tr!plejump

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The following article (abridged) was recently published by *financialalert* online. In light of pending regulation in the financial services sector we felt it timely to share this with you. The landscape of financial service delivery in NZ is not fully transparent and a number of challenges exist for an intermediary's ability to act as a fiduciary for clients.

The Pros and Cons of Institutional Alignment

One commonly heard claim about a 2010, post-regulation world is that advisory firms will need to join an institutional network, which will manage the presumed onerous compliance workload. In this first of a three-part series, financialalert talked to the major institutionally-aligned financial planning networks in New Zealand about what 'aligned' means to them, the benefits to the advisers, and the obligations. Some were more forthcoming than others.

ING Life

ING declined to disclose the exact number of its aligned advisers, putting the number between 50 and 100 practices. Also ING does have an aligned network, supported by Strategi. ING-aligned advisers receive Strategi services – including training courses, support services, business advice, marketing campaigns, board representation and best practice guidance – at a quarter or half the normal price.

ING-aligned advisers can recommend any product from any financial institution, as they see fit. However, not unexpectedly, Strategi's model portfolios are created and signed off by an investment committee that includes Morningstar, Strategi and ING staff. financialalert understands that ING has a right of veto on Strategi working with any non-aligned network.

"As the market matures, people are going to want to know quite clearly whether these people are really just institutional sales people in disguise or whether they have true access to a full range of products," Strategi said. "The investing public is now clamouring for less of a relationship (between advisers and institutions).

Sovereign

Sovereign's website claims it has more than 1,500 advisers who recommend Sovereign insurance and investment products. Sovereign refused to discuss its relationships with their advisers, citing "commercial reasons". A Sovereign aligned adviser contacted by financialalert said he could not talk to us because in order to work with Sovereign, his firm had to sign a contract prohibiting it from discussing their arrangements in the media.

Financialalert understands that most Sovereign-aligned advisers are members of SovNet. A disclosure statement from a SovNet adviser noted "Being a member of SovNet obliges me to place the majority of my customers risk and contractual savings business with Sovereign". One adviser who did not wish to be identified says the reason Sovereign is so secretive about its relationship with its advisers is because of a quota system which requires Sovereign-aligned advisers to place "a large volume" of the adviser's insurance business with Sovereign. Now that the insurance landscape is much more competitive, Sovereign requires a quota of up to 80% of the advisers' insurance business, this adviser said.

AMP

AMP prefers to maintain strong ties with advisers through a variety of pathways, according to David Chote, general manager of distribution for AMP Financial Services. Chote explained that AMP has several support mechanisms in place for advisers.

AMP-aligned advisers are not expected to meet any particular quota but they must adhere strictly to AMP's approved product list (APL), which for the AMP wrap platform, is comprised of about 30% AMP products.

AMP is looking to increase its distribution footprint and is actively helping adviser businesses to recruit.

"You're always looking to grow your distribution. I think regulation will probably be a bit of a turning point for the industry and that may drive different models of distribution in the future."

AXA

It has contractual arrangements with about 450 advisers. In 2001, when it was looking to expand its adviser network, AXA purchased advisory firm Spicers. AXA generally requires their adviser partners to place a percentage of their investment business with AXA, but there is not an exclusivity requirement.

Spicers' marketing manager Aaron Hing, says Spicers clients are presented options which are free of bias but says "independent" is not an appropriate term.

"I don't think anyone can use the word 'independent' and we're certainly not going to, because we're owned by an insurance company

However, Hing refused to answer financialalert's query as to whether or not Spicers advisers are employees or contractors with their own businesses.

Tower

Tower has around 50 to 60 aligned advisers through Tower's Financial Advisory Services (Tower FAS), which is an operating division of TOWER Managed Funds Limited.

Tower FAS acts as the principal in the relationship, with the advisers acting as independent contractors.

Advisers choose products from a list vetted by Tower. The APL includes both Tower and non-Tower insurance products and investment vehicles, but it's mostly Tower.

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In addition to the previous mentioned areas of aligned distribution there are a range of additional supports provided to perceived unaligned advisers such as:

- Sales based incentive gifts and off shore conferences
- Discounted software applications
- Discounted professional association memberships
- Volume based contribution to superannuation schemes
- Volume based subsidy of new staff
- Supply of tied locum advisers to risk advisory practices
- Listing of advisers on insurer websites
- Subsidised marketing initiatives with directive to insurer product solutions
- Insurer in-house provided and funded adviser recruitment and training

Much of this is below the radar of current disclosure statement requirements or worded in such a way as to be invisible.

Advisers in New Zealand will still refer to themselves as 'independent' on the basis that they can sell a range of insurers products despite quota factors as high as 80% to one carrier.

How is Triplejump different?

- We have no volume based arrangements with any Insurers
- No Insurer has any ownership in Triplejump
- We do not participate in any soft dollar remuneration programmes
- We do not receive any financial support from insurers that are linked to sales performance quotas
- We provide structured needs based professional advice
- Insurance is not recommended as a solution until the financial analysis models demonstrate there is financial risk that the client cannot retain
- All insurance products that are applicable to the clients situation are presented to them with supporting product analysis
- Our product analysis process is not based on a ranking system but rather on factual assessment of policy wordings and their impact on a claim
- We treat clients with intelligence and respect to make informed decisions and provide support in the process as required

These claims are often made by other distribution businesses in the industry however closer investigation of their business model would highlight that these claims are not totally factual.

Triplejump's systems, processes and values ensure that we maintain commitment and delivery to the highest standard and is in the best interest of our client. We are receiving international attention for our advice and sales systems and this is also evident in the growing testimonials on our website about how distinctly different the Triplejump engagement is.

We look forward to discussing with you how we can work together to assist your clients to protect their wealth. We will ensure your clients receive Human Capital Risk advice and planning akin to the professional services you provide your clients in your area of expertise.

Source: Triplejump Limited. ACC New Zealand

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