



# IOOF ALLIANCES

## IOOF Alliances White Paper

### Traps of underinvesting in your AFSL

#### What self-licensed advice businesses ought not to do

##### Introduction

There's a line of thinking that when it comes to running a self-licensed advice business, the grass is greener: that having your own licence removes the burden of an enforced compliance regime and business processes, and as a result, will save your business time, money, headaches, frustration and aggravation; and that you'll be able to focus on your clients and run your business your way.

This thinking is often held or even promoted by an array of licensing consultants, small boutique communities and even by boutique AFSL Responsible Managers (RMs). The concern here is that on the one hand the advice may be from those who have never run a boutique AFSL, or those who know what processes an AFSL needs and then assume that the AFSL RMs know that too (and will implement it), or on the other hand, by RMs who have not invested in nor deployed processes and practices that would stand up to scrutiny when tested.

Of course, the grass looks greener if assumptions are made about what the boutique AFSL knows or if the AFSL processes have never been tested or even implemented.

Highly regarded compliance experts Eloise Armitage and Julia Vojkovic add weight to this view.

“ In our experience, where self-licensed practices aren't initially built on a strong foundation of compliance, then, time and resources (including financial and human) are squandered on tail chasing. It's therefore no surprise that the first 12 months of being self-licensed is generally fraught with some sleepless nights, where licensees simply don't know what they don't know.<sup>1</sup> ”

With a sustained move towards self-licensing, this paper provides both current and aspiring boutique advice businesses a guide for ‘what not to do’.

In 2020<sup>2</sup> IOOF Alliances explored the question – does size matter? – in the context of whether there was a professionalism gap between a small boutique versus larger advice business.

What we found in 2020 was that excellence in business practices and client outcomes exists across the spectrum of boutique AFSLs – both large and small.

We found that excellence is replicable and importantly, affordable to implement.

However, good news rarely sells or grabs our attention like bad news.

When it comes to running an AFSL it’s easier to pay less attention to advice on best practice, than it is to ignore horror stories of the possible disaster of losing your licence (and your livelihood).

Psychological research suggests that “negative bias” influences our motivation to complete a task. People have less motivation when an incentive is framed as a means to gain something, than when the same incentive will help them avoid the loss of something.<sup>3</sup>

In running your AFSL the task is to set up and manage your AFSL in a manner that means you are far less likely to lose what you’ve worked so hard for.

In this paper we look at how to easily avoid the most common shortcomings that new and existing AFSLs battle with.

We also explore and answer whether boutique AFSLs could benefit by sourcing solutions from a dedicated AFSL solutions provider. Does such procurement mean efficiency through alignment for the AFSL to their operations? And which solutions are most valued by boutique AFSLs?

## What we did

We sought guidance from the experts, interviewing Eloise Armitage and Julia Vojkovic from [Compliance Co.](#), and Nadia Docker from [Kinetic Compliance](#) who have a view of the most common and avoidable AFSL failings on a daily basis.

Throughout 2021 we also engaged our own member boutique AFSLs, gathering intel through surveys, and collating data from dozens of inquiries about what support they need to ease the transition from aligning with a mid-tier or large AFSL to a self-licensing model.

Overall, 150 businesses contributed to our research.

We also formalised and cemented some of our thinking by asking our boutique AFSL members what they used and valued from our services and what other solutions they sought.

## What could go wrong?

In the current regulatory climate (post-Royal Commission, FASEA Code of Ethics ASIC activity reports 515, 636 etc) there’s a heightened focus on compliance obligations and the provision of advice. This has reportedly become a barrier and burden for businesses being able to deliver advice efficiently and affordably to their clients.

The need for large financial advice businesses to meet their compliance obligations has seen them invest millions of dollars in greater compliance scrutiny as a result of ASIC reports 499 and 515. This has seen the need to increase authorised representative fees that has reportedly driven many businesses to self-licensing.

Of course, securing your own AFSL does not remove you from the compliance process. Boutique AFSLs still need to understand the framework around the law and the associated regulatory guidance provided by ASIC (eg, RG 175). For many Responsible Managers in a self-licensed business, this would be their first time building a framework around this.

And this is where many new (and existing AFSLs) come up short.

Nadia Docker (Director, Kinetic Compliance) finds that the use by an AFSL of borrowed or procured “advice guidelines”, and not bespoke AFSL policies, can be open to misinterpretation and confusion around who the policy has been designed for.

 Out of all the issues we see, outdated, incomplete or misused polices would have to be one of the most frequent. 

Nadia Docker explains, “I’ve seen a lot of advice guidelines or compliance manuals being adopted by AFSLs that have not been designed for AFSL governance but rather for how the core licensee obligations affect what the adviser needs to do”.<sup>4</sup>

What happens as a consequence is you then see a gap in some of the core polices that the AFSL should have, or they only address one side of the AFSL-adviser relationship.

Why do these type of policies exist? This is because these policies or guidelines have generally been bought or obtained through third party service providers that were originally designed with a very different AFSL in mind.

<sup>2</sup> IOOF Alliances, 2020, What does best practice look like in boutique AFSLs? Alliances White Paper series. <https://ioof-p-001-delivery.sitecorecontenthub.cloud/api/public/content/371574-Our-service-offer.pdf?v=f681f1d5>

<sup>3</sup> Goldsmith K, Ravi D. Negativity bias and task motivation: Testing the effectiveness of positively versus negatively framed incentives. *Journal of Experimental Psychology: Applied*. 2013;19(4):358-366. doi:10.1037/a0034415

<sup>4</sup> 20 January 2022, Interview with Nadia Docker, Director Kinetic Compliance

Many new AFSLs use the advice guidelines from their former (usually large) licensee.

Typically, these advice guidelines have been designed to link with internal templates that would have been mandated by the large licensee.

Nadia Docker believes there can be value in these guidelines, but they must be treated with care when adopting them in your boutique.

**“** These guidelines are great when you have 100 advisers that you want to have a consistent compliance approach with, that are all using the same software and templates. However, they can become quickly become redundant when another AFSL adopts them and doesn't customise and delete irrelevant sections to reflect their own procedures and operating rhythm, eg, where a guideline refers to a File note template that the AFSL has not adopted.<sup>5</sup> **”**

Consequently, if care is not taken during the customising process, then it is very easy for the policies to become disconnected with what is actually happening in the business, which can be a red flag for ASIC that there is not an adequate monitoring and supervision process in place.

**“** The RMs incorrectly believe they have an AFSL governance solution but do not realise the solution only addresses half the governance equation.<sup>6</sup> **”**

What's the message and importantly the solution here?

Firstly, all financial services licensees, whether IOOF, AMP or a one-man band, are bound by the same obligations.

It's a matter of smaller practices understanding what resources are available and how they can take advantage of scalable solutions.

Eloise Armitage and Julia Vojkovic suggest that licensees often seek guidance on how to achieve a balance between compliance and commerciality.

They recommend that AFSLs implement the “Key 3”

- 1 s912A Policy Suite** – Start with a tailored suite of internal policies that speak to the general obligations, with which all AFSLs must comply. These should be tailored in line with the size and nature of the business.
- 2 Compliance Committee Meetings** – In order to demonstrate that those general obligations are being regularly assessed and managed, the licensee should adhere to quarterly compliance committee meetings.
- 3 Monitoring and supervision** – The licensee should implement a framework around monitoring and supervision of its authorised representatives. This should include a risk-based representative client file review Schedule.

**“** During our time at ASIC and now on the opposite side of the fence, we have found that those licensees who didn't initially invest in this strong foundation of compliance, spent more time remediating and losing sleep, than counterparts who are proactive in their approach to their compliance framework. This means not only implementing the Key 3, but understanding their purpose in context.<sup>8</sup> **”**

**5** 20 January 2022, Interview with Nadia Docker, Director Kinetic Compliance

**6** 20 January 2022, Interview with Nadia Docker, Director Kinetic Compliance

**7** 19 January 2022, Interview with Eloise Armitage and Julia Vojkovic Co-Directors of Compliance Co.

## What solutions do AFSLs value?

If a lack of attention and investment in bespoke AFSL policies is a key issue, then can the solutions be provided via a specialist solutions provider?

While many AFSL support solutions have an array of elements, the value of these should always be viewed from the eyes of the AFSL.

One simple way of determining what's worthwhile building, developing and delivering to an AFSL from a support provider point of view is to measure what the AFSLs are actually using. We did just that and the diagram below represents what AFSLs told us they value and use from a third party AFSL solution provider.



For a current or aspiring AFSL reading this, these findings are illuminating.

It raises the question about how you currently provide for these areas and how you will deliver these to your AFSL in the future.

Why would AFSLs use these six areas in such significant ways? It's all about what is contained in the underlying elements of these broad categories and what value this brings to the AFSL.

We've explored three of the most valued areas of support.

### Central resource portal

The central resource portal is a one stop resource tool for the AFSL – it houses daily research and technical bulletins, white-labelled marketing tools, compliance information, solutions for the AFSL, and advice and client engagement templates.

Having these resources in one place, where the content is procured and curated for the use of a boutique advice business, is a valuable library for an AFSL. It's also made available at a fraction of the cost that procuring all of these elements would be were the AFSL to do this themselves.

Depth and freshness of content is key.

## Compliance forums and general support

In the current regulatory climate (post-Royal Commission, FASEA Code of Ethics, ASIC activity reports 515, 636 etc) there's a heightened focus on compliance obligations and the provision of advice. This has reportedly become a barrier and burden for businesses being able to deliver advice efficiently and affordably to their clients.

Boutique AFSLs are challenged in exactly the same way as large dealer groups. A self-licensed business with advisers in multiple locations, using different systems and approaches to advice with inadequate monitoring and supervision are most likely to fail in meeting their compliance obligations.

Regular compliance support, interpretation and implementation are a necessary investment to keep your AFSL open for business. It also allows you to keep doing what you need to be doing to generate income – running your business efficiently and seeing clients.

What these forums and support mechanisms provide is:

- Education about 'why' compliance is important
- Education across the contemporary regulatory regime
- A deep understanding of Regulatory Guide 175<sup>8</sup>
- Regular engagement on advice compliance
- Structure, processes and framework around the compliance committee.

### Software options

In a significant piece of work, the Financial Planning Association has embarked on revolutionising the delivery of the Statement of Advice (SOA). *The Future of the SOA* interactive guide was launched at the FPA Congress in 2019<sup>10</sup> (<https://fpa.com.au/the-future-of-the-soa/>).

The FPA has been advocating (to ASIC) on behalf of its members, to use emerging digital technology to assist in the efficient production of SOAs. This will enable SOAs to be more effective communication tools using icons, symbols, graphics, expandable and linked text, audio, and video to better engage and inform clients.

So, when it comes to best practice engagement with existing and new clients, and enhancing their understanding to achieve informed consent, what are the strategies, techniques and tools that can be used?

In a boutique self-licensed community facilitated by an AFSL solutions provider, best practice we believe would be to establish a live and evolving discussion.

Service providers that are well resourced ought to be able to provide businesses with access to a wide range of technology solutions to support the three core areas of advice provision.

<sup>8</sup> 19 January 2022, Interview with Eloise Armitage and Julia Vojkovic Co-Directors of Compliance Co.

<sup>9</sup> <https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-175-licensing-financial-product-advisers-conduct-and-disclosure/>

<sup>10</sup> <https://fpa.com.au/the-future-of-the-soa/>

These key areas are:

- data gathering and discovery
- strategy discussions
- SOA presentation and review.

The discussion and solutions that ensue should cover the following:

### **Data gathering (initial and review)**

- Activating a client portal – equipped with data vault
- Digitising your paper-based forms
- Using mobile technology (perhaps through your website) for delivery and confirmation
- Using a digital tool for data gathering and peer benchmarking comparisons as well as visual goal setting
- Using gamification on goal setting and scoping using trade-off modelling.

### **Strategy discussions**

- Using gamification on goal setting and scoping using trade-off modelling
- Pinning goals to cashflow using a visual tool.

### **SOA presentation**

- Highly visual SOAs
- Video delivery
- Podcast delivery
- Digital chapters
- Digital SOA production and execution
- Using a client portal for engagement and delivery of the SOA.

The architecture can be complicated. For a boutique AFSL the investment in developing and resourcing these types of tools in house is just not an option.

Support from a specialist AFSL solution provider can be a godsend from a 'plug and play' solution through to active investment in exploring and deploying advice tools and technology.

## **Conclusion**

Boutique AFSLs are challenged in exactly the same way as large dealer groups.

A self-licensed business with advisers in multiple locations, using different systems and approaches to advice with inadequate monitoring and supervision is most likely to fail in meeting its compliance obligations. Without robust audit frameworks and processes, a boutique AFSL, like any advice business, is challenged and can fall dramatically short in delivering advice in the clients' best interest.

That's where the right support and the right investment in your AFSL makes sense. The grass can be greener as a boutique AFSL; but you need to carefully attend to all aspects of your business in order to thrive.

IOOF Alliances supports and understands the complexities of self-licensed financial advisers. With our **IOOF Alliances Essentials** service package, you'll get everything you need to run your business model and provide quality advice tailored to your client needs. Our support services help you with everything from applying for your AFSL and responsible manager training to growing your business while operating in a compliant and efficient manner.

Please go to our website for more details on what we offer [ioof.com.au/ioof-alliances](http://ioof.com.au/ioof-alliances)

Speak to us **on 1800 205 951**

Or email [IOOFAffiliates@ioof.com.au](mailto:IOOFAffiliates@ioof.com.au)

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