



It's not just about numbers...

It's fair to say that the most effective way for a financial adviser to grow their client base is by forming one or more alliances with accountants. These most-trusted of all financial service providers exert significant influence over their clients. Financial advisers who have quality referral relationships with accountants experience a flow of qualified and motivated prospective clients resulting in a very high conversion rate.

As attractive as this relationship is, as difficult it seems to achieve. Advisers report ongoing frustration trying to convince accountants to allow them to work with their clients.

Although there are many parts to a successful relationship, the most essential ingredient is clarity on why a relationship should exist at all. Whilst the benefits of the relationship are obvious to the adviser, it seems that our accounting cousins are not that convinced.

I was recently asked to address an accounting conference on the topic "Why should accountants work with financial advisers?" It seemed that the request was both a challenge and a genuine desire to understand the benefits of forming an alliance with an adviser. This article describes the key themes presented. My objective is to provide advisers with ideas to motivate accountants to work with them. The need to communicate the importance and relevance of our services is the first step towards a successful partnership.

The Moral Hazard

I started my presentation with a story...

I have a friend who practices as an anaesthetist. Most areas of medical specialisation are well paid. This particular branch is very well paid. My friend also has a passion for model aeroplanes. One Sunday morning he was flipping a propeller to get it started and the engine fired early. The propeller sliced through two of his fingers severing bones, tendons and nerves. Life does have a habit of flashing past you in a moment of terror. His first thought was "What future does my family have if I can no longer practice?" (Anaesthetists certainly need two fully functioning hands). As an emigrant from South Africa he had yet to financially establish himself. The financial impact of this accident would have ruined the lifestyle he had created for his family.

Fortunately skilled surgeons were able to mend the damage and he is able to continue practicing. Like all human dramas, this story has interest value. But its purpose is to illustrate a point.

Imagine that the injury was not able to be repaired and my friend was no longer able to practice as a specialist. All other options would have resulted in a serious loss of income. As the most-trusted-financial adviser, my friend would have approached his accountant and asked how he stood financially. If his accountant, like many accountants, had never discussed the need for income protection and other personal risk solutions, and if my friend had been un- or underinsured like the



majority of Australians, what would the accountant say? I flippantly suggested something along the lines of “Well, you’ve got no more tax problems!”

By holding the position of “Most Trusted Adviser”, accountants have an associated moral responsibility to introduce their clients to specialists providing other essential financial services, or at the very least educate their clients and thus position them to make their own decisions. Survey after survey shows Australians are chronically underinsured. If this is to be remedied, accountants need to become involved.

At a recent conference a financial planning dealer group, with many accounting firms as associates, suggested that each accounting practice adopt the following commitment:

“We, the partners and staff of [insert your firm’s name] are committed to ensuring that in the event of the premature death or disablement of one of our clients, their families and business are properly protected”.

Like it or not, due to their position of “Most Trusted Adviser”, accountants face a moral hazard that can only be addressed by working with a financial adviser.

There are many other compelling reasons why an accountant needs to work with an adviser.

The Need for a Comprehensive Solution

The clients’ needs should dictate what services are required, not the practitioner’s skills. Clients’ needs do not end with tax advice, compliance and various business services. The average Australian needs advice on debt and cash-flow management, superannuation, personal and business risk transference, retirement and estate planning and wealth management.

Again, the approach an accountant can take is “Well, that’s not my problem”. That doesn’t however remove the need. So an accountant has a choice. Either introduce their clients to specialists in these areas on whom they have performed some due diligence and are comfy with their experience, qualifications and service quality. Or leave their clients to fend for themselves hoping that they are able to identify their needs and lucky enough to work with a capable provider. Accountants generally have strong relationships with their clients that require at least an annual face-to-face meeting. When fully considering their clients needs, I believe many would agree on the importance of expanding their current solution.

The MDP and Protecting the Client Base

Shopping centres are a relatively new phenomenon. How many new centres are developed each year vs. new shopping strips? People like the concept of one-stop shopping. Nothing’s different when it comes to financial services.



Having realised that they need financial services other than those supplied by their accountant, clients start looking around. A risk adviser for risk, a financial adviser for wealth creation, a solicitor for estate planning, a mortgage broker for debt consolidation....lots of different service providers. Life becomes messy and complicated.

Enter the Multi Disciplinary Practice (MDP). This is a financial services firm that offers all the services that a client requires. This one-stop shop approach is already attracting the top end of town. Serious accounting practices are recruiting specialists, developing in-house expertise or forming alliances. Investment banks are also getting in on the action.

And not only is the one-stop shop approach appealing, but a strong argument can be made that the quality of the solution is superior as specialists have the opportunity to consult and produce an integrated solution free of gaps and overlapping that may occur when different providers are involved.

A further advantage of this approach is the ability to attract inter-generational business. Whereas the majority of accounting services are client specific, financial planning services – particularly risk and estate planning – involve the client and his or her family. Thus by creating relationships with the client's family, the MDP retains the business once the original client relinquishes control of the business and investment assets to the next generation.

Alternative Revenue Streams

Some accountants work with advisers simply because they recognise their moral hazard and appreciate that their clients need financial solutions other than those they offer. They ask for no commission splits. Other accountants recognise that the opportunity to work with an adviser can create new revenue streams for their practice.

Many accountants are uncomfortable about receiving commission and embarrassed about having their share disclosed in the SOA. I think two points need to be made here. Accountants should be careful not to underestimate the value they are giving their clients by facilitating an introduction to other financial services providers. Any provider of value is entitled to be remunerated. A common criticism made about accountants is that they are not proactive. No client will complain when they see their accountant showing genuine interest and care. Secondly, the accountant performs a valuable service for the adviser saving substantial marketing time and cost. Accountants are entitled to their remuneration.

The impact on the value of an accounting practice can be significant. The costs associated with referring clients to vetted specialists are minimal thus earnings go straight to the bottom line. What's more, the valuation multiple applied to an accounting practice is south of \$1 of annual fees. Financial planning practices have traded on a multiple of 3 times revenue and in some cases higher. The reason for this disparity in the valuation seems to be because accounting practices have to invest professional time to earn their revenue each year, whereas financial planning practices receive trail income and will continue to do so as long as the client base remains intact. Thus the \$1 of accounting fees requires more effort (and expenditure) to generate than \$1 of planning income.



The case to diversify the revenue stream in an accounting practice is compelling.

Attracting Quality Staff

Generation X or Y, call them what you will, are seeking sexy careers in financial services. For many accounting graduates, tax and compliance seem mundane. Traditional accounting firms are struggling to keep talented staff after they obtain the necessary experience to become marketable.

Whilst many youngsters are attracted to investment banking, stockbroking, and creating their own businesses, a career in financial planning is becoming more and more popular. Witness the number of universities that now offer specialist financial planning degrees.

The message to accountants is that if you want to attract and retain ambitious and quality staff, make your business more appealing. By diversifying into financial planning services whether in-house or through a network of alliances, you make your business sexy.

An Additional Resource

Only one thing is certain about the future – it will be more complicated. Accountants are under increasing pressure to keep abreast with developments in the accounting profession. They simply do not have time to keep pace with developments in related areas.

The new Choice legislation may turn out to be a red herring. But expect the various superannuation funds to compete fiercely in the media. How do accountants manage when more and more clients begin to ask them to explain the new rules and what action they should take?

A competent financial adviser is a great resource for an accountant. Whether they seek information on self-managed superannuation funds, structuring the funding for a business succession plan or understanding the new Choice legislation, accountants can consult their alliance partner.

Marketing

Reciprocal referrals are a sign of a healthy working relationship. However, many accountants report that referrals seem to move in one direction – from them to the adviser. To be fair, almost all Australians who require assistance with the submission of their tax returns use the services of an accountant. A much smaller percentage uses the services of a financial adviser. Thus the opportunity for an adviser to refer a client who seeks the services of a new accountant is more difficult – but certainly not impossible.

It appears that advisers, whilst looking for referrals, are not putting in the effort needed to reciprocate. The advantages of the multi disciplinary practice approach can easily be discussed with an adviser's client and thus they can be encouraged to change their accountant.



In conclusion...

It is crucial for the financial health of many Australians that their accountants become more proactive by highlighting their other financial needs. But the advantages of teaming up with an adviser don't accrue to the client only. Securing the client base, creating new revenue streams, attracting quality staff, having a specialist resource on tap and the opportunity to gain new clients via reciprocal referrals are fiercely compelling reasons for all accountants to team up with a financial adviser and similar specialists.

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