

## Rise of the DFM

As the RDR looms, IFAs need to change their game. **Carl Lamb** discusses how

Over the past few years, the struggle to build wealth has deteriorated into a lengthy punishing campaign where market forces have pitted their might against investments of every size, type and risk profile. Some of the battles were lost and the struggle will continue for some time to come but, in the end, it is beginning to look like we just might win the war.

Trust has been a particular casualty of this war. Ask anyone on the street what they think of investment bankers and the response may be colourful. By extension, the whole of the financial services industry is now viewed with suspicion and mistrust. It is time for change.

Fortunately, change is happening. The RDR is giving the financial advice side of the industry a much needed shakeup. From 1 January 2013, an IFA will be just that, truly independent of any bank or other financial institution. Only those advisers with the required QCA Level 4 qualification will remain in the industry and changing will be based on adviser fees rather than commission percentages.

The Legacy of RDR will be a cleaner, leaner industry. It has been estimated that as many as 25% of advisers will leave the industry and, without doubt, some firms will close. My feeling is that the industry will be the better for the changes; those who have buried their heads in the sand had have left it too late to attain the qualifications that they need to stay in the industry have only themselves to blame.

discretionary management is no longer a service only for the most wealthy

The knock on effect of these changes has been the withdrawal of financial advice service from branches of some banks and building societies as they have totted up the cost of meeting RDR requirements. **Barclay's** did so earlier in the year and war-weary **Norwich & Peterborough** has followed suit, becoming a tied agent of Aviva. Customers of these institutions may feel that they have been left high and dry but at last there is clarity about the degree of independence in the advice on offer.

### Changing business models

Another consequence of the changes prompted by RDR is more subtle: IFAs are changing their business model. The new breed of super-advisers – many of them holding Chartered and/or Certified status – are no longer focused on sales. Their approach is holistic; they are lifestyle analysts and cash flow managers whose focus is the bigger picture, building a lifetime strategy for clients. The financial plan is the product on offer, not a bunch of funds and policies.

Having said that, investment management remains the cornerstone of the financial plan. Recent events have once again shown how quickly markets can change and today's investors are looking for more proactive management of their holdings. Discretionary fund management (DFM), once restricted to larger portfolios of £400,000 or more, it is now demanded by those with smaller funds to invest.

IFAs are advisers, not fund managers; the profession is not about the minute –by-minute monitoring of prices and

percentages. Fund management is a job for specialists and it is best if IFAs outsource this function to experts, the technical boffins with their noses pressed to their screens watching every shift in the market. Doing this means that what is on offer to the client is the best possible fund management service. An IFA who attempts to be both a lifetime financial planner and a fund manager will rarely have the qualities (or the time) to do both well and runs the risk of failing on both fronts.

### **Suite of services**

One way to better service clients is to have a 'full fat' DFM service for those with larger portfolios and to also have a service that provides an affordable quasi-DFM service to those with much smaller portfolios. The selection of partners is critical in establishing this kind of service of course. They must have a shared ethos with the IFA and the flexibility and reliability to ensure the delivery of the services specified. Likewise, both the portfolio offering and the technology platform need to be aligned so that, once the investment decisions have been made, adjustments to the portfolios can be executed at the touch of a button.

Such a service could provide a suite of risk graded portfolios, ranging from low risk to the more adventurous. Risk profiling of the client can be carried out using industry standard methodologies, with the resultant risk score indicating the appropriate portfolio level for the client. Once the investment has been made, the portfolio can be rebalanced at least quarterly as markets change and more frequent rebalancing can take place when needed. This service need not be reserved only for the very wealthy; it can work well with portfolios of about £40,000.

As the industry braces itself for RDR and beyond, the best IFA firms will review the way in which they provide services to clients to ensure that the right people with the right skills are used. Wealth management in all its flavours – investment management,

income planning, wealth protection and estate planning – will continue to be at the heart of the services offered, but firms who embrace the Treating Customers Fairly outcomes are delivered to clients.

We firmly believe that outstanding fund management delivers both the consistency and performance our clients want from us as IFAs.