MEDIA MONITORS

Money Management
26-Nov-2009
Page: 13
General News
By: Jon De Fries
Region: National
Circulation: 11021
Type: Australian Magazines Business
Size: 297.16 sq.cms
Frequency: ---T---

Risk – a walk on the mild side?

By Jon de Fries

FOR the past couple of years I have been supporting financial advisers in the Risk Specialist Network as they provide risk advice to their personal and business clients. The reaction to my move from a generalist technical role to one specialising in risk advice and adviser business growth was seen by some colleagues and advisers as a move into a "boring" area, to put it bluntly.

I had encountered this attitude many times in my time in the industry. For example, I recall attending a licensee conference about five years ago whose management and advisers were proud of the fact that none of their advisers offered risk advice. Their clients were high-net-worth and supposedly didn't need insurance. Perhaps now, after the global financial crisis (GFC), they have changed their minds.

So is the perception that risk advice is boring an accurate one?

Au contraire – the last few years have been by far the most interesting of my career. Risk advice is not simply about product and knowing which policies have which bells and whistles; it is about understanding and analysis. It is estate planning and business succession planning.

It's for high-net-worth clients as well as families with a home mortgage. It's about shareholder partnership agreements that deal with anything from dispute resolution clauses to 'tags' and 'drags' as well as buy/sell agreements that may or may not be funded by insurance.

Risk advice is about sitting down with business owners whose business succession planning has stalled because they disagree with their accountants and solicitors about whether the call options for the trauma clause should have a three or six-month waiting period – because one of the owners doesn't like the idea of the other 'lounging about the house' while they do all the work.

It's about talking to an adviser whose client has been terminally injured in a parachute accident and is trying to work out the best advice for his family in terms of tax, lump sum or pension, anti-detriment payments, withdraw/recontribute and so on.

Ironically, the advisers and licensees who have a focus on product will often write less risk as they face an uphill battle convincing clients and referrers of the need for it.

Having an advice focus means addressing clients' core concerns and working with accountants and solicitors to ensure, for example, that their client's assets remain in the family. Or that their client's self-managed superannuation fund (SMSF), which is highly geared to property, can pay out a death benefit, or even that their clients won't lose their home if they are out of the business due to disability while their remaining business partners run the business into the ground.

These can be very complex areas and a 'product' solution simply won't do.

Making insurance the focus instead of advice means a buy/sell agreement falls over when one of the business owners can't obtain insurance. Yet it's precisely this type of business that needs an agreement about what the business will be worth and how a business interest will be transferred if something happens to one of the owners – which is a high probability given one of them is uninsurable.

And that's another interesting thing about risk advice – the inevitable 'war stories' about the fallout when advice has not been provided or accepted and things go pear-shaped. It's the stories about court battles, the deceased business owner's widow's father interfering in the business, the widower's new girlfriend disinheriting his children – I could go on.

What can be worse in some ways is when clients accept the advice for risk but don't bother complementing this with professional advice from an accountant or a solicitor. This means things not only go awry because a loan account is missed or an entity is left out of the business agreements, but someone has some insurance proceeds with which to fund a legal battle.

Not surprisingly, a lot of the advisers who looked down on risk during the boom years came over to the 'dark side' during the GFC, because they have experienced the impact to their business model of a lack of diversity in their revenue sources.

That being said, it's easy to understand advisers who don't feel comfortable in terms of their expertise in implementing risk – working out how much a client needs, whether the insurance should be held in super or not, dealing with underwriters, medicals, comparing definitions in the marketplace and so on.

Such advisers need to recognise their strengths – be it constructing investment portfolios, SMSFs or equities – and leave their risk advice to identifying a need at the client level. There are various models these advisers could use, such as employing a risk specialist in their practice or referring the client to a risk specialist in another practice.

When you look beyond the insurance policy to the underlying issue from a client's perspective, that's when risk advice not only becomes interesting – it becomes essential for every financial planning business and their clients. Risk advice boring? I think not.

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Ref: 60712964