This paper was produced and authored by Tony Slimmings, a Chartered financial planner and founding director of We Complement. It is meant for professional advisers not the general public.

A framework for delivering robust, repeatable and reliable financial planning

This paper outlines the use of centrally based financial planning frameworks within adviser companies to meet the true financial planning needs of their clients. It looks at how they need to be adapted to meet recent and fundamental changes to the economic environment, and how doing this could ensure the financial planning needs of individuals throughout their financial life cycle.

New products are challenging how the financial sector considers, plans and implements accumulation and decumulation wealth strategies. Coupled to this is an increasing understanding and appreciation for the risks involved in retirement. As a result, providers and planners are considering more complicated and sophisticated strategies that take into account more than just the expected investment returns.

The paper starts with the history of how and why the industry currently does things the way it does. It then outlines what we think a modern holistic financial planning framework should look like.

No matter how robust a financial advice company's Central Investment Proposition (CIP), Central Retirement Proposition (CRP) or Product/Platform Selection Documentation (PSD) is, it must be part of a Central Advice Policy Framework (CAPF).

If it's not, the CIP, CRP or PSD will fail to evidence the suitability of regulated financial advice as it will be unable to demonstrate a robust, repeatable and consistent advice framework. Despite this, the importance of the CAPF is often most overlooked by advice companies looking to demonstrate their commitment to consistently providing excellent advice.

For this reason, this paper will consider the what, why and how of building a CAPF, and explain the component parts of advice delivery and advice service frameworks.

The primary role of financial planners is to understand the client's needs and objectives over the short, medium, and long term. This includes specific reference to their unique SMART (Specific, Measurable, Achievable, Relevant, and Time-Bound) objectives and how any challenges could be met by developing a Personalised Financial Plan (PFP).

In building a plan we believe that a genuine financial planner will have reviewed, analysed and critically evaluated the myriad factors concerning a client's SMART objectives, emotive drivers and biases. This would typically be before considering the use of products or investments.

A financial services vs financial planning mindset

Although financial services and financial planning occupy the same space, they offer very different approaches. Financial services are typically offered by "advisers", who provide retail products and investments designed and managed by product providers and investment managers.

Typically, these products are offered on a transactional basis when the client needs them to meet a financial goal or overcome a challenge. When used correctly they are an essential part of the implementation and management of a client's PFP as they are the vehicle that gets the client to their desired financial destination.

An important point to remember is that while a good financial planner is a good financial adviser, not all financial advisers are good financial planners. All too often, a less diligent financial planner will focus on the vehicle and not the destination!

This is because advisers who are not good financial planners will seek to meet specific client "wants" via a suitable product. A good financial planner, on the other hand, will create a short-, medium- and long-term plan that helps clients by using SMART to meet goals, manage conflicting priorities and navigating ever-changing regulatory, legislative and tax regimes.

Using analysis and evaluation of all relevant factors, the financial planner will work with the client to produce a PFP that may, or may not, result in a secondary product recommendation.

True financial planning starts with a process

As a plan should consider every aspect of a client's financial and more general life cycle, the following section will look at how to identify and properly consider the needs of a client. It will also look at assessing capital sources and associated risks.

To achieve this, the financial planner needs to use an appropriate framework, which should:

1. Reflect all sources of capital/wealth and household liabilities in the decision-making process
2. Identify and deal with the asymmetric risk profile of individuals (individual risk preferences)
3. Provide an appropriate basis for the comparison of financial products
4. Acknowledge behavioural biases and educate investors of the potential ramifications
5. Be accessible in a range of formats and varying levels of sophistication
6. Be flexible and reflect the tendency of circumstances, needs, and wants to change over time.

Key to this is having a Central Advice Policy Framework (CAPF), so let's look at this in more detail.

The financial planning journey

To understand the important role the CAPF plays, let us reconsider the high-level stages of financial planning. The following six steps include key elements as defined by the Certified Financial Planning (CFP) Board, which is the professional, non-profit, organisation that grants the CFP® certification.

The six steps are:

1. Establishing and defining the client/financial planner relationship
2. Gathering client data including goals
3. Analysing and evaluating the client's current financial status
4. Developing and presenting recommendations and/or alternatives
5. Implementing the recommendations
6. Monitoring the recommendations.

The CFP has not been fully adopted by the majority of British financial planners, yet it is broadly accepted as the standard of excellence for competent and ethical personal financial planning around the world. In addition, its Standards of Professional Conduct (Standards) define financial planning as:

> *"The process of determining whether and how an individual can meet life goals through the proper management of financial resources. Financial planning integrates the financial planning process with the financial planning subject areas."*

As the above points demonstrate, the process is relatively straightforward. It starts with defining the relationship between the client and financial planner before ending with a strategy to monitor the plan. In between, there is all the analysis and strategies that go into creating the plan.

That said, while developing a plan may seem to be very cut and dried with little room for interpretation, there is in fact plenty of room for variation.

This is because different planners will approach each step of the planning process differently, something we will now consider in more detail.

Part science, part art

On the face of it, financial planning involves using facts and figures that provide a “yes” or “no” outcome. However, it actually provides plenty of scope for an “it depends” outcome.

This is because everyone is unique, and has different behaviours, beliefs, values and lifestyles. For this reason, genuine financial planning will never be a matter of numbers that provide a “right” or “wrong” outcome for the client and will always need to be flexible to some degree.

What true Financial Planning is

The emphasis on numbers and financial products is still a serious problem when it comes to financial advice, but it can be corrected if you understand what financial planning really is.

Financial planning was originally conceived as a more ethical way to sell financial products such as investments and insurance. In other words, it looked to move financial professionals away from product-centred financial advice to “true financial planning”.

While planning has changed to a certain extent over the years, it is still the most effective way to explain why a specific financial product is right for the client.

Why it matters

So, why does true financial planning matter and why should you care? The answer is that our world is too complicated, our money is too important, and our lives are too valuable not to have a “true” financial plan in place.

Imagine for a minute that you are able to build a picture of what you truly want to achieve with your life and have a plan in place to make it happen. How would that make you feel? That’s the reason for true financial planning: to move your client away from “need to” and towards “want to”, helping them get the most from life in the process.

A financial plan should be based on who your client is and what they want, not on what a financial services company determines a “typical” client should do. In order to construct a true financial plan, you need to take vague, mass-marketed and overused words like “retirement”, “financial security” and “investor profile” off the agenda and start from the beginning.

Following a framework without any pre-conceived expectations of what should – or should not – be contained within a financial strategy is the foundation of true financial planning.

Working through a process will naturally provide the right outcome for clients and their family. This is because it’s centred on them, not the products or the numbers.

For the majority of the population, the importance and complexity of managing wealth at every stage of life is increasingly important. In many developed markets, particularly in the UK, the responsibility for life-cycle wealth management has been undergoing a transition from institutions to individuals.

State retirement benefits are not sufficient to support the living standards of the majority of the population, and employers have scaled back their support of long-term wealth-management funding through defined benefit pensions.

All of this has created a need for individuals to purchase or invest in personal wealth management products such as managed funds, life insurance, and retirement products. But it is the choice around allocating wealth among these products that is the central problem.

Many people find it difficult to make financial and consumption decisions over the long term. This is partly because of the difficulty in assessing their future needs, but also because doing so involves the short-term cost of lowering their personal consumption.

In order to make a decision, people need to understand how their wealth-management needs change over the course of their lives. However, this is difficult for a number of reasons.

One is people's inability to assess the value of future income and savings, the duration until retirement and a tendency towards event-driven planning. Because of these, individuals often disengage from the financial decision-making process.

Marry this with financial advisers that promote products with higher adviser fees, and this can result in consumers making short-term decisions that are not really in their interests.

One of the consequences of this is that financial providers often view younger customers as less valuable than those who are at retirement. In reality, younger customers can provide a significant source of value through repeat business if long-term relationships can be developed.

As we have already said, the financial planning process is part science and part art. This is important when you consider that the six-step process above only lists the steps, which could be called the science. They do not take into account the many ways people integrate those steps into their unique approach to financial planning – the art.

This is where the individual financial planning philosophy or frameworks comes into play. Our view is that the framework should influence how the financial plan is ultimately built and implemented, something we will now consider.

The foundations

One of the most important fundamentals in the early stages of the financial planning journey is establishing optimal savings rates. An accumulation plan can help to identify goals. Broadly, this could be aiding house purchase, funding children's education, helping family, and later life/retirement planning.

Building wealth – accumulation

Once the foundations have been established, peoples' needs and objectives evolve, with accumulation planning and building wealth taking precedence. This transition from foundations to accumulation focuses on family financial planning to cover areas including: university costs, gifts to children to help them get onto the property ladder, and building wealth to support retirement.

Glide-path to and in retirement – preservation and decumulation

The preservation and decumulation stages are the most involved aspect of ongoing financial planning.

During the accumulation phase, there is a sufficient time horizon and enough resources to ride out market volatility and short-term losses, with clients benefiting from the effects of pound cost averaging.

In contrast, as clients enter the preservation and then decumulation phase, the availability of additional resources so that they can benefit from pound cost averaging reduces.

In addition, there is a limited – or no – time horizon to ride out market volatility and short-term losses. If this stage of the financial life cycle is not effectively managed, it could result in clients having to defer retirement or endure an uncomfortable standard of living when they finish work.

Worse still, the client could outlive their wealth and run out of money, which could create stress and anxiety, thus dramatically reducing their standard of living.

Modern Retirement Theory

The introduction of Pension Freedoms legislation in 2015 resulted in significant changes to the way the retirement income market and financial planners worked.

This new legislation re-enforced the view that retirement income planning is one of the most complicated aspects of financial planning. This was backed up by emerging research and evidence that showed many clients and traditional advisers failed to appreciate the complexity of planning.

All too often they oversimplified the process with targeted yields or withdrawals rates, which is typically misinterpreted. This is why retirement income planning needs to be regarded as a specialist branch of financial planning.

There are myriad problems that need to be solved and the consequences of getting it wrong can be serious for a client due to the impact of inflation, sequence risk, taxation and life expectancy. In addition, for some, pension savings have become a financial planning vehicle rather than just a source of retirement income.

While in many ways this could be seen as a positive, there is a downside. The increased choice offered by Pension Freedoms legislation has put an enormous decision-making burden on the shoulders of a largely unsupported, ill-equipped and rapidly ageing population who struggle to make the right choice.

Furthermore, the financial planning community has not yet provided a flexible retirement structure capable of maintaining clients' standard of living for 30 years or more once they've finished work.

As a result, Pension Freedoms requires financial planners to more effectively manage the inherent risks and lack of guarantees clients face when they retire.

Of particular concern is the impact of ill-informed or inconsistent decisions that might mean clients run out of money prematurely. In addition, it could affect younger members of a client's family as legacies may be passed on in an inefficient way, resulting in wealth being potentially lost or significantly reduced because of taxation.

For example, the government has revealed that its tax takings from pensions are around £2 billion higher than expected, due to pensioners drawing large sums all at once, and/or drawing so much that they pay tax at a higher rate.

This is why it is imperative for financial planners to have a robust, repeatable and reliable CAPF they can use to deliver the right outcome for every client they help.

Let's now look at this in more detail.

Making a difference

Before we explore the added value of our CAPF, we need to consider several industry studies on the topic of advice frameworks. We have provided links to the studies should you wish to explore this further.

Vanguard

Its study 'Putting a Value on Your Value: quantifying advisor's alpha' estimates that, over the long term, advisers can add more than 3% a year in net returns for clients. This is achieved through behavioural coaching, income and spending strategies, as well as rebalancing.

Interestingly, it also highlights that the most significant opportunities for financial planners to add value do not necessarily present themselves every year. This reminds us of the importance of developing an ongoing relationship with clients.

Another consideration is that where clients have elected for self-management, it is extremely difficult for a financial planner to undo poor decisions at a future date. Instead, the financial planner will typically only be able to avoid the client making similar mistakes in the future.

Russell Investments

The 'Value of an Adviser: help your clients understand the value you deliver' study estimated that advisers can add 4.4% a year in net returns over the long term. This is through a combination of preventing behavioural mistakes, financial planning, tax-efficient advice and rebalancing.

International Longevity Centre

The ILC has been running a multi-year study entitled 'The Value of Financial Advice'. Its most important conclusions are:

Taking advice has added £2.5 billion to people's savings and investments.

An ongoing relationship with a financial planner leads to better financial outcomes. Those clients who received ongoing advice had pension wealth 50% greater than those who took one-off advice.

The benefits of financial planning outweigh any costs associated with it.

Interestingly, the study also states that "once clients understand this [financial advice] will no longer be seen as expensive". It adds that: "the simple fact is that those who take advice are likely to be richer in retirement".

An Advice Policy Framework is vital for financial planners

We firmly believe that the identification and recommendation of best of breed platforms, providers or investment funds in isolation will not change a clients' life. Neither will it evidence the suitability of advice or allow the firm to sail through any deep-dive thematic review by the Financial Conduct Authority.

This is why consistent professional financial planning will make the biggest difference to your client's financial wellbeing and long-term success, and the viability of your financial advice business. Key to this is the implementation of a CAPF that provides a framework that allows details to be added, which in turn, provides a full picture of the client's situation and needs.

This then allows the planner to provide the right solution, and demonstrate why it was chosen and how it will benefit the client. Broadly, the framework needs to define the following:

Onboarding methodology – the use of paper or digital fact-finds, the identification verification procedure, and the client discovery process, including meeting notes and soft-facts gathering.

Risk-profiling methodology – use of relevant risk questionnaires, risk brochures, discussions to clarify risk understanding and cashflow planning.

Advice framework – this should always be tailored to each firm and its clients.

Advice delivery framework – this should include:

- Advice modules (soft, emotive open questions/calibrated questions to understand advice needs, biases, and misconceptions of the client)
- Suitability reports
- Service proposition and output

Centralised Investment and Centralised Retirement Proposition (underlying portfolios)

Platform and provider research

Advice Quality Framework – '4 eye reviews' internal or outsourced

Paraplanning support – where this is internal, a clear recruitment strategy and development plan needs to be created. When paraplanning is outsourced there needs to be full diligence that can be demonstrated, or a blended approach could be taken that is totally transparent.

Adviser recruitment and training procedures.

Benefits of creating a Central Advice Policy Framework (CAPF)

As you can see, creating and documenting your firms' advice framework provides many benefits, including a recommendation process that will better protect you from complaints or FCA investigations. In addition, it could help you grow your business in a safer, more compliant way, protecting your business from potential loss of reputation.

When you consider financial firms are typically only as good as their reputation, this could help ensure your firm attracts new clients and doesn't lose existing ones to rival advice companies.

Creating a robust CAPF is central to this for the following reasons:

Helps you meet client expectations – Clients expect the highest of competence from their trusted financial planner, as does the Financial Conduct Authority (FCA) and Financial Ombudsman Service (FOS). While robust personal technical knowledge is the cornerstone to this, it is not the only thing, which is why a CAPF is so important. It allows financial planners and their firms to think SMARTER, more ANALYTICALLY and provide more PRECISE and ROBUST advice.

A robust CAPF helps ensure the best client outcomes are maintained and that the advice firm is ready to meet the challenges of the FCA, FOS and Claims Management Companies (CMC).

"Skilled financial advisors systematically and logically think their way through the data and the assessments to conclude a robust and competent financial plan – underpinned by robust intellectual thinking.

"That thinking is logical, systematic, and built around a strong and robust thinking framework." John Reynolds Expert Pensions

Helps with goal setting – Your business will have drivers unique to it, including client demographics, the company's long-term goals, what it does well and areas it needs to improve on. A CAPF will provide your business with a terms of reference that can be used as part of a due diligence request by consolidators, the Financial Conduct Authority, or Professional Indemnity Insurance providers.

Provides documented Advice Frameworks – This is critical when demonstrating how recommendations were reached, and why they provide the best outcome for the client. The framework should be designed to include planning areas such as Cashflow Planning, New Monies, Replacement Business, Income and Capital Withdrawals, Estate Planning, Tax-led Investments (VCT, EIS, BPR) and Occupational Pension Reviews. This protects the company's reputation by reducing the possibility of a complaint being upheld, or an FCA investigation ruling against the firm.

Evidences a documented Advice Delivery Framework – The implementation of Centralised Investment Propositions (CIP) and Centralised Retirement Propositions (CRP) can lead to an unintentional bias towards client objectives that feeds into product-based solutions. This increases the possibility of recommendations being made that are based on these unintentional biases, and not client outcomes.

During their extensive work on the pension transfer advice market, the FCA have highlighted concerns around advice firms' ability to move beyond the traditional hard facts gathered via traditional fact-finds and understand the emotive drivers, biases and preferences that are unique to each client.

This message is an extension of the FCA findings from their paper **'Assessing suitability: Replacement business and centralised investment propositions'**.

The Advice Delivery Framework provides the toolkit needed to ask open, calibrated, challenging questions to ensure consistency in client discovery to evolve from traditional product-focused outcomes to Personalised Financial Planning.

The use of structured Advice Policy, Advice Delivery and Advice Service Framework allows the adviser the freedom to guide clients toward prudent, informed decisions. Furthermore, they will be able to do this safe in the knowledge that the underlying framework empowers them to meet these challenges and provide consistency.

Ensures Centralised Investment and Retirement Propositions are focused on the destination not the vehicle – Working in conjunction with a panel of investment experts to create bespoke Centralised Investment Propositions and Centralised Retirement Propositions to provide appropriate investment strategies, underpinned by the advice framework.

Improves behaviours, outcomes and creating consistency – An Advice Policy Framework, Advice Delivery Framework and Advice Service Framework allows the Financial Planner to:

- Promote appropriate behaviours in coaching clients to overcome natural human predispositions like loss aversion, home bias, procrastination, inertia, or mental accounting.
- Promote consistency that helps form habits and build momentum. This allows clients to engage in the Financial Planning process, its principles, and concepts. As a result, the focus switches from investments – as advisers do not influence markets, they simply expose clients to varying degrees of market risk – to their Personalised Financial Plan.

Provide consistency through the client's engagement with the Financial Planning process, its principles and concepts. This helps to shape and evolve the client's Personalised Financial Plan, which in turn, helps them understand the added value of advice. This then provides a stronger relationship between advisers and their clients.

Create positive behaviours that allows clients to maintain composure in what is an increasingly confusing world. This will help them avoid knee-jerk reactions that are largely driven by herd mentality and the dual forces of fear and greed.

Remove adviser value being derived from investment performance.

It will also reduce organisational risk. This is because one of the key reasons for the FCA's preference for larger financial planning firms is their ability to deliver consistent client outcomes. Ultimately, the same client being advised by any financial planner should result in a consistent planning outcome, underpinned by a repeatable advice methodology.

These methodologies will allow best practice financial planning outcomes and avoid unintentional adviser bias. It will further reduce organisation risk in the following ways:

Your clients will continue to demand the highest competence from you.

You will meet and maintain the highest of expectations by FCA and FOS.

You will meet the FCA requirements around advice suitability (COBS 9).

It will provide a robust framework to defend cases via Claims Management Companies and Financial Ombudsman Service.

It will enable due diligence for external audits via Compliance Service Providers.

There will be a robust, documented and repeatable internal Advice Policy, Delivery and Service Frameworks, which will help build a solid foundation for growth. This may be via acquisition, key hires, private equity backing or as part of a succession framework.

CAPFs Driving True Financial Planning

When people hear the words "Financial Planning" they often think "Investments, stock markets, pensions". The reality is that true financial planning is much more than the underlying components and products.

Nearly everything in our world is money-related, so when we think financial planning, investments and savings is often one of the first things that come to mind. If you are interested in improving your life, creating a financial plan could be one of the best things to do. But, in order to get the most from your financial plan, you should know what true financial planning is and why it matters.

Summary

As this paper has illustrated, there is a clear need for firms to consider the methods they use to ensure consistent outcomes for their clients. Having the right frameworks in place is the most robust way of achieving this.

A variety of considerations go into the development of a holistic planning framework. Financial literacy levels among the public are generally considered to be poor so, combined with the presence of behavioural bias, financial advice will be necessary for many to obtain the maximum benefit offered by a risk-based central financial planning framework.

As technology inevitably advances, more financial services will be directly available to consumers via automated processes. There will be an increasing need for financial planners to have processes in place to ensure they can consistently deliver the value that only a human being can. The processes can help move clients' mindset from 'need' to what they really 'want', and form long-lasting relationships with their planner that will provide their desired futures.