Last stop to SUCCESSION

nmpeducation

Explore the pros and cons to building a triple-sided succession plan

The turmoil of the past few years has led many to ask a question made famous by The Clash: should I stay or should I go? For the stayers, the triple-sided succession plan is a vital strategic pivot.

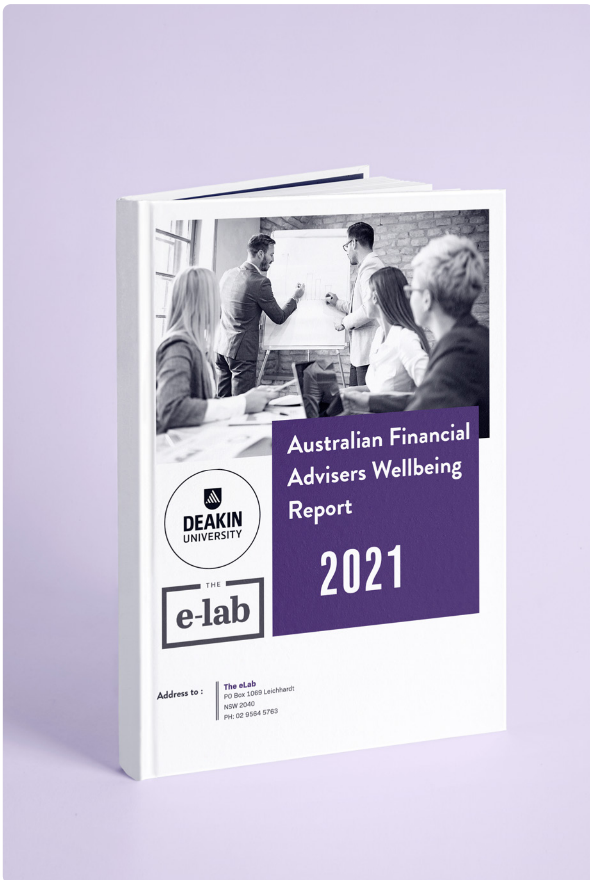
According to this year's Australian Financial Advisers Wellbeing Report, authored by John Molineux of Deakin University and The e-lab's Adam Fraser, over 40% of advisers are considering leaving the industry due to stress-related issues and a further 17% are unsure about their future.

These figures likely won't come as too much surprise to many reading this article, because at this point it's nearly impossible not to notice the myriad of pressures on the advice industry. Whether it's (ever-shifting) FASEA requirements, unpredictable ASIC levies, climbing PI insurance costs or even periodical broadsides from the press or Parliament, the cumulative impact is such that no one could really blame the average adviser for wondering whether sticking around is worth it in the long run.

At the same time, it's hard to believe that any adviser considering opting out at this stage - who's weathered the storm up to this point - doesn't have a deep understanding of the value of their work and the difference it's made to clients' lives. Old or young, new or established, small business or large - the connecting tissue here is the belief in what advice can do and why it's valuable.

Why else would someone enter the profession in the first place?

Of course, the corollary to that belief is the knowledge that advice is in trouble - not just as a profession but as a service available to the



community. There are two reasons for this, with the first being the most obvious: the fewer people in the industry, the fewer opportunities and avenues there are for people to derive the benefits of professional financial advice.

The second issue, though, is harder to quantify and can't be solved via submission, policy adjustment or any other kind of fiddling around the margins, and that's because it's generational.

The last time we discussed this topic we focused almost exclusively on the younger generation of clients, and they do play a significant role in this story, but it also concerns the younger generation of financial advisers.

Without them, the whole thing is toast.

The clock is ticking

According to consolidated figures from Business Health's CATScan service (which surveys clients on behalf of advice practices), the majority (55%) of advice clients are over 60, with a further 35% between the ages of 40 and 59, and it would be a fairly safe bet that the bulk of that cohort skew towards the upper end of that age bracket.

Meanwhile, the advice industry is rapidly shrinking: in April, Adviser Ratings predicted that, if current exit rates hold firm, there will be just over 13,000 advisers left in the industry in four years' time, down from above 20,000 at the beginning of this year. This is partly because of the issues referenced earlier in this piece, but it doesn't tell the whole story.

While you'd expect a proportion of established advisers to exit the industry each year, and you might even expect that proportion to be larger than the historical average given the tumultuous few years the industry has endured, what you'd also expect - in a healthy industry - is that there'd be a steady flow of new entrants making up the difference. That isn't happening.

In fact, only **163 advisers have entered the industry since 2019 compared to the nearly 8,000** who left over that period. Clearly, advice has a generation problem and it extends beyond the average age of clients.

How can this be fixed? There are multiple factors here: there are the oft-discussed issues like FASEA and compliance for established advisers, the steep cost of getting a business off the ground for new entrants and maybe the fundamental misalignment between how advice is traditionally delivered and what a younger prospective client would want from their adviser.

Is it possible to thread the needle? Maybe. But first, if you're in that 17% who are unsure about their future in the industry, Business Health principal Terry Bell believes now is the time to make up your mind.

Should I stay or should I go?

“That’s the most important thing,” Terry explains, “and it requires a fair bit of thought. We’re all spontaneous and prone to reacting to whatever’s going on at the moment, which is why we often have three- or five-year plans at best. But this is a much longer time horizon to consider. So if the answer is no, don’t worry - build your business up to sell it at the maximum possible value.”

But what if you do want to stay - or, at the very least, see the business you’ve built up continue on past your retirement? There’s no getting around it: depending on where you’re at on your succession plan, you may have quite a journey ahead of you.

Succession is recognised as critical to the long-term internal stability of any business, but as Terry explains, it’s also an essential component of ensuring the future inflows of new clients. Thinking more broadly, it might even be the key to the survival of the advice profession beyond the calamitous circumstances of the past few years.

"We've always believed that succession has three interested parties," Terry says. "The first is the owner, the second is the staff and the third is your clients. You need a succession plan for three different areas."

He continues: “If I were an established planner today, knowing what I know - I have an ageing client base who are approaching retirement and will, one way or another, withdraw from my services - I’d be trying to tap into a newer, younger source of business. Your current clients aren’t going to be there forever. So what do you do about that?

“The easiest answer is to nurture a new base of clients with the children of existing clients as the starting point. They’re the starting point because, at least theoretically, you’re known to them.”

> **“It's a tricky one. It makes a lot of sense, but you need a business model that can accommodate different life stages. A practice that focuses on pre- and post-retirement is not going to be able to offer the services a 25-year-old wants. You might even need a different fee model. But it's difficult to be all things to all people.”**
>
> Anne Graham
> **Story Wealth Management**

As Terry puts it, though, there’s a chance those children might not be too receptive to a “graying 75-year-old talking about pensions and aged care.”

“That certainly wouldn’t be my approach,” he says. “This is where you look to introduce a younger player.”

One hand washes the other

Of course, this brings us back to the problem of net outflows in advice. Why isn't the industry attracting new talent?

Terry thinks one of the biggest reasons is the cost of starting up in the industry - and incidentally, this is also why a "double-sided" generational approach to succession is so beneficial for younger advisers.

"If you're a young person coming out of university and you want to do financial planning," he asks, "how do you get a business going when you've got nothing? It's expensive to start up. You might need $1,000,000 or more in revenue to provide a return because it costs a lot of money to run a practice. And your generational cohort, generally, doesn't have that much money. But with the generational crossover of servicing the children of existing clients, there's long-term potential.

"For the established adviser, you start employing staff with a view to transferring to a younger adviser who wants to stay in the business for 20-30 years. Allocate them with the responsibility of nurturing a new market and have the understanding that if they hit certain goals there will be an equity transfer program."

A structure like this, Terry says, creates a harmonious arrangement where the younger adviser benefits from the established adviser's knowledge, experience and foothold in the industry, while the older adviser benefits from a new client strategy developed by someone with a much more intuitive understanding of the next generation's advice needs, communications preferences and technology.

The shock of the new

The technology aspect is absolutely critical to any advice business looking for new clients. According to KPMG research from last year, around 80% of consumers are "satisfactorily served through digital means" and just 20% expressed a preference for "traditional methods". And as we discussed in the previous piece on this topic, the appetite for financial services specifically through digital means is high: smartphone users have an average of 2.5 finance-related apps each and around 75% of users regularly use those apps to manage their finances (Finder, The state of investing in 2021).
But as Terry acknowledges, "it's hard to adopt new tech."

"If you're the owner of a practice," he says, "you're looking at FASEA requirements, compliance, documentation, even COVID - and then you have to look at new tech on top of that? You're worried about costs, you're worried about working from home, you're worried about the pandemic. There's a lot going on. That's why I think there's a gap between 'I'm doing this' and 'I'll do this later.'"

None of this changes the fact, though, that "any practice that wants to resonate or build relationships with a younger generation will need to embrace technology."

Terry continues: "Obviously, social media, virtual communication, even advice over the phone - these may be issues for older generations. The younger generation has different expectations, though - smartphone apps that help them budget or help them compare a selection of products or rates and mortgages. Most practices have never been geared toward that."

This is where the arrangement with a younger adviser cohort comes in.

"That's how you reach them," he says. "You might be an older adviser - maybe you can't even spell 'virtual'! But if you pick the right person - the younger person - it's very doable because they'll have a better

The shock of the new (cont)

understanding of what the younger generation is looking for. You're talking about annuities and pensions and aged care - maybe the younger clients want to talk about Afterpay. You might not know, but they will."

> "I think incorporating clients' children into the advice conversation can be a great value-add for the client. A lot of our clients don't know how to speak with their children about money and that can cause stress, so taking that off them is a win. If we can also help their children with their early financial needs, even from a high level, that removes another level of stress for the client. As a result we're solidifying the relationship with our client, making sure the children are starting on the right path and getting to know the next generation of ideal clients."
>
> Jeff Thurecht
> **Evalesco Financial Services**

The younger adviser cohort with a stake in this project, Terry adds, will also be able to help established businesses overcome one of the challenges of taking on business from younger clients: profitability.

He explains: "How do you afford to service a younger cohort when the average fee has to be around $3000-3500 to be sustainable? The younger generation won't willingly accept that if they don't see the value. But what you can do, as part of your succession strategy, is potentially build out a new front-end targeting that market, serviced by the younger advisers.

"Maybe the offer is different - maybe it's less face-to-face. Maybe it's all on Instagram! But it's a different offering and the younger advisers you employ are responsible for nurturing it."

Start your engines

The ideal scenario is that this approach creates a sustainable pipeline of younger clients who eventually transition into your core client base. If that sounds promising, Terry has some advice: it's time to get going, because you could lose that next generation sooner rather than later.

"None of this happens overnight," he says. "But you can start small. If you're a smaller business, it's going to require an investment in this with a view to the future. If you have 20 A-class clients with 20 children, you could put together a value-add webinar around, say, what those children should do with money after Mum and Dad die. Those children will have 20 friends. Work out how many you think you can convert and build from there."

In fact, Terry thinks this step-by-step process applies regardless of the size of the advice business in question: "If you have 500 clients, do you know the children? Do you have contact with them? Do I know if those clients have a will? What do you gauge as being the appetite for conversion amongst the second generation? I would start there.

"After that, go slowly. I'd start small by building relationships with them, working out whether you can convert them. Consider new comms approaches - maybe run an event catered to their needs and concerns. If the results have been encouraging, this might be where you get a younger person into the business to interview that cohort."

From there, Terry recommends building alliances based on the advice needs of the younger clients you've been interviewing. "They probably want mortgages," he suggests. "Can you add that to your network? You can do this within the confines of the licensee's network, or through an association or through other sources. Start building up those relevant services."

Reiterating that this process takes time, Terry says that advice businesses should be prepared to invest some money in the proposition and make use of support services, whether they're provided by your licensee or elsewhere. "Either way," he says, "you need to start building out the funnel to the next generation. There will be costs, but consider them against the cost of not attracting a new client base."

If you're staying in it, now's the time to figure out how to win it.

nmpeducation