owner to $300,000 per owner.

They do less work.

There is less risk in their practice.

There is more tax free goodwill in their practice.

This increase in profits created transferable goodwill and this is estimated to be more than $1,200,000 based on future maintainable profits/EBITDA for 2011 of $400,000 and a multiple of 3 to 4 on a planner-to-planner sale. The firm is now an attractive acquisition target for larger financial planning practice who, due to the “bolt on”/integration benefits, and scalability, will value the practice on a multiple of more than three times future maintainable profits/EBITDA.

John and Betty each transfered their interest in the old partnership to a new company called “Black Rock Advisors Pty Ltd. This company became the trustee of a new hybrid trust called the “Black Rock Advisors Trust”. They then re-located a new shop front office in Black Rock shopping centre in bay-side Melbourne in Victoria.

John and Betty financed the new business by each lending $100,000 interest free to Black Rock Advisors: this was used to re-furbish the office, acquire new IT/IM systems and office equipment and furniture and fund a marketing/advertising strategy. Black Rock Advisor left their old AFSL and become authorized representatives of Dover Financial Advisors. This reduced costs, increased market value and allowed them to access the wider range of services needed to run a modern financial planning practice based on professional concepts and standards.

John and Betty do not work excessive hours, they enjoy an appreciative and intelligent client base who are with them for the long haul. Their reputations proceed them, and they do only minimal marketing and virtually no cold calls. When new clients make appointments their decision is made: there is no selling involved, just high quality, low cost, experienced, road tested, safe and conservative financial planning advice across all nine technical competencies.

DOVER FINANCIAL ADVISERS

Profit and Loss Statement for Black Rock Advisors for the year ended 30 June 2010		
Fees		
Annual SOA/tax return package	500 clients at average of $1,500 per client	$750,000
SMSF fees	200 SMSFs at average of $2,500 per SMSF	$500,000
Insurance commissions		$120,000
Property consulting fees	35 properties an average fee of $4,000 per property	$140,000
Miscellaneous advices		$70,000
Total revenue		**$1,580,000**
Costs		
SMSF sub-contract fees	200 SMSFs at an average of $700 each	$140,000
Tax return sub-contract fees	400 income tax returns at an average of $200 each including tax planning and negative gearing calculations	$80,000
Accounting		$4,000
Advertising		$12,000
Cleaning		$5,000
Computer software and consultants		$12,000
Electricity/ occupancy costs		$3,000
General costs		$30,000
Insurances (total)		$5,000
Interest (owners' loans)		$12,000
Interest and bank charges NAB		$28,000
Licence fees (ASFL)		$22,000
Salaries and related costs: financial planners		$250,000
Salaries and related costs: other		$100,000
Sub-contract fees: SMSFs	200 SMSFs at an average of $700 each	$140,000
Sub-contract fees: tax returns	500 individual returns at an average of $200 per return	$100,000
Telephone		$15,000
Training		$24,000
Total Costs		**$982,000**
Net Profit		**$598,000**

Appendix 1: Accountants in Australia website as at 20 October 2010

The full article can be viewed here: **Reinventing Financial Planning**

What is financial planning? By Robert MC Brown

According to the FPA's website: 'Financial planning is the process of meeting your life's goals through proper management of your finances. Your life's goals may include buying a home, saving for your children's education and planning for retirement'.

This implies that financial planners should be strategists, offering a process of independent professional advice to their clients to assist in the setting and meeting of financial and lifestyle goals. It suggests that financial planners will possess technical skills or some practical knowledge in a wide range of disciplines, including taxation, accounting, structures, pensions, annuities, superannuation, investment, risk management and estate planning.

Therefore, financial planning should not be reliant on the sale of products, although many people believe it to be exactly that. Regrettably, that belief is not without foundation, giving rise to charges of hypocrisy and the creation of an environment in which the wider community appears not to trust the financial planning industry.

Irrespective of considerable areas of disagreement, there appears to be one issue on which there is substantial unanimity among industry participants. They would like 'financial planning' to be accepted as a 'profession' by the wider community (in the same way that lawyers, accountants and medical practitioners are generally accepted, irrespective of their shortcomings). They submit that the description 'professional' best suits the advisory services that financial planners offer (or would like to offer) to their clients, and that the high standards of honesty, integrity and independence found in all but a few of their number deserve no less a description than 'professional'.

The problem for the industry is that the community does not appear to accept this proposition enthusiastically, even though a great deal of regulatory and marketing work has been done to improve the industry's image and to lift its standards of practice. That work includes the 'Dazza' advertising campaign mounted by the FPA, which is claimed to have been successful in raising the profile and positive image of financial planners.

This campaign has been countered strongly by Industry Superannuation Funds in their powerful and resonating 'Compare the Pair' advertising campaign in which it is suggested that commissions paid to advisers are unnecessary because they result in higher fees and poorer end benefits for investors. Recently, it became even more powerful in the light of the negative publicity surrounding an enforceable undertaking given to the Australian Securities and Investments Commission (ASIC) by one of Australia's largest financial planning groups.

Unfortunately, over the last 20 years the ideals behind what it means to be a professional person have been somewhat marginalised in the financial services industry (and elsewhere). Even among accountants and lawyers, it is not uncommon

to hear members of those professions stating that the principal emphasis these days in their practices is 'making an acceptable return on equity' and 'running a business', rather than in the quaint notion of engaging in a vocation for the primary benefit of their clients and society as whole.

What is a profession? To answer the question: what is a profession? According to Suzanne Ross of St James Ethics Centre:

'The concept of a profession relates to the contract that professionals make with society. They agree to conscientiously serve the public interest, even when the public interest conflicts with self -interest. Based on this agreement society in return allows the profession certain privileges. The idea of self -regulation that most professions enjoy is one of those privileges. The core of this privilege involves accountability to, and sanctioning by one's professional peers — a professional web that has agreed to serve the common good' ('Money in Practice', June 2000).

The idea that a true professional serves the public interest is a recurring theme in the literature on this subject. The American legal scholar and educator, Roscoe Pound (1870 –1964) put it this way:

'The term refers to a group pursuing a learned art as a common calling in the spirit of public service — no less a public service because it may incidentally be a means to livelihood. Pursuit of the learned art in the spirit of public service is the primary purpose' ('The Lawyer from Antiquity to Modern Times', West Publishing, 1953).
Developing this theme, the Australian Council of Professions issued a discussion paper in August 1993 seeking to distinguish a profession from 'more commercially minded associations'.

It asserted that a 'professional' (as distinct from other occupations):

'… must at all times place the responsibility for the welfare, health and safety of the community before their responsibility to the profession, to sectional or private interests, or to other members of the profession'.

Commenting on Roscoe Pound's definition (above), Simon Longstaff of St James Ethics Centre wrote:

'The point should be made that to act "in the spirit of public service" at least implies that one will seek to promote or preserve the public interest. A person who claimed to move in a spirit of public service while harming the public interest could be open to the charge of insincerity or of failing to comprehend what his or her professional commitments really amounted to in practice … if the idea of a profession is to have any significance, then it must hinge on this notion that professionals make a bargain with society in which they promise conscientiously to serve the public interest — even if to do may, at times, be at their own expense. In return society allocates certain privileges.

These might include one or more of the following:

- the right to engage in self –regulation;

- the exclusive right to perform particular functions; and
- special status' ('Public Sector Ethics', QUT. Later published in Fisher's 'The Law of Commercial and Professional Relationships', FT Law and Tax, 1996) .

Longstaff develops the 'public interest' theme, quoting Michael Davis and Frederick Elliston on the idea of a professional's obligation to seek the social good:

'One of the tasks of the professional is to seek the social good. It follows from this that one cannot be a professional unless one has some sense of what the social good is. Accordingly, one's very status as a professional requires that one possess this moral truth. But it requires more, for each profession seeks the social good in a different form, according to its particular expertise: doctors seek it in the form of health; engineers in the form of safe and efficient buildings; and lawyers seek it in the form of justice. Each profession must seek its own form of social good. Without such knowledge professionals cannot perform their social roles' ('Ethics and the Legal Profession', Prometheus Books, 1986).

Commenting on Davis and Elliston, Longstaff concludes:

'As noted above, an old idea is at work here. It suggests that professionals might need to develop a particular appreciation and understanding of some defining end, such as justice. It is as much for this and the disinterested pursuit of these ends that the community looks to the professions for assistance'.

In the light of this analysis, what are we to make of the financial planning industry's desire to be treated as a profession?

The industry would certainly claim it has developed its own version of 'social good', in the form of advising clients on building wealth and the achievement of financial independence. The trouble is that the behaviour of many industry participants and the structures within which they operate (including remuneration structures), send ambiguous signals to society about whether financial planners can be trusted to engage in a sincere commitment to the 'disinterested pursuit' of that social good.

As a result, society has not been willing to make a 'contract' with the industry. Instead of allowing the financial planning industry to self-regulate in the way that most other professions are able to do (to a greater or lesser extent), the financial planning industry is extensively (some say excessively) regulated, with little prospect of external surveillance and control ever being significantly reduced.

At this stage in the development of the financial planning industry, there is no basis for it to qualify as a profession.

Certain actions can be taken to achieve the professional status to which the industry aspires. This, however, will require a painful self-examination, followed by some serious changes in its strongly entrenched culture and in the distribution networks that have existed since the industry's inception.

Appendix 2 Australians willing to pay just $300 for advice

Financial Standard Tuesday, 26 October 2010 12:30pm by Ruth Liew

The average Australian believes financial advice should cost just $300 upfront - almost 10 times less what planners say is the break-even cost of providing full advice, and a figure planners are calling "completely unrealistic".

New research from Investment Trends' Planner Business Report show Australians are willing to fork out $300 on average for advice, and $300 for subsequent visits, based on a study of 1,100 investors and 1,300 advisers.

The price is a far cry from what financial planners say is the break-even cost ($2,700) for providing full advice, or $1,200 for a simple advice plan. Recep Peker, Investment Trends analyst, called the dichotomy a "striking disconnect" between the expectation of planners and clients, and suggests many investors may be unaware of the true cost of advice under existing asset-based fee models.

Rick Di Cristoforo, managing director of Matrix Planning Solutions, said the figure is "completely unrealistic" and said charging $300 in today's compliance and regulatory regime is impossible.

"It can't be done - honestly, $300 implies that an entire financial service offering can be done in less than one hour, with one staff member. "What we have is a difference in public perception and reality of what's being offered," he said.

Di Cristoforo said the $300 figure arguably undercuts even the cost of intra-fund advice. "Some of the business models I've seen [for intra-fund advice] have been higher than $300... they're looking at a price that's higher than that as well," he said.
The research shows investors are most willing to pay for reviewing retirement plans ($540 for initial consultations), followed by taking out an investment property loan ($530), and reviewing an existing comprehensive financial plan ($420).

The trend for investors looking to pay low fees can also been seen in the self-managed super fund sector, where SMSF clients are increasingly sensitive to fees following the financial crisis.

A separate report from Investment Trends noted that while 15 per cent of SMSFs were willing to pay more for professional investment advice, 15 per cent expected to pay lower fees for advice, and 25 per cent were reluctant to pay for advice at all.

Around one in 10 SMSF investors stopped using an adviser in the last 12 months due to poor outcomes, noted the report.