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# Financial planning – an evolution

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**FINANCIAL planning expert David Strybosch CFP looks at how financial planning businesses are responding to changes in the industry, and what this means for clients who want a reliable way of securing their financial future.**

The financial planning industry is evolving. When I first entered the industry 21 years ago, "Whole of Life", "Endowment" and "Insurance Bonds" were some of the limited products available to the wider public. The concept of modern planning didn't really exist.

As the financial planning industry deals with the upcoming challenges of removing commissions, charging fees for service and ensuring that clients actively choose to "opt in" to continue paying those fees, the value proposition – that is, what they actually offer their clients – has become a major focus for many financial planning businesses.

These businesses are being forced to take a long hard look at what they do and where they fit into the scheme of things – if at all.

Looking ahead, it seems likely that they may adopt one of several types of business models.

**The Transactional Model:** This business model runs on the same principle as a McDonalds. These businesses will have a list of the favourite products that they want to sell to you, eg superannuation, insurance etc. Their main interaction with you is likely to be to either move clients on to a "better" product on the list or increase/add to the product they already have.

**The Investment Model:** Financial planners using this model believe they can pick and mix the best stocks, managed funds and time the market. They have a strong emphasis on risk profiling which helps determine what mix of growth versus defensive assets should be held as part of your investment portfolio.

The key to their offering is the blending of different stocks and funds to reduce duplication.

This group has a stronger focus on long-term investments, such as education funds or retirement funds, rather than focusing on a client's day-to-day financial wellbeing. Their ongoing service is to reweight/rebalance your portfolio to better align it with your risk profile and switch funds due to poor performance.

**The Specialist Model:** This model is centred on a concept, service or strategy. Those financial planner groups adopting this business model have extensive knowledge and experience in their chosen field. It's a model with an emphasis on technology and staff expertise. Although slightly more expensive than the other models, the client has the ultimate say in the level of ongoing service they receive and how much work is necessary to keep their financial goals on track.

As with many industries, the majority of businesses are transactional and very few specialise.

During my time in the financial planning industry, I have seen time and time again that to be successful you either have to be big or specialise. Unfortunately, these two options alone often fail to provide a comprehensive picture of clients' finances.

**An alternative model**

With that in mind, our firm began developing an alternative business model that we believe to be the future of financial planning, what we call cash-flow modelling or cash-flow forecasting.

Cash flow forecasting works on a comprehensive system that provides a full service experience to the client. After collecting, confirming and analysing your data, we then forecast what your situation would be if you were to continue as you are.

We would then forecast your situation if you chose to invest into different assets or implement other strategies – about which you might be interested but not convinced, for example. We would then draw on our financial planning experience to model an alternative investment strategy that you may not have considered.

To keep the strategy on track, we would provide regular monthly cash flow reports based on all the standard variables. This in turn signals to both the client and the planner whether the forecast is on track or if a new strategy should be adopted.

Because this model relies on a financial planner's expertise and experience and is regularly monitored, it can help clients achieve their financial goals while lowering the risk to their initial investment.

As the financial planning industry prepares itself for ongoing change, a new business model needs to be adopted to provide the integrity and transparency that clients deserve.

The cash flow forecasting model is one means of achieving this transparency. So, for example, if there is a difference between the current and the projected position, we would explain why you're in that position and develop new strategies to get you back on track.

Financial planning is changing. Whether planners like it or not, they will have to re-evaluate their business models to meet the needs of the industry and, more importantly their clients.

Clients, justifiably unsatisfied with merely being offered new products, are demanding greater levels of service from their planners. It is the responsibility of each and every planner to ensure that the client receives that service and expertise.

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**Where to find out more**
Answer this week provided by David Strybosch from MyLife Financial Planning, a member of the Financial Planning Association. Phone 03 9017 4114 , www.mylife.com.au

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