

## 7. The Financial Planning Process

The difference between financial planners and other similarly situated financial advisory professionals is the process of financial planning itself, together with the resultant documents identifying the client's investment objectives, tolerance for risk and, most importantly, the meeting of the minds between professional and client.

InterPrac Financial Planning suggests that all Authorised Representatives follow a process when meeting and advising retail customers of the services you offer. InterPrac recommends that all representatives follow a step by step process in meeting with clients. The process presented here consists of 'best practice' and 'industry standard' steps which are used by many financial planners. The process you use will vary depending on your style and preferred approach, but there are a number of key steps which are driven by compliance and must be followed as a matter of ASIC requirement. The process is:

**Step 1: Introduce your services and provide Financial Services Guide (FSG) (Part 1) and Adviser Profile (Part 2).**

**Step 2: Gather data and identify the clients' goals and any financial issues.**

**Step 3: Prepare and present the financial plan.**

**Step 4: Client to sign and date the 'Authority to Proceed', and implement the plan.**

**Step 5: Client Service Agreement - client consent for an ongoing service and review programme.**

InterPrac Financial Planning Authorised Representatives should note that within each step there are important client engagement opportunities to keep in mind. Some of these opportunities are covered here while others may be considered with each individual practice as a tailored option based on the type of clients you have, the services you offer, your area of interest or expertise and your geographic location etc.

Often these steps will coincide, for example you may introduce your services and provide FSG Privacy Policy and Adviser Profile at the first client meeting. 7.1 Step 1: Introduce Your Services

The first part of the process is to identify your business, introduce who you are, who you represent and how you operate. The InterPrac Financial Services Guide (FSG) comprises two parts, the Financial Services Guide (Part 1) and Adviser Profile (Part 2), and assists in this purpose and providing it to every client when it is likely that a financial service is going to be provided is an ASIC requirement.

**The first meeting or client engagement has a number of key steps to consider.**

Use this meeting to understand what the client needs. They need to leave the meeting with a clear understanding of what financial planning is and what happens next - this begins with them choosing you as their adviser, that they are happy to follow your service process, accept your advice and pay your fees.

The first meeting with new clients should explain what you do and how you help your clients (in general terms), educate them on financial planning, set their expectations and (most importantly) understand what they need will usually take one hour unless you already have a pre-existing relationship with the client.

It is also important to be mindful of when and how you see the client. You should ensure that you do see the client in a situation where you have their full attention. If you are going to see a client out of your office, schedule the meeting in an appropriate venue for full and frank discussion by the client, where they will not feel rushed.

InterPrac Financial Planning National Practice Manager is available to assist you with any questions

## **7.2 Step 2: Gather Data, Identify Client Goals.**

Once you have provided the FSG and discussed your services, you need to understand and agree with the client what the initial scope of the engagement will be and this may be general at this stage such as “review superannuation and prepare for retirement”, you then proceed to collect the data to gain an understanding of the client’s goals and financial situation.

All advisers must use a document for the process for obtaining all relevant information from the client; this is called the Fact Find. Some circumstances may allow you to progress to the Fact Find step as part of the first meeting.

### **7.2.1 Fact Find**

It is the financial planner who is responsible for the giving of advice which will, or should, improve the financial position of the client. In this context, the adviser is to know the client, know the product, how it works and what it provides, and then match the product to the needs of the client.

In addition to being a licensee requirement, the structured process of using a ‘Fact Find’ in the process of gathering client information ensures that you do not overlook asking relevant questions. Copies of the InterPrac Fact Find are in your adviser kit, and suggested guidelines for ‘Getting to know your client’ are in Appendix 7.2.1A in this manual. Collection of factual data from a prospective client is one thing, but you also need to establish:

- Their level of literacy and ability to articulate their needs;
- What degree of ‘financial’ literacy that the client has;
- Ability to receive and accept your advice; and
- Ability to pay for your service.

In all cases your file must note that you made an assessment of:

- The person’s ability to articulate their needs both long and short term;
- The level of understanding of investment markets and investment terms the person has; and
- The person’s emotional condition and concerns with investing or accepting advice.

It is important to demonstrate that the client has understood and provided informed consent to continue with the advice process.

**As an Authorised Representative of InterPrac Financial Planning you must complete a Fact Find.**

The Corporations Act requires that you gather relevant client information, and completing the Fact Find is critical in this process. To give advice you must know the client and we do not accept this is possible if you do not know all of the information the Fact Find seeks to determine.

If the client refuses to complete a Fact Find, a warning must be provided on the risks associated with providing inaccurate or incomplete information, and that the client must ensure that any advice is appropriate for them. If you do not complete a Fact Find because the client does not want to provide this information, the only advice you are able to give is limited scope advice and your Statement of Advice (SoA) must disclose this.

Completing a detailed Fact Find can take two hours or more unless you already have a pre-existing relationship with the client or have asked them to complete some of the Fact Find.

## 7.2.2 Risk Profile

Part of completing the Fact Find is an additional supporting document for assessing the client's 'risk profile', and tolerance for risk. It is important that you accurately understand and interpret your clients' attitudes to and capacity for risk. A financial planner needs to understand: ▪ A client's risk attitude (a psychological attribute). ▪ A client's risk capacity (a financial attribute). Determining a client's risk profile is the process of understanding and qualifying a client's emotional (rather than their rational) feelings about possible scenarios and how they are prepared to risk for the chance to achieve specific outcomes.

In the InterPrac Financial Planning Fact Find there are three ways to determine the risk profile: 1. By asking qualitative questions to understand the client's perception and attitude to risk; 2. By a points based questionnaire; or 3. By going through the risk profiles and explaining and matching an appropriate one with the clients understanding of what their risk profile is.

This process provides you with a basis for discussion with the client, so that the results can be further discussed and confirmed, and file notes made. The risk profiling process needs to be completed for each individual as the partners may have different tolerances for risk and this will need to be addressed in any strategy considered, Statement of Advice (SoA) developed and product solution selected.

The InterPrac Financial Planning Risk Profile requires the client sign off on a choice of risk profiles which they have clearly identified. However, advisers may use a number of additional risk profiling tools which are available (Finmetrica, XPLAN, Proquest, AdviserLogic, Coin and Midwinter all provide software tools), each with a different basis for assessing the risk. Risk profiling will help you 'know your client' and understand a client's tolerance for risk, and this in turn will assist you in providing client appropriate advice. Whatever tool is chosen, it will provide evidence that the risk profile was appropriate, given the information that a client has conveyed.

31 Compliance Manual v3. 4

The Fact Find document is where you should record file notes about any variations between the client's risk profile assessment and your own intuitive diagnosis about a client's tolerance for risk.

Following the completion of the Fact Find and Risk Profile you are in a position to agree with the client on the **Scope of the Engagement** which may be expanded from the original client engagement and details the areas of advice that you believe the client should receive advice upon to reach their Financial Goals and Objectives. This will likely involve the collection of further client information or product and strategy investigation which is the key requirement of Best Interest.

## 7.2.3 File Notes

They might sound unglamorous, but don't underestimate the power of file notes. They are a risk management tool, a bridge to a better client relationship, and could help increase the value of your business. Contact the National Compliance Manager if you have any questions.

Regulators have been clear that providing a record of the reasons for advice is imperative. While advisers work with templates, such as Statements of Advice, and Fact Finds, one component of record keeping that is less structured is the file note. With regulators insisting you make adequate enquiries concerning clients' personal circumstances and demonstrate regard for the information obtained through such enquiries, taking file notes becomes an important part of the smooth running of your business, and potentially the key to its continued existence.

Effective management of client files makes managing your business much more efficient. There are 2 main reasons why you need to have good files: 1. Internal - It is easier to delegate work or manage client files if the information is accessible, complete and correctly filed. 2. External - It is easier to manage the client relationship and service if you maintain the client information.

Good file notes are part of this process and can be kept chronologically. They are also a form of managing risk. The most valuable file notes are: ▪ Clear - the notes can be read and understood by someone other than you. ▪ Concise - include relevant material only. ▪ Comprehensive - all important points are covered. The file notes should record not just the client's personal circumstances, but include the consideration and investigation which you considered when formulating a strategy and the advice given. Please ensure you file note all meetings and conversations with your clients.

The file notes in regard to the advice provided continue through the process and include the implementation phase of the advice. Where electronic (paperless) files are utilised and handwritten notes are prepared at meetings off-site then in addition to summarising those notes electronically the actual handwritten note should be uploaded to the file as a contemporaneous recording.

### **7.3 Step 3: Prepare and Present the Plan (SoA)**

#### **Giving a client personal advice triggers the need to provide a Statement of Advice (SoA).**

**SoAs must be provided for all retail clients.** Non-retail clients do not require SoAs. However, you MUST have signed by an Accountant, a declaration confirming the investors' status as a Wholesale Client or Professional Investor. Regulations commencing 1st July 2015 changed some aspects of how advisers can classify clients as non-retail clients. See Appendix 1.1A for definitions, and Appendix 7.4 Wholesale Client / Professional Investor Declaration Form.

For all retail clients it is vital that the SoA is consistent with the statements made in the FSG. The first component of preparing and presenting the advice is to ensure that the information you have relied upon to give the advice is accurate. This should be clearly identified in the Statement of Advice and is important in you complying with the 'know your client rule'.

However, before addressing the SoA, you need to ascertain the right strategy or strategies for the client based on the Fact Find process and what product solutions can assist you to deliver the desired outcome. Additional resources to assist in ascertaining the right strategies, are available through support services like technical help desks of product providers, software you may choose to use, or from InterPrac Financial Planning directly. Remember, if you are not sure, please ask.

When using a paraplanner, it is important you provide a copy of the Fact Find and the strategy / recommendation you are making. This is the first step to a compliant SoA. Having some idea of the product solutions which may be relevant for this client will also assist to get the SoA completed more quickly and in line with your requirements.

It is your responsibility to make sure the plan is exactly what you want and is clear in the recommendations. Remember, you are giving the advice, not the paraplanner, this applies whether the paraplanner is in-house or outsourced.

The SoA should always show your calculations and the thinking behind how you decided on a strategy in your notes, (as you would do when instructing a paraplanner). The key to good preparation in this regard is that if someone at a later date picks up the client file, it is clear how you came to provide the advice in the SoA.

If the client has specifically requested that the advice only covers specific areas of advice, ensure that the SoA clearly records this.

InterPrac Financial Planning provides you with a SoA template and Strategy and Appendix notes to accompany the SoA, to use in a Word format, which can be accessed through the InterPrac Financial Planning Adviser Intranet site. We also have AdviserLogic, XPLAN and Midwinter software template versions for advisers using software to help create the SoA. InterPrac will consider any requests to alter our existing templates but require that unless express consent has been provided, our templates are used in their current form.

**A Statement of Advice (SoA) includes:**

1. Front Cover with details of InterPrac AFSL, Adviser Representative Number and date
2. Scope of advice.
3. Detail of the clients Financial Goals and Objectives.
4. Relevant Client Details and Risk Profile.
5. Recommended Strategy or Strategies to meet the clients' objectives.
6. All product and advice recommendations.
7. Outcomes of the advice including ongoing service recommendation and offering.
8. Why the product/s are appropriate, specifically for that client and where a replacement product has been recommended, a comparison between the existing and recommended products, why the existing product is no longer suitable, and the tangible benefits of replacing the product.
9. Risks of the advice.
10. The Appendices to the SoA should contain information about products, including the research you undertook and Product Disclosure Statement (or product brochure), together with further explanations about risk and the client data on which the advice is based.
11. Fees / charges / commission from the recommendations.
12. Disclaimer.
13. The Authority to Proceed (see Step 4 in Section 7.4).
14. Any projections or statistical information.
15. What to do next.

The SoA may also contain a cover letter, particularly relevant if the SoA is being posted or emailed in place of, or before or after the meeting.

Your SoA must demonstrate a clear understanding of your client, the recommended strategy and the products used to achieve the client's goals / objectives which meet the 'reasonable basis' guidelines.

**7.3.1 'Advice must be in the client's best interests'**

The Reasonable Basis requirements s945A of the Corporations Act have been replaced with a Best Interest test, which expands on the requirements of the advice to 'Know the Client and the Product' and places a particular focus on the client being in a better position by accepting the advice than they would otherwise have been.

It is important that your documentation and explanation to the client identifies how the advice will both meet the clients' objectives and be in the clients' best interest.

The SoA presentation meeting may take one to two hours (or more subject to plan scope, strategy complexity and client questions).

### **7.3.2 Statement of Advice (SoA) Review Checklist**

The SoA Review Checklist has been created for your use to self-check each SoA you produce for your client to ensure it meets all key compliance, strategic and client best interest duties as directed by InterPrac Financial Planning and ASIC plus Corporation Law regulations. It is a requirement for all advisers to use this checklist tool for all Statement of Advice produced to meet best practice requirements.

### **7.4 Step 4: Execute 'Authority to Proceed' and Implement the Plan**

At the back of your SoA there is an 'Authority to Proceed'.

This page indicates that the client is ready to proceed with the adviser's recommendations.

It is important that this page is signed and dated by the client for both parties' records, and a copy of this signed page is kept in the client file.

**Once the client has signed the Authority to Proceed, you can implement your recommendations.**

Implementation of the recommendations as outlined in the SoA is another important process and can be done by administration or support staff. Implementation involves completing (in conjunction with the client) all necessary application and authority forms, lodging documents and engaging in communication with product provider administration or business support staff.

The time taken to complete the implementation process will vary from client to client and strategy to strategy. It is important to keep the client up to date with the progress and inform them of any unavoidable delays.

### **7.5 Step 5: Client Service Agreement**

Once the implementation of the SoA has occurred, an additional, short meeting with the client can be held to confirm what has occurred. You can use this time to present them with your ongoing client service offering and if they wish to participate, to complete the agreement for this service on a fee for service basis. There are many options and a simple Client Service Package example is provided in Appendix 7.5A of this manual.

A financial plan is based on your clients' needs and circumstances at the time of the advice. If a plan is not reviewed regularly then the advice may become irrelevant to your clients changing situation.

Periodic review helps to ensure that you are aware of any changes in your clients' personal circumstances, and your clients are aware of the impact economic and/or legislative changes may have on achieving their goals. The review process helps to keep clients on target with their goals and grows stronger mutually beneficial working relationships. While providing clients with an ongoing service program or service package is not a compulsory activity, it is highly recommended.

To assist you with the development and implementation of an ongoing service program, the InterPrac Financial Planning National Practice Manager is available to assist with any questions you may have.