



# AAMC TRAINING GROUP

*Global Connectivity, Empowered Training Solutions*

## **“Why do I need to change?”**

Hopefully the topic of this article has you thinking already. Does that question refer to me or am I like a lot of other people who would be saying; *“it could not be referring to me as I have survived till now doing the same thing year after year”*. Well the news for all of us is that change is now not an option but a must if we are to survive and grow in these uncertain times.

The credit crunch has actually advanced a process that has been resisted by many, who thought for a long time that a comfortable living can be made by being able to take orders for a product range that clients have requested. Very few actual sales skills have been required or advanced over the years. The writer has learnt from a book on Sales Techniques, written over 100 years ago that, surprisingly, the same issues that were being experienced then are still in practice today. Order taking without the value adding of offering ‘fries’ with every order was unfulfilling. Remember, as we have previously stated it’s a problem that has existed for over 100 of years. Let us now look at ways together, how we can solve these issues so we can all grow and prosper.

Firstly we must consider the recent changes to the commission structures by Lenders. When they made commercial decisions to reduce commissions, the outcry from many Finance/ Mortgage Brokers was loud. Threats of ‘not dealing with the lenders concerned’ were their way of solving the problem. Associations were also verbalised in the press as not being seen to be doing anything to protect their members’ interests. Actually an association’s role is not to interfere with a lender’s internal policy decisions. Every business has the right and responsibilities to their shareholders and staff to ensure they remain viable in these uncertain times. In fact the Australian Banking system has done very well compared to their overseas counterparts and they must be left to make commercial decisions as and when they see fit. We must also remember that financial institutions respect and need the Finance/Mortgage brokers to play a part in their business planning by assisting them to grow and remain viable. It’s a win/win for both parties as it also requires getting the right costings to enable all parts of the business to expand and prosper.

For arguments sake, let us all accept it is the right of every business, including our own, to make commercial decisions that allow us to continue to grow and meet our commitments. Survival, in this more than likely once in a life time financial turmoil, is paramount and provided we can all accept that as the first part, then we are ready to take the next step. Look at the bigger picture where we see how we can readily move forward to ensure we are all better placed should this current credit crunch continue or another one arrive in the future.

We need to also understand the market in which we operate. Australia, which surprisingly is only 2% of the global economy, has a lot of players within that market fighting over the same piece of cheese. It is always wise to understand that if we do not get it right here, in reality, it is a very simple process for some other companies/groups within the remaining 98% offshore market to take control of what traditionally has been Australian owned. The way technology has spread today has made the ease of doing business globally, easier and there are now no more boundaries. New Zealand is aligning itself more with the Australian Financial Services Industry. Asia is also expressing interest in the Australian Financial Services model and even accountants are now working towards a globally accepted accounting practice standards.

Speaking of other financial services industry providers, let us see how they are also experiencing many uncontrollable changes:

- In 2003 there were around 9660 accounting practices in Australia. During 2007 that number had dropped to less than 5000 of which 60% are operated by single or aging owners. More and more accountants are now outsourcing their paper work to India and even Vietnam as they can be freed up to focus on client interaction. The paper work is completed overseas within 24 hours at a cheaper price than it can be done in Australia. Accountants are also restricted from giving financial investment advice without the necessary qualifications. Last year 660,000 Australians lodged their own tax returns online and that means that there is now less opportunity for accountants to source their income from that area. Now they are focusing their efforts on providing other financial services that have been traditionally offered by others e.g. Finance Brokers, Financial Planners etc.
- Practitioners in the financial planning industry are also aging and new entrants are still being cultivated in the old ways through lenders. It is not yet realised there is an ever growing opportunity to source and train a new breed of planner from within the many other Financial Services providers, such as Mortgage and Finance Brokers. The Federal Government is currently considering a proposal that will make it compulsory for planners to also be qualified Tax Advisors if they include Tax advice in the Financial Plans, which they have traditionally undertaken in the past. The Industry is also considering the merits of charging clients fees as against the traditional commission payment system. ASIC, the regulator, along with the Government has stated that it is not their responsibility to rule which is the preferred method as it is up to the Associations and their members to decide. Financial Planners are now also required to talk about debt in their financial plans and hence there is a stronger movement towards offering Finance/Mortgage services as part of their packages.
- Insurance Brokers are also succumbing to age with more and more choosing to sell their business or combining with larger firms as they seek the support structures that are being offered. There is, sadly, a lack of awareness or promotion of their products on a larger scale as is evidenced by the following information.
  - Almost 75% of business owners do not have income protection, despite its tax deductibility.
  - Even less have cover for business expenses.
  - Only 25% of owners could maintain their current lifestyle for more than six months if they suffered a serious illness or injury. (*Source IFSA Research, November 2006*)

Finance/Mortgage brokers could play a very big part in this area if they were more aware of the products and services that would benefit their clients.

- Insurance- Risk which covers Life TPD, Income Protection and Trauma insurance, what a great opportunity to diversify into this finance portfolio as there is over One Trillion Dollars of under insurance in Australia. Why one may ask? It is all due to the fact that many Financial Planners in the past did not like to provide financial protection solutions for their many clients because of the paper work and follow up. Mortgage/Finance brokers also did not want to get involved as they were doing very nicely out of writing loans without considering the Duty of Care. The consequence of those actions has seen cases already whereby lenders have been sued for failing to advise clients that they needed to have cover in place in the event of an unforeseen occurrence that causes loss of income or even death.

In the eyes of the courts the seller of the product, say the Finance/Mortgage Broker who is considered "a Professional", has a fiduciary responsibility to recommend to their clients that cover is needed. Viewing the one page story board for every client (their Statement of Position) will show you beyond doubt what issues the clients face if they are not financially protected. If you are not already aware that Australia is the second most litigious country in the world today, be it at your own peril if you fail to raise the consequences of inadequate cover when arranging their finance.

A survey conducted by Genworth on mortgage stress in Australia highlighted the following:

- Illness or injury 38%
- Unemployment 15%
- Decreased income or earning capacity 15%
- Maternity leave 11%
- Relationship break down 4%
- Over-commitment to mortgage only 2%

You would agree the above survey reveals frightening results. One only has to ask how many clients could still be living in their homes, without hardship, if only the seller of the finance had acted morally and professionally by informing the clients of the perils of not taking affordable protection. The seller had two choices: (1) write the cover or (2) refer the business to a trusted advisor. There would be some very wealthy lawyers around if they started to investigate this area as case precedents have already been set and the pathway for client claims has already been trodden.

Alternatively if the clients had been structured correctly how many Finance/Mortgage brokers would still be receiving income trails from those loans? Furthermore not only that income stream but the income stream from selling the client insurance or referring the business to a Network colleague.

We could also dissect the Real Estate Industry, Conveyancing Industry and others that are related to the Financial Services Industry as they provide products and services to the same client bases as Finance/Mortgage brokers. Our experience of being involved with those groups, as well as many others through our training and product offerings, can tell you there is also a lot of changes both accepted and forced being placed on those industries. They also struggle with the required need to change in this ever-changing environment.

Given my business is in training and education it would be remiss of me not to address this area that needs to have attention focused on all participants of the Financial Services Industry. When times get tough the first things most businesses cut back are education and marketing, the two most important things that you should focus on and not stop.

To set up professional referral networks with Accountants, Financial Planners, Real Estate Agents, Insurance Brokers and suchlike, you must understand that they have to have qualifications to operate in their chosen markets. Therefore how do you feel they think when you roll up saying that you have no qualifications but you have years of experience? Let me take the guess work out for you and let you know, unless you have done the hard yards with gaining qualifications in your chosen field, forget it—as they have already.

Another thing to consider if you are not keeping up to date on your CPD training courses then how can you expect to keep up to date with all the latest developments? If you had a choice of using a doctor that finished his studies five years ago or choosing a doctor that finished his training five years ago but stayed up to date with his CPD requirements, which one would you actually choose and why?

In these uncertain times Financial Planners are reporting a pleasing increase in clients and sales. Some are already achieving this financial year to date, the sales results they achieved for all of last year. Why? Well they have undertaken more training to assist them in interviewing skills that have allowed them to focus on listening to the clients needs and then by providing solutions in these tough economic times. They have honed their communication skills and that is where a lot of the secrets for success lie.

If you looked at what your business is worth by just doing Finance/Mortgage broking and you wished to sell your business, you would expect to receive, potentially, a multiple of say, up to three times your trail book value.

Working on trail of	\$300K	x	3	Total	\$900k
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If you decided to diversify your business or join in with other professionals, your overall business model for sale could look like this:

Finance/Mortgage Income	\$300K	x	3	\$900k
Financial planning recurring revenue	\$300K	x	3	\$900k
Risk Insurance	\$300K	x	3	\$900k
Accountancy Fees	\$300k	x	.70c	\$210k
Real Estate Rent roll	\$300k	x	2.7	\$810k
		<b>Total</b>		<b>\$3,720k</b>

The above figures and book value multiples should not be relied upon as advice. You should seek your own independent advice if you are considering selling your business. The figures are used to show you that the way to overcome the reduction in commissions is to diversify your service offerings and gain more share of the client's wallet. Please also understand that in the UK trail commissions are not paid to Finance/Mortgage writers and they only receive an upfront payment from the lenders. If Australia follows that pathway eventually, how is your business placed should that occur? Charging a fee for service is an option but diversification will add more value to your business as shown above.

In conclusion please remember, when dealing with any supplier always ensure you deal with an organisation that can provide more solutions than product, as every supplier has product of some description. By dealing with a reputable training company such as AAMC, which is strongly focussed on the solutions rather than the product, you will receive beneficial training and assistance to make things happen now.

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