CFP BOARD

STRATEGIC CONVERSATIONS:

THE ADVICE REVOLUTION

AN INDUSTRY IN TRANSFORMATION

The way financial services firms engage with their clients is changing. It's not just about asset allocation or performance of investments. Clients, regulation and competition are forcing advisors to increasingly engage in discussions that touch on much broader areas of a client's financial life. This revolutionary change is happening at an accelerated pace and will need to be addressed by firms that want to meet changing client expectations over the next several years.

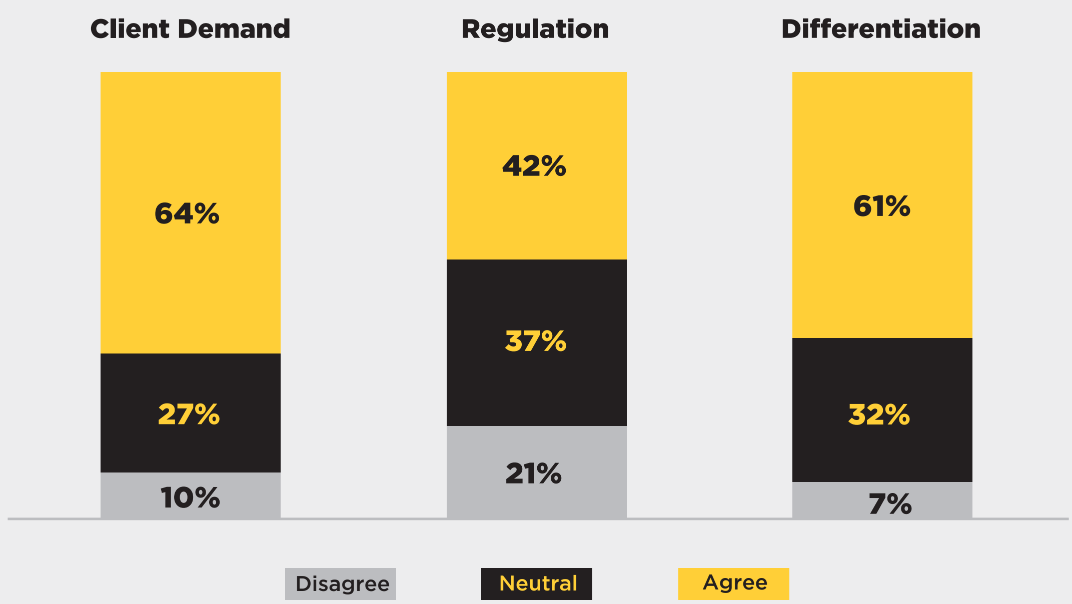
Amid this shifting dynamic, more and more firms are equipping and training their advisors to deliver a higher level of advice. The scope and scale of this change will require firms to adapt in additional ways to not only survive, but thrive, in this new environment. Organizational structure, compensation, recruiting, and technology will all need to align to ensure success. This paper will discuss not only the drivers of this change, but also provide a roadmap for firms seeking to adapt by developing a new value proposition for their clients.

WHAT IS DRIVING THIS CHANGE?

According to research by Cerulli, three factors are pushing firms to take a more strategic approach to their financial planning advice.[1]

Drivers of Financial Planning Growth

An increase in client demand, greater awareness of fiduciary issues, and pressure to differentiate are driving planning adoption.



Cerulli Associates Analyst Note: Advisors were asked to respond to the following three statements: "Client demand for financial planning is increasing," "The DOL Conflict of interest Rule is making planning more popular among advisors," and "My financial planning process differentiates my practice from other advisors," The "Disagree" category includes advisors who strongly disagree or disagree to the statement. The "Agree" category includes advisors who strongly agree or agree to the statement.
Source: The Cerulli Edge. U.S. Advisor Edition. 2Q 2018. Issue #59.

[1]The Cerulli Edge. U.S. Advisor Edition. 2Q 2018. Issue #59

Client demand is the most significant factor, with more than half of investors (55%) stating that a potential advisor must take the time to fully understand their "needs, goals, and risk tolerance."[2] Advisors share a similar sentiment, with 64% agreeing that client demand is the key driver of these changes. In addition, 43% of clients consider an advisor's ability to examine their entire financial picture, including investments, insurance and credit, an extremely important factor.[3] Financial planning allows advisors to incorporate each of these pieces in a customizable, although structured, repeatable process. This approach to financial planning encourages deeper-level conversations about their client's financial life, unearthing gaps that may have previously gone unaddressed.

Recent changes in financial services regulations have also spurred advisors to broaden and strengthen their planning services to offer more integrated, comprehensive financial strategies. Financial planning that demonstrates a clear strategy for overall financial success, strong analysis and thorough documentation of every step can be an effective way for advisors to demonstrate that they are acting in their clients' best interest. For firms, this process will allow for better documentation of and alignment with client goals while at the same time producing better outcomes through the integration of multiple areas of the client's financial life. In short, the expansion of advice, if done properly, can reduce risk for many firms.

While many advisors consider investment management to be their core value proposition, the growth of "robo-advisors" and other digital, low-cost financial advisory resources is pushing traditional wealth managers to find new ways to deliver valuable services to their clients and ensure that they feel they're getting their money's worth. With the threat of automated investing and online advice providers looming overhead, advisors are becoming increasingly aware of how comprehensive financial planning can be a differentiator in this competitive landscape.

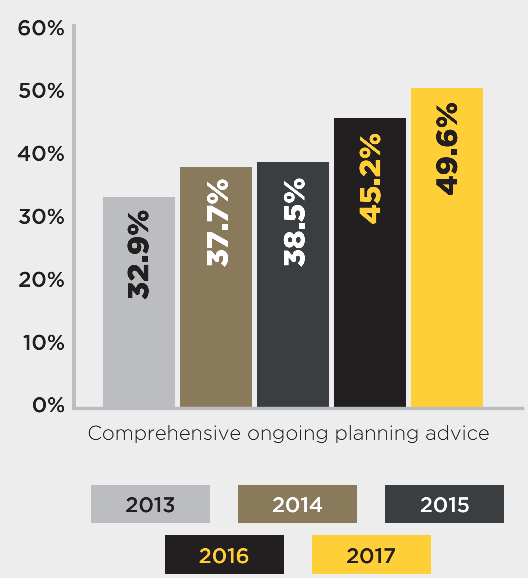
These drivers will continue to challenge firms to develop a planning culture, train advisors to ask better questions, and create a support structure to align compensation, fees and incentives with planning. In short, for successful firms to provide truly holistic financial planning, they will need to incorporate client-centric, end-to-end advice into their core strategy.

TANGIBLE BENEFITS FOR FIRMS

DIFFERENTIATION

Perceiving a threat to their core business, many financial advisors who have not historically focused on financial planning have adopted it as a way to differentiate their services. In 2013, advisors offered comprehensive, ongoing planning advice to only 32.9% of their clients. By 2017, that number had risen to nearly half (49.6%).[4]

Financial Planning Clients, 2013-2017



Cerulli Associates Analyst Note: See the Glossary for financial planning definitions. This is an abridged version of the full exhibit that appears in Chapter 1.
Source: Cerulli Associates. U.S. Advisor Metrics 2017.

[2]The Cerulli Edge. U.S. Advisor Edition. 2Q 2018. Issue #59 [3]Heart and Mind Strategies. Building a Well-Defined CFP® Brand: Research Findings Prepared for the CFP Board of Standards. February 2018 [4]Cerulli Associates. U.S. Advisor Metrics 2017

Much of this change can be attributed to the rise of digital advice paired with the success of retail-direct firms among investors. Basic aspects of investment management such as asset allocation, security selection and rebalancing have become table stakes and can easily be automated with technological tools. Little distinction between these basic wealth-management functions often compels advisors to justify the fees they charge by adding services and expanding their offerings. However, illustrating the ROI for holistic financial advising is different. There are intangible aspects of goals, such as quality of life and satisfaction, which are more difficult to quantify. What's more, although more valuable in the long-term, the results of good financial planning can take years to become apparent—unlike investment advice which may be proven valuable in a shorter time period. By placing advisors in the role of financial planner rather than a simple investment advisor, firms can differentiate themselves from organizations that focus on objective bottom lines rather than the full financial picture.

MORE PRODUCTIVE ADVISORS

Taking a planning-oriented approach to financial advising can also help firms avoid wasting time and resources on financial goals that don't align with a client's current agenda or timeline. By taking the time to fully understand a client's current financial situation, future needs and overall objectives, advisors can develop a customized strategy that better accounts for risks and rewards.

A firm staffed by professionals such as advisors with the CFP® certification can be integral to increased productivity as they have the background to support well-rounded financial planning. Even more significant, revenue at CFP® professional practices is 67% higher than at non-CFP® professional practices (US$2.5 million versus US$1.5 million).[5]

Higher Fees for Comprehensive Plans: While the fixed fee advisors charge for financial planning is a relatively small portion of revenue for most advisors, advisors who have adopted this approach say that even when the fee is nominal, it reinforces the value of the financial planning process with clients.[6]

ADVISOR RETENTION

Firms that establish a culture of providing holistic financial planning services will not only attract advisors who are looking to earn more by charging for comprehensive services but will also retain advisors who seek to put financial planning at the forefront. A focus on planning also shows a strong correlation with career satisfaction. In fact, nearly three-quarters of CFP® professionals are very satisfied or satisfied with their careers and firms, compared to 64% of advisors without CFP® certification.[7]

BETTER CLIENT OUTCOMES

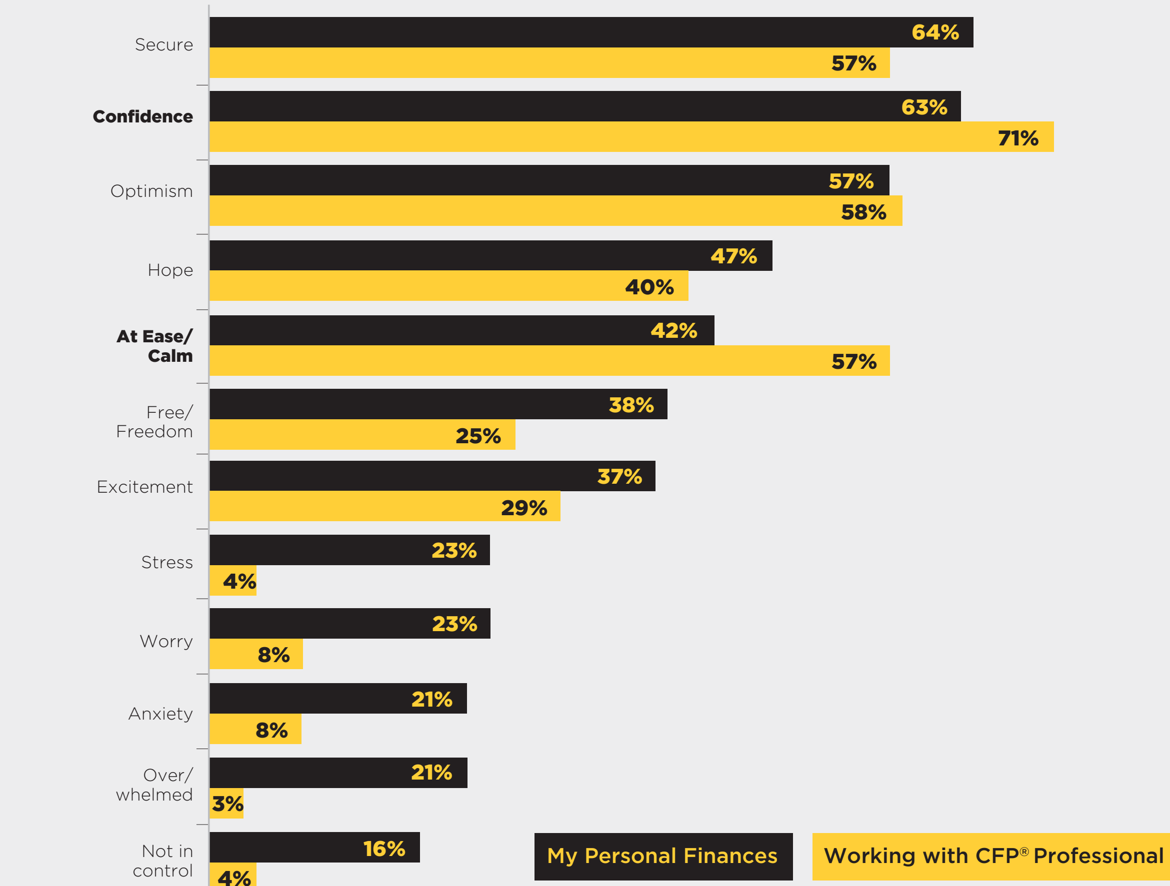
Finances are inextricably linked to emotions, so advisors who can skillfully and compassionately guide clients through life's various stages and changes stand to profit from strong, loyal client relationships. Morningstar has also found that through prudent advice, advisors have the ability to add value that can be equivalent to a boost in investment returns of approximately 2% for an average investor. As long as the advisor provides comprehensive, high-quality portfolio planning services for a reasonable fee, the results suggest that the investor is likely to be better off. Adding other financial planning services could result in even more value for the client.[8]

[5]Aite Group. Transitioning to Financial Planning: The Benefits of CFP® Certification. October 2019 [6]The Cerulli Report. U.S. Advisor Metrics 2017 [7]Aite Group. Building a Wealth Management Practice: Measuring CFP® Professionals' Contribution. February 2016 [8]Morningstar. The Value of a Gamma-Efficient Portfolio. 2017

Additionally, Vanguard has done research on 'Advisor's Alpha,' outlining how advisors can add value through relationship-oriented services such as wealth management and behavioral coaching. The research found that advisors can add "about 3%" for clients if they implement Vanguard Advisor's Alpha. Ultimately, Vanguard describes this as a win-win for clients and firms. Clients get to keep more of their returns while receiving financial planning advice, knowing that they can always turn to their advisor for guidance. Firms benefit from increased client balances and improved client loyalty.[9]

In fact, nearly all financial planning specialists (93%) consider stronger client relationships a major benefit of financial planning. Planning encourages deeper-level conversations about what a client's financial life looks like today, and where they see themselves in the future.[10] Ultimately, clients feel more confident and secure with a financial planner.[11]

Consumers working with a CFP® Professional have higher **confidence** and feel more **at ease/calm.**



BASE: All Consumers (n-200) Q9: For you and your personal/family money matters today, would you say most of the time when you think about your financial situation you feel... Q51: Imagine for a moment that you are working with Certified Financial Planner (CFP®) Based on everything you have read so far in this survey, which of the following emotions do you think you would feel by working with a Certified Financial Planner (CFP®)
Source: Heart and Mind Strategies. Building a Well-Defined CFP® Brand: Research Findings Prepared for the CFP Board of Standards. February 2018

[9]Vanguard. Quantifying your value to your clients. 2019 [10]Cerulli Associates. U.S. Advisor Metrics 2017: The Next Generation of Planning. 2017 [11]Heart and Mind Strategies. Building a Well-Defined CFP® Brand: Research Findings Prepared for the CFP Board of Standards. February 2018

A ROADMAP FOR FIRMS

For some firms, making the changes identified in this paper will pose challenges. To help in this effort, we have outlined specific steps your firm can take to make this process easier. This 'roadmap' can be used as a guide to target the specific strategies that need to be implemented to ensure success.

CREATE A CULTURE OF ADVICE & PLANNING

Culture guides the behavior of employees in that it reveals what the firm values and its core beliefs. Firms will fail if they don't recognize how important—and difficult—it will be to change the firm's culture. This means that culture and strategy are inseparable in truly making a change. Beyond processes and procedures, culture also includes leadership, communication and creating a mission around planning and advice. This strategic shift starts from the top down, becoming a centerpiece of an organization's mission and culture.

Shifting to a culture of advice and planning means elevating and reorganizing business strategy around comprehensive financial planning. Some firms are creating a new C-level position to oversee the strategic positioning of advice within the firm. This would include ongoing evaluation of the planning needs of clients and the advisors who work with them. One example of how this is being implemented is through the creation of a Chief Planning Officer (CPO) who can serve as an agent of change, building and sustaining a culture of comprehensive advice and planning.

In addition to having a CPO, the promotion of certain certifications and designations can increase the adoption of financial planning by a firm's advisors. One study showed that advisors without CFP® certification who work in a practice having at least one CFP® professional are more likely to view financial planning as important compared to advisors without CFP® certification.[12] These results demonstrate how hiring and developing CFP® professionals can trigger the kind of cultural shift that transforms an advisory practice to one that is financial-planning-oriented and client-goals centric.

INCORPORATE PLANNING INTO THE ORGANIZATIONAL STRUCTURE

A Chief Planning Officer can serve as the change agent that enables the firm to make the transition from basic advising on investments to comprehensive planning. This individual will develop the firm's business strategy, build the financial planning support system and create processes and procedures around the firm's new comprehensive financial planning offering. The CPO oversees the complex planning needs of clients as well as the advisors who work with them.[13]

Equally important is for organizations to determine the scope and scale of their financial planning offering. Fostering a client-first philosophy is key to ensuring that the firm is meeting all client needs. Firms must determine what process they will take their clients through, ensuring that the client experience is aligned with their goals. Back-office support is also critical. Junior financial planners can support advisors by gathering client data, sending and receiving documentation, handling client scheduling and keeping the financial planning process running efficiently. In some firm models, this staff can also help create plans, support case design and even provide expertise in complex client situations. It is essential to structure the planning team to maximize advisor productivity while still meeting client's needs.

[12]Aite Group. Building a Wealth Management Practice: Measuring CFP® Professionals' Contribution. February 2016 [13]"Why more firms need a chief planning officer." Kevin Keller. Sept 10, 2018

RECRUIT, TRAIN, AND DEVELOP

An important step in developing a financial planning model is to source the right talent to align with your strategy. For firms with entry-level positions, sourcing graduates of CFP Board-Registered Programs can allow firms to source talent that seeks a career in financial planning and has already completed foundational financial planning education. To be successful, firms will need to highlight what systems they have put in place to help their advisors succeed. For example, is there support (both financial and non-financial) provided when preparing for the CFP® exam? What mentoring opportunities does the firm provide? Competitive benefits and a thorough onboarding process, coupled with a well-defined career path, can increase the attractiveness of planning-centric firms for these job seekers.

The Center for Financial Planning has developed the Financial Planning Career Paths Guide that walks through the five-step progression of a financial planning career—analyst, associate advisor, service advisor, lead advisor and partner. This guide explores the role and purpose of career paths, the job responsibilities of each role in the career ladder and compensation for financial planners.[14]

Once recruits are hired, firms also need a plan in place to train new advisors. The junior advisors will need to be guided through a training process, assimilating them within the firm's culture and bringing them up to speed on firm processes and procedures. Some firms have paired new planners with senior advisors to help them transition into their new role. These new advisors can also be used as a shared resource for multiple advisor teams, providing administrative and other back-office support. Along this pathway, firms must be clear about expectations as well as what they provide throughout the training process. This may include financial support, mentorship or incentives for completion of milestones.

Beyond the initial training period, it is key to continue to develop advisors. Goal setting, review meetings, professional development workshops and networking opportunities are just a few ways to boost employee development. Continuing education is also key. For CFP® professionals, 30 hours of continuing education will be required every two years.

Building an advice-centric advisor force starts with training advisors in holistic financial planning. In a survey conducted by CFP Board, the top reason individuals pursue CFP® certification is to achieve competency, that is, the pathway to CFP® certification will provide the knowledge they need to do their job. In addition, this survey found that individuals believe that becoming certified will help differentiate them in the marketplace and make them more successful.[15]

Organizations should also encourage and train advisors to build their "soft skills." Providing resources and training related to client psychology and effective communication will help advisors facilitate better conversations with their clients. The amount of time a financial advisor spends coaching and counseling is highly correlated with their success, with the most productive financial planners devoting over half of their time to coaching and counseling rather than quantitative tasks such as rebalancing.[16] This ultimately helps create more loyal client relationships while increasing job satisfaction, employee motivation and productivity.

EVALUATE COMPENSATION, INCENTIVES AND FEES

Evaluating how the firm's compensation structure aligns with the new planning-based strategy is critical to ensuring that the correct incentives are in place to reach goals, including financial planning advice being delivered to more clients and deeper relationships with existing clients. Salaries, incentives and fees matter because they send a clear message about what is important to a firm and what attitudes and practices the firm will reward. Firms will need to ask key questions to make this process more effective.

[14]CFP Board Center for Financial Planning Career Path Guide. Financial Planning Career Paths: Building More Sustainable and Successful Businesses. 2019
[15]CFP Board Post-Exam Survey [16]Communication Essentials Book – D. Dubofsky and L. Sussman, "The bonding Continuum in Financial Client-Financial Planner Relationships," Journal of Financial Planning 23, no. 10 (2010)

- How will the client pay for financial planning advice (e.g., hourly, retainer, or flat fee)?
- How will advisors be compensated for working with financial planning clients?
- How will a firm's incentives increase advisor adoption and delivery of financial planning services?

The compensation a firm provides to its advisors must align what clients value with what they are ultimately paying for. Advisors relying solely on an AUM compensation model may want to re-think this strategy if that alignment is not present nor clear to a client. As clients increasingly seek full-service financial planning advice, aligning fees with value will become a more sustainable model than a product-based transactional approach.

Some firms are already finding that how clients pay for financial planning can be as important as how much they pay. One firm has launched a new subscription-based financial planning service in which clients are charged an initial planning fee of a few hundred dollars followed by a monthly service 'subscription.'[17] With this service, clients have unlimited guidance from a CFP® professional, receive a comprehensive financial plan and also gain access to interactive online planning tools. This example further validates that investment management is becoming increasingly commoditized and that financial planning is more valued by clients.

ATTRACT MORE DIVERSE ADVISORS

The advisor population must evolve with the changing client demographics. Millennials (roughly defined as those born between 1981 and 1996) overtook the Baby Boomer population in 2015 and already make up the largest share of the workforce. Many members of this demographic wave are also minorities.[18]

As the influence and buying power of minorities continues to increase, firms will need to have an advisor force that mirrors the changing demographics of their clients. However, research by the CFP Board Center for Financial Planning found that less than 3.5 percent of CFP® professionals in the U.S. were Black or Latino even though these groups comprise 13.3 percent and 17.8 percent of the U.S. population, respectively.[19] Similarly, women make up over half of the U.S. population but only represent 23% of CFP® professionals. This lack of diversity can pose significant obstacles to attracting and retaining diverse segments of the population. Successful firms will need to embrace a strategic hiring plan that aims to put women, people of color and millennials in more substantial roles, both in number and responsibility.

LEVERAGE TECHNOLOGY

The rise of mobile device technology and other digital tools that allow interactivity, real-time scenario analysis and collaboration with the client will become essential components of the financial planning process. Long, cumbersome, printed deliverables simply don't allow for this type of collaboration. Printed plans are losing favor to make room for digital, interactive deliverables. Financial planning specialists anticipate that in the future, only 40% of primary plan deliverables will be in the form of physical, printed documents.[20]

To better attract next-generation clients and retain current ones, firms must enhance their digital planning capabilities, allowing advisors to work through scenarios in real-time with clients. Digital advice applications also have a place in financial planning practices, automating routine tasks such as risk assessment, asset allocation and portfolio rebalancing. Advisors will still have to set parameters, review recommendations and make adjustments accordingly, but these tools can free up much of an advisor's time and resources.

While advisor tools can increase efficiency, data accuracy and compliance while creating positive client outcomes on their own, integrating them

[17]Charles Schwab. Schwab Introduces Subscription-Based Financial Planning Option in Its Digital Advisory Service. 2019 [18]U.S. Census Bureau. "Millennials Outnumber Baby Boomers and Are Far More Diverse, Census Bureau Reports." June 25, 2015 [19]CFP Board Center for Financial Planning. Racial Diversity in Financial Planning: Where We Are and Where We Must Go. 2018 [20]The Cerulli Edge. U.S. Advisor Edition. 2Q 2018. Issue #59

can make a firm's technology even more effective. Sharing data across platforms provides advisors with more extensive insights from which to base their planning. Combining these tools streamlines workflows, saves time and allows advisors to focus on building deeper client relationships and developing personalized, comprehensive financial plans.

DON'T KEEP IT A SECRET

Transforming your advisors into a more financial planning-oriented workforce can be a significant investment of time and resources. Once firms complete this transformation, they should actively promote and communicate these new capabilities and services to their clients. Marketing and publicity are invaluable tools in this process. This includes PR and communications as well as websites, social media, blogs and news stories. Making sure that current and potential clients know about a firm's expanded offerings not only builds recognition and credibility but also allows advisors to start shaping the conversations they have with their clients, ultimately positioning themselves as thought leaders rather than reactive participants. Training advisors on how to communicate this change will ensure that clients will have clarity on the new financial planning offering.

Thought leadership can also play an important role in showcasing firm successes by ensuring that clients—and the general public—are continuously informed about the firm's expertise and thinking on important financial planning issues. This can take the form of research papers and reports, as well as speaking engagements. Thought leadership will help attract new clients, while also helping existing clients to expand their planning relationship.

CONCLUSION

The financial planning profession is ever changing and the advice revolution has been accelerating in recent years. As the profession evolves, firms will need a strong financial planning model and support system to differentiate themselves and demonstrate value to their clients. Firms that fail to make this transformation will, at a minimum, find it more difficult in the future to retain advisors and clients and, at worst, potentially face disruption from digital advice providers and other firms that have made the transition. Ultimately, the success of any firm hinges on its ability to adapt to the current and future regulatory, technological and demographic shifts of this new environment. This means creating a strong financial planning value proposition and developing an organizational structure that can deliver the services that are truly valuable to clients and enable advisors to best serve client needs.

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