REDESIGNING A BUSINESS

THE FEE-FOR-SERVICE MODEL HAS BEEN HELD UP AS A BEACON FOR HOW THE FINANCIAL PLANNING SECTOR SHOULD OPERATE, BUT MANY ARGUMENTS CONTINUE TO SWIRL AROUND THE TOPIC. TIM MACKAY SHOWS HOW IT CAN BE DONE.

WORDS GLENN FREEMAN PHOTOS MATT FATCHES

Tim Mackay takes his job as principal of independent, holistic financial planning practice Quantum Financial Services very seriously. Approachable and relaxed, this jovial manner quickly recedes when conversation turns to the usual points of contention within the industry.

This intensity is most apparent when the topic of adviser remuneration is broached. Passions have been particularly stirred up right across the planning community, especially among risk advisers, as a result of the recent Trowbridge recommendations on retail life insurance advice.

Commissions paid in relation to the sale of life insurance products were specifically carved out of the definition of "conflicted remuneration" in the *Future of Financial Advice* (FoFA) reforms, which banned commissions on investment products.

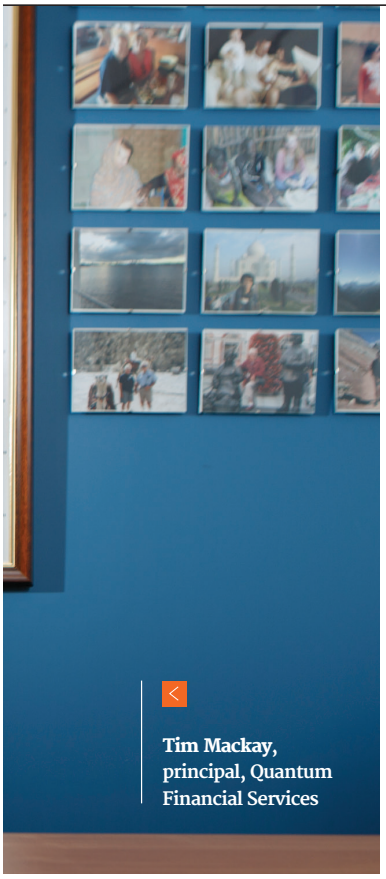
An argument that clients would refuse to pay upfront fees on life insurance, thereby worsening an already high rate of underinsurance in Australia, is a core point made against an outright banning of commissions.

"The consumer won't pay it – what does that mean?" Mackay says. "Does that mean they're not paying it now; or does that mean they are paying it now, but that it's hidden in the premium?"

"So what advisers are saying is, 'We have to continue hiding the commission in the premium, because if we strip it out and show consumers what they're paying, they'll refuse to pay that'.

"What does that tell us about the existing situation – that for it to be acceptable for consumers, we have to hide it from them and wrap it up in that commission –so they don't feel as though they're paying it? That's a terrible argument, as far as I'm concerned."

Quantum has billed clients for investment advice on a fee-for-service basis for about 10 years. It adopted the same billing approach for risk advice in 2008-09, after Mackay, his younger sister Claire and father Bill – who founded Quantum in the mid-1990s – reviewed the entire business for perceived conflicts of interest arising from commissions and advice fees.



Tim Mackay, principal, Quantum Financial Services

"We got in a room together as a team, led by our father Bill, and were given a whiteboard and said, 'If we were building [the business] from scratch, what would it look like'?" Mackay says.

In response, it was decided all new life insurance clients from that point on would pay a fee instead of being charged commissions.

"We've built that model out across all new clients, and then increasingly over existing clients as well," Mackay says. "It wasn't an overnight process, and we've certainly made mistakes along the way. I think getting the charging right is a confidence thing as much as anything else.

"It's about understanding what your key cost issues are. Getting a really firm handle on that enables you to work out how much you need to charge the client to cover your costs, but also to have a reasonable profit margin so you're still around in five or 10 years to provide that trusted advice."

Another commonly cited argument is that many clients most in need of advice on risk insurance will avoid it unless they are given the option of commissions. Mackay counters this by referring to other options that are available for clients who need a scaled risk solution, such as life insurance within corporate superannuation funds.

"When I sit down with a new potential client, if I can't identify where we're going to add more value than [their current] circumstances…if it's break even, we'll say that to them, 'We don't think you need our services at this stage'."

A CLIENT-FIRST APPROACH

In addition to reviewing the business internally, Quantum also engaged the services of Revealed Resources, an independent consultant and business coach.

"We employ them to interview our clients on an ongoing basis," Mackay says. "We chose someone who wasn't part of our industry for a very specific reason: they don't speak the jargon, or take the shortcuts – all the things, in our mind, that we take for granted.

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"I don't want to see it through a finance or marketing person's eyes. I want to see it through a client's eyes, or as close as I can get."

Mackay describes the feedback from this ongoing process as the good, the bad and the ugly. "The good responses make you feel good, but the bad and the ugly are actionable and can help improve processes," he says. "It doesn't feel as good getting it, but capturing that and feeding it back into the continual improvement process is of immense value."

Mackay is also a passionate believer in the value of education, and in degree qualifications as a minimum standard for all financial planners. He has a Bachelor of Economics from the University of Sydney, holds the Certified Financial Planner (CFP) and Chartered Accountant (CA) designations and completed an MBA at London Business School.

Before becoming a full-time practice principal in 2006 – when he took over the leadership of Quantum from his father – Mackay was an accountant and an investment banker. He worked as an accountant for UBS Warburg (now UBS) in Sydney, then as commercial analyst with Vodafone, between 1993 and 1997.

He then moved to London, working in investment banking roles with UBS and HSBC. While abroad, Mackay completed his MBA and was selected by Deutsche Bank in New York for a graduate program run out of its Wall Street offices.

Mackay obviously enjoyed the international experience and has leveraged this in his financial planning career, where his connections to the global corporate sector are invaluable and investment advice is an area of specialty. "To understand how finance works, London and New York are two of the best places to get that experience," he says.

While the global financial hubs of New York and London are in some ways more advanced than our Australian capitals, Mackay says there are other areas where Australia is more developed.

"For example, in our self-managed super fund space, there's nothing to compare to it around the world. I'd argue we're well ahead of the UK pension system and the 401(k) system in the US," he says.

Mackay always intended to return to Australia. "One thing I've always wanted to do is to be a business owner – that entrepreneurial side, which you don't really get working in an institution," he says.

Mackay says switching from an international investment banking role to a financial planning business on the outskirts of Sydney was not as big an adjustment as one might think.

"To be honest, most of our clients are high-net-worth, and a lot are in the finance industry themselves," he says. "So for them, it's great comfort that both Claire and myself are insiders in that industry." ■