WEALTH MANAGEMENT ALERT

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LIGHTHOUSECARRWOOD

Helping clients through tough times

Now more than ever, people are turning to their accountants for practical advice that will help them weather the downturn that so many businesses and individuals are experiencing. Many of their concerns involve financial planning issues such as funding capital purchases, pension planning and lifestyle protection. In most cases providing such advice involves working with a qualified, professional IFA, preferably one who, like you, operates a fee-based business model.

While most accountancy practices would like to offer financial planning advice in conjunction with the compliance and advisory services they traditionally provide, many struggle to achieve this. Why?

Some are wary. Most firms have spent many years building up a good client base which provides valuable revenue and, understandably, they are not going to jeopardise these relationships by referring clients to an untested third party. Therefore, choose an IFA who has a good fit with your practice, is prepared to be part of your team and places you at the top of their client list. Also, don't underestimate the initial effort that is required in building trust and rapport with the IFA you decide to appoint.

Not easy – but usually worth the effort

Having worked with accountants now for over ten years (five of which spent within an accountancy firm advising their clients), I know that an accountant working with an IFA generally proves to be the best way of offering the integrated, holistic financial planning advice that clients expect. The main reason for this is that clients perceive accountants as being all-knowing in financial matters – you have built up trust with your clients over a long-standing relationship.

Therefore, if done properly, offering an integrated financial planning service can be very rewarding, with conversion rates of nearly 100% and larger than average case sizes. Your fee income will give you a rough guide as to the potential. At the very least financial services should bring in the equivalent of 10% of fee income, with a target of 25% within five years.

A new, valued service, no additional cost

Your IFA's number one priority is to ensure that your clients get a first-class, long-term financial planning service, which dovetails with the service your firm has been providing over the years. As with generating any new business, you need to identify prospects and introduce your IFA to them. Start by looking at your client base:

- Profile your client types (commercial, personal tax, elderly clients). This will determine the areas of financial planning that are likely to be of most interest to them.
- Do the same for each partner individually.

Establish a structure

Once you have analysed the potential, you then need to agree how best to operate the service. It is important that your IFA does this in conjunction with the partners, both collectively and then individually.

Smaller practices may not warrent a full-time IFA. You should agree a set calling pattern with the IFA – the same day(s) each week. If you agree a set day, it is easier for you to arrange appointments for your IFA and schedule in time to discuss clients with him or her. It also helps give the service a focus. Larger practices can benefit from a full-time IFA.

Financial planning issues currently faced by business owners and private clients:

- pension funding: making tax-efficient contributions
- pension transfers: when does it make sense to transfer or consolidate?
- using a pension fund to finance capital expenditure
- using a pension fund to buy business premises
- tax-efficient exit strategies
- tax-planning ahead of the new higher rate of income tax
- flexible estate planning: reducing tax while being able to access the assets
- income on retirement without buying an annuity: income drawdown and unsecured pensions.

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Identifying potential business

Each partner should arrange meetings to see the IFA on a regular basis – at least monthly. Again, this will give focus. At these meetings, the partner should talk about the clients he or she will be seeing over the coming two weeks and their work-in-progress. Perhaps they are dealing with a firm which is merging or selling. Have they thought about the various issues this throws up? Have the articles of association been redrafted or updated? Are any overdrafts required? Are they secured? Once the IFA has been working with the firm for a few weeks her or she should take the opportunity to update the partners about the clients they have/are seeing. They should always ensure you are aware of who they are seeing and have seen and, briefly, what has been discussed. The IFA must keep you in the loop: after all, these are your clients. They should also update you on the pipeline revenue stream.

Invite the IFA to attend part of the general partners meetings – this gives them the opportunity to give an update as to progress against financial aims, case studies, examples of interesting products or ideas, etc.

Tax department: an excellent source of business

It is important to work closely with the tax department. This can be an excellent source of revenue for both the practice and the IFA. Often, the practice earns relatively little from a personal tax client – typically £500 - £700 for a tax return – but the earnings from financial services can be thousands of pounds. It is not difficult to increase the earnings of the tax department substantially without increasing your overheads.

The best way to do this is by keeping it simple – identify information that can easily be picked up from the tax returns, such as:

- the level of pension contributions
- large amounts of interest or dividend income
- people within five years of retirement or an equivalent age
- large amounts of loan or mortgage interest (for mortgage and life cover)
- rental income
- income from share/discretionary portfolios.

Clearly, your Tax Manager/Partner needs to agree that your IFA can have access to this information.

The points I have outlined above are important: they are the foundations you need to have in place to build a successful financial planning service within your firm, but unless you and your IFA also do the following the venture will fail:

Communicate: the IFA should always keep the partners informed. He or she should tell you when they are going to see one of your clients, what they are doing and what they have done. If there are delays (and there always are) they should tell you as well as the client. They should also tell you how much the case is worth to you.

Be realistic: agree a process and targets that are achievable.

Introduce the IFA properly: as "a specialist in their field who works closely with us but who may make a charge depending on the work involved". Like you, the IFA is a professional who charges for his or her advice.

Review: the partners and IFA should review, at least half-yearly, how they think things are going.

I have found, over the past 10 years, that once accountants have built the rapport and developed a good working relationship with an IFA the service gathers momentum. When clients start giving you positive feedback about your IFA, you know that the relationship is really delivering that integrated service you were looking for.

Structuring the arrangement

Introducer agreement: this is a good way of testing the potential of the wealth management service, whereby your firm receives 25% of income generated by the service.

Strategic partnership: this can suit larger practices and enables you to build capital value. Your firm receives 25% of income generated with the possibility of a valuable capital payment every five years, subject to certain conditions.

LighthouseCarrwood is one of the UK's leading providers of financial planning services to professional practices. To discuss how we could work with your firm please contact Mark Dallas, Managing Director, on 07899 981607 Mark.Dallas@lighthousegroup.plc.uk.