



Leading the evolution of financial advice

1 Introduction

What are your long-term goals? You've probably already started thinking about a career. You may already have started your superannuation payments from a part-time job. But what about the big picture – a house, savings, investments – even retirement? How do you end up where you want to be?

To achieve your short and long-term financial goals, you need to have a wealth management strategy. Financial advisers help people make the money they earn work for them, allowing them to plan for their future and achieve their dreams.

MLC is the wealth management division of the National Australia Bank (NAB), providing investment, superannuation and insurance solutions and supporting the provision of quality financial advice to help people achieve and protect their lifestyle and financial goals.

MLC provides quality financial planning services through a network of financial advisers. It manages more than \$104 billion on behalf of individual investors and corporate customers in Australia.

The company has a long history of wealth management. Its founder, James P Garvan, had a clear vision – to bring life assurance to every man, woman and child in Australia. One hundred and twenty years later, MLC is still committed to providing financial security for all Australians.

MLC is an innovative and progressive company that has repeatedly led change within the financial services industry and is at the forefront of developing the emerging financial advice profession.

2 What is financial planning?

The changing economic climate has led to a greater need for every Australian to be financially aware and have a financial strategy. Smart planning will ensure that you achieve your goals whether you're 25 or 85! As a population, we are living longer, and must therefore also ensure our retirement funds are enough to sustain our chosen lifestyle. Decreased government assistance means that we have to increasingly rely on the financial plans we have put in place.

We also have more financial choices than ever before. We have more control over our superannuation funds and an array of options to grow our money for the other things we want in life. Gone are the days of just putting some spare money in a standard bank account – or worse – hiding our life savings under the mattress! A savings account is now only one option of what you can do with your money – and it's never too early to start!

However, although we have a responsibility to ourselves to be financially literate, we can't all be financial experts. The financial advice profession has developed to help people make the most of their finances right throughout their lives whether it be buying a car or home, planning a dream holiday, starting a family or retiring from the workforce. Before you begin investing, a financial adviser will help clarify your goals and determine the best way you can reach them. Similar to lawyers or accountants, Australia's financial advisers are trained professionals, governed by strict industry standards, who are there to help people make the right financial decisions.

Superannuation and the financial services industry

Superannuation is a government-regulated investment strategy designed to provide for Australians financially upon their retirement. With people living longer and having fewer children, the proportion of retirees to people of working age is increasing. This means it has become less viable to have state age-pensions funded by the tax payer. An individual's superannuation fund is built up from a combination of compulsory contributions from employers (currently nine percent of an employee's gross earnings) and voluntary contributions from the individual.

In the past, the employer or the industry award for your chosen profession decided upon a superannuation fund for the whole company, but the law was recently changed to allow the choice to be made by the individual. This led to a growth in the number of superannuation funds available and increased choice and financial control for the consumer.

Superannuation is a huge business, with Australia's superannuation assets now standing at more than \$1.1 trillion and increasing fast. The wealth management industry has grown along with this pool of capital. With so many different funds available, and often a range of investment options within each fund, the need for quality financial advice has never been greater. An individual's superannuation fund, along with the family home, is usually their biggest financial asset and it is imperative it is properly managed.

Have you heard about the new government superannuation co-contribution scheme?

This could affect you as a young worker! Go to <http://www.ato.gov.au/bettersuper/starting.htm> to find out more.

The role of a financial adviser

Financial advisers provide strategies and solutions, particularly in the areas of investments, superannuation, insurance, debt management and estate planning. They have professional qualifications and undertake regular training to ensure they remain on top of the complex and often changing regulatory framework in which they operate. They have access to expert market information and use this knowledge to identify strategies that help their clients to meet their immediate and future financial goals.

However, with these skills comes great responsibility and it is essential the financial planning profession operates in a clear and transparent manner. Clients need to be able to trust their financial adviser, and the advice they offer, without concern about potential conflicts-of-interest such as an adviser recommending a financial product because it pays a high commission rather than because it is right for the client. The profession is strictly regulated and this, combined with intense media scrutiny, has made it imperative that this relatively new profession is above reproach.

MLC's primary business is that of a product manufacturer, developing products and services to help people achieve their financial and lifestyle goals. These products and services are used by a network of financial advisers, who fall into three general categories:

- In-house advisers – NAB Financial Planning. These advisers are employed by NAB and work in NAB bank branches. If the advice they provide involves making a product recommendation, they select from a list of approved products which includes MLC as well as competitors' products.
- MLC Licensed advisers. These financial advisers are self-employed and work out of their own premises, but are licensed by MLC. These advisers can also make product recommendations from a list of approved products which includes MLC as well as competitors' products.
- Independently owned and licensed advisers. These advisers have no affiliation to any financial services company but choose to use MLC's products and services, among others, to meet the needs of their clients.

Advisers that have a relationship with MLC receive administrative support, advice tools and ongoing training from MLC.



3 A new advisory business model

Historically, a financial adviser was a sales person trading in financial products (investments and insurance). For each product they sold, they were paid a commission. It was therefore in their interests to sell as many products as possible.

However, in the mid-90s advisers started to look more carefully at how they could better serve their clients and the profession changed to a needs-based advisory model. MLC saw this trend and developed products advisers could tailor to an individual client's needs. This, along with the introduction of the superannuation guarantee in 1992, meant clients (both employers and employees) needed more help to navigate their way through increasingly complex superannuation law and taxation systems. Advice, rather than products, became the centre of what financial advisers could offer customers.

MLC believes the industry needs to transition to a new non-commission-based framework in order to improve perceptions of the industry and put trust at the centre of the adviser/client relationship. Under this fee-for-service model, financial advisers are paid by the client for the advice they give rather than by the product manufacturer for the products they sell. This will help ensure advisers operate in the interests of their clients first and foremost and not in the interests



of a product manufacturer who is paying them a commission. This will make it easier for the public to understand how financial advisers are paid and give customers greater confidence that they are being given the right advice for them. People seek financial advice because of the complex subject matter. They are looking for the professional opinion and knowledge of someone who works in the financial services industry. MLC's fee-for-service advice model ensures that customers understand what they are paying for the advice they are receiving. If customers are confident that they are getting effective, professional advice from advisers who are not suggesting products merely because they will be paid a commission on them, they will be more willing to consult an adviser, creating a growing and more **sustainable** industry.

At present, around 17 percent of Australians have a wealth management strategy. MLC aims to grow this to 50 percent.

The fundamental differences between a fee-for-advice business model and a commission model are:

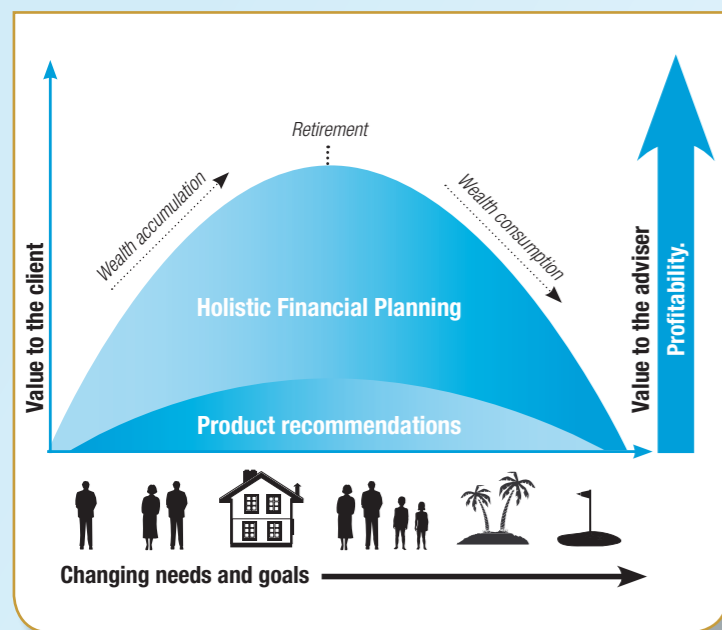
- An advice fee is agreed between the adviser and the client to cover the cost of advice,
- The advice fee is explicitly disclosed on annual statements and is separate from the cost of the product; and
- The customer can decide at any point in time that they do not want to receive further advice and they will not incur any on-going fees or charges from the financial adviser.

Customer trust is a critical success factor for organisations. Trust starts with a customer's perception of the organisation's – and industry's – **brand**. This is particularly important for the financial services industry, where customers have to feel confident enough to invest their hard-earned money.

MLC aims to show leadership in building customer trust and industry transparency by:

- Taking risks to shift **business models** to become customer-centric;
- Acting in the customer's best interest, regardless of the impact on short term financial performance; and
- Being on the front foot in the industry, and continually thinking about how the company can do things better in the future.

MLC has taken a leadership position in the financial services sector by advocating industry transparency and the fee-for-service model. As one of the largest wealth management companies in Australia, MLC has a responsibility to encourage debate in order to facilitate change. The fee-for-service business model puts customers at the centre of the wealth management industry.



4 Developing new products and services

MLC has invested in developing new products and services to support its position on industry change.

MLC MasterKey Fundamentals, an investment platform which does not have any commissions built into its fees, was launched in March 2006. It enables advisers to charge a fee for advice which is separate from the cost of the product.

MLC undertook extensive **market research** in the **product development** process. As well as providing a more customer-centric approach, a fee-for-service product was an ideal response to changing market conditions. Increased interest in the financial services industry had produced more competitors in the marketplace, and, therefore, a need for MLC to demonstrate clear **product differentiation** to gain a **competitive advantage**. MLC MasterKey Fundamentals provided that differentiation.

In June 2006, Godfrey Pembroke Limited (GPL), a subsidiary advice business of MLC, moved to a fee-for-service model for all new investment advice. It was the first advice business owned by a major product manufacturer to move to a pure fee-for-service model for investment advice, and attracted a great deal of industry and media attention.

5 Taking the brand to the industry

The fee-for-service business model and a commitment to offering a clear, transparent and understandable pricing structure is a key part of MLC's brand. An organisation's brand is important to maintaining **stakeholders'** perception of a business and its service offerings. The cornerstones of MLC's brand are:

Active management – Managing a client's money at all times to ensure it is always working hard and that the client receives the best outcome for their needs.

Transparency – Fees and charges are transparent and clearly shown so that a client's needs are the only thing that influences their product selection.

The brand supports MLC's purpose – helping people look after their financial well-being.

MLC aimed to create brand awareness in the changing environment by developing a marketing and corporate affairs program, including advertising, internal communication, **public relations (PR)** and stakeholder engagement. This activity supported the company's public position on resolving perceived conflicts of interest within the industry. This involved **leveraging** relationships with journalists from industry, business and consumer media outlets including major newspapers, and issuing regular media releases about the various initiatives around the proposition, for example the launch of MLC MasterKey Fundamentals and GPL's move to a fee-for-service business model. The resulting media coverage showcased MLC's leadership position and encouraged debate within the industry.

MLC also supplied media releases and took part in a series of face-to-face meetings with members of parliament, industry bodies, ASIC (the **industry regulator**) and the Australian Consumers Association. This ensured that a consistent message on MLC's position was delivered to all interested parties and to all areas of Australian society.

Support from the profession was vital to the success of the business and product concept. As part of its **marketing** campaign, MLC delivered training, workshops and roadshows to educate advisers on the value of a fee-for-service model, as well as publishing articles in MLC publications which were distributed to advisers and their clients. GPL also ran a print advertising campaign promoting its stance on fee-for-service.

A vital part of MLC's stakeholder engagement campaign was informing and engaging its own employees. The company used company events and internal communication channels such as its intranet service and internal newsletters to spread the word and ensure employees understood and supported the changes.



6 Conclusion

MLC has taken a leadership position within the financial services industry. Its innovative fee-for-service business model helps to make the industry both accountable and transparent. This increases customer trust, satisfaction and loyalty, thus creating a more sustainable industry. The response from the industry has been overwhelmingly positive, with more and more organisations adopting a similar fee-for-service model as an alternative to commission-based structures. In addition to this, nearly 50 percent of MLC's financial advisers have opted for the new model, showing the proposition is equally attractive to financial advisers and their customers. The vision of MLC's founder – to bring life assurance to every man, woman and child in Australia – has been reworked for the modern day. The company now aims to bring the benefits of financial advice to every man, woman and child in Australia and with customer confidence in the industry continuing to grow, this is a very real prospect.

GLOSSARY

Brand The trading name of a product that has a high level of recognition in the market place. Successful development of the brand and 'brand mark' (identifying symbols and design) is a considerable marketing tool.

Business model The framework within which a business operates. It will describe how a business expects to generate its revenue so that it is a success.

Commission A fee paid to a sales professional for each product sold, usually a percentage of the price of the product.

Competitive advantage Exists when one producer has a more efficient way of combining resources to produce a good or service that gives that organisation a market advantage over its competitors.

Conflict of interest A situation when a professional or public official has competing professional or personal obligations or personal or financial interests that would make it difficult to fulfill his or her duties fairly.

Estate planning The process of planning how to preserve your assets for your heirs.

Fee-for-service Charging a fee for each service performed.

Industry regulator An official body that ensures compliance and fair play within a specific industry

Innovative A characteristic of a product, service or company, creative or different.

Insurance When people pay money into a pool to cover the cost of damage or replacement of their assets should an incident occur.

Investment The outlay of a sum of money to be used in such a way (e.g. for the purchase of shares, property or equipment) that a profit or increase in capital may be expected.

Leveraging A frequently used business or marketing term used when a business can use any asset or other obvious positive advantages (such as high brand awareness) to gain a foothold into a new area or market, and as a verb, means to exploit such an advantage, just as the use of a physical lever gives one an advantage in the physical sense.

Life assurance A general term to describe different types of personal protection policies, whose main purpose is to provide payment in the event of death.

Marketing The range of activities that relate to identifying, anticipating and satisfying customer needs (profitably) by means of standard tools such as market research and promotion.

Market research Finding out information about the characteristics of potential customers to solve marketing problems and help with marketing decisions.

Product development The process of developing new products or an aspect of the product management process where it is changed, enhanced or modified to better meet the needs of the market.

Product differentiation Establishing the way(s) a product will be different to its competitors. This difference is then reinforced through advertising and promotion.

Public relations (PR) A functional area of management that involves communicating the image and view of the business to a range of stakeholders including employees, the broader community, media, investors and government.

Stakeholders A person or group who has an interest in how a business operates or functions. Examples include management, owners, employees, customers, shareholders, the local community and government.

Superannuation Funds contributed by an employer and possibly employee to be used as a pension or lump sum after they retire from the workforce.

Wealth management Activities that involve the effective management of funds on behalf of an individual or business – the essential objective of wealth management is to concentrate effort to build the value over a given period of time. It also involves making sure customers and their families are well protected in the event something unfortunate happens to them (eg they are injured and no longer able to work).

Vision The statement of an organisation's current and future business goals.

Questions and Extension Activities for MLC are on www.afrbiz.com.au

You will also find links to the MLC website