

Your invitation to become a
Flair 4 Finance Service Partner

Your business could achieve significant benefits by referring your clients and other contacts to Flair 4 Finance (“F4F”) for Lifestyle Investment Planning.

F4F is one of a group of practices employing licensed advisors, with security dealer authorities and compliance services provided by our Australian Financial Services Licensed dealer to provide advisory services to investors throughout Australia. F4F is NOT a bank, stockbroker, accounting firm, solicitor, nor is it a shopfront for a large bank or fund manager. A recent industry survey identified financial advisors linked to banks, stockbrokers and major fund managers amongst the 27% of financial advisors who prepared “poor”, or “very poor” financial plans.¹ This survey revealed that 67% of those advisors recommended the products of their associated financial institution. That statistic has once again raised serious questions about the quality and objectivity of such financial advisors. F4F’s structure and formal standards ensure that our recommendations are not influenced by institutional ownership. As a medium-sized, national financial advisory group not restricted to any specific product suppliers F4F fits within the category that the survey recognised as the best performing category of advisors.

Our dealer compliance department enforces strict internal processes, which are regularly audited to confirm compliance with industry standards and regulations. We gather and analyse research information from a broad panel of financial analysts and investment brokers to ensure that our list of approved products provides our clients with a range of investment options most appropriate to their circumstances and objectives in accordance with prudent investment strategies.

Clients can be confident that our objectivity and fee structure results in advice that is NOT influenced by product commissions or any allegiance to financial institutions, but rather what is most appropriate to our clients. Our advisors work for our clients, not for a financial institution. Therefore our only obligation is to provide sound advice to maximise returns, with minimal risk.²

What is a “Service Partner”?

Service Partners provide their clients with a point of contact for services that benefit their client. While Service Partners may be entitled to receive a referral fee, they do not have any authority to represent F4F as an agent, or offer investment advice. Service Partners may provide F4F with specific client details to assist F4F in providing their service and F4F may also refer clients to our Service Partners where a client’s service requirements make such referral appropriate.

Why should you refer your clients to Flair 4 Finance?

There are many reasons to refer you clients to F4F, these include:

1. Client Satisfaction

Your clients are provided with high quality, professional advice. Keeping your valued clients satisfied is an important objective of any business. If your business is not equipped or licensed to provide a specific service, then the best thing you can do is recommend a reputable professional to provide that service. It would be unwise to risk losing a client, or to expose your business to costly litigation by failing to provide satisfactory service. It’s important to know the scope of your capabilities when assessing your ability to service your clients.

The ability to refer your client to a specialist financial advisor provides an extension to your service offerings, without the costly overheads associated with providing the service directly. Your clients will appreciate that and it will reflect a more professional business profile to prospective clients.

¹ Source: The Australian Securities and Investments Commission (ASIC) and the Australian Consumers’ Association (ACA) joint survey of the quality of advice provided by financial planners, *Tuesday 11 February 2003*.

² Investment returns generally relate to the level of associated risk. Sound investment strategies aim to maximise the return-to-risk ratio in accordance with the investor’s risk profile.

2. Healthy Commissions.

Commissions can provide a valuable addition to existing revenues. Referees receive a significant commission for all clients referred to F4F. For details of the commissions, please see table 1.1.

3. Networks and Alliances.

F4F maintains a strong, active working relationship with our Service Partners and other specialist service providers to ensure that all parties continue to achieve our collective objectives and provide the best possible service to our mutual clients. F4F often refers our clients to specialists within our referral network for specialist services (eg. legal, tax, accounting, employment, insurance).

4. Reduced Risk & Cost.

The cost of complying with ASIC, FPA and CPA/CA requirements can be costly. Each of the following aspects of compliance employs significant resources:

- Keeping up-to-date with regulatory requirements
- PS 146, 164, 165, 166 define requirements for licensed organisations regarding competency, capacity, dispute resolution and financial requirements
- Maintaining compliant quality systems and procedures
- Regular compliance audits
- Detailed analysis of a broad set of research information
- Maintaining a detailed product knowledge
- Staff training through specialised Continued Professional Development (CPD)

Failing to comply can be far more costly. It could result in:

- Labour-intensive dispute resolution (internal and external)
- The possibility of litigation
- Loss of licence
- Damage to your valuable business reputation.

Offering financial advisory services in-house can attract higher Professional Indemnity (PI) insurance costs. This additional cost can be avoided by referring your clients to a trusted financial advisor.

Are you licensed to provide financial advisory services?

Recent changes to the legislation relating to the financial services industry have placed a greater burden of responsibility and compliance upon those professionals providing financial advice to the public. The forthcoming introduction of the Financial Services Reform Act 2001 (FSRA) sees a growth in the compliance requirements for those providing financial advice. The results of the ASIC/ACA survey are likely to accelerate the move to stricter compliance standards and more frequent audits. Many smaller organisations may struggle to keep up with the pace of the changes unless they are specialist financial advisors with internal personnel and resources dedicated to compliance matters.

Prior to the reforms in the FSRA recognised accountants (CPA, ICAA and NIA) were able to give “incidental advice” without requiring a license. As a consequence of Policy Statement 119, that exemption no longer applies.³

Does your Professional Indemnity insurance cover the provision of financial advisory services?

Even if you are licensed to provide financial advisory services you will need to maintain formal processes and standards in order to mitigate the risk of litigation and avoid exceeding the bounds of your PI cover. Without employing specific personnel responsible for enforcing all complying requirements internally, you may be exposing your business to unacceptable risks that exceed your financial capacity.

³ CPA Program Segment - *Personal Financial Planning & Superannuation*, January 2003.

Does your practice comply with ALL of the regulatory requirements and standards of the financial services industry?

If you are currently providing specific investment advice then you may want to ask yourself the following questions:

- Should you focus on your specialist services, rather than devote vital resources to extended services such as financial advice?
- Is your business large enough to sustain a professional financial advisory service?
- When did you last perform an internal audit of your systems, procedures and personnel?
- Do you comply with ALL of your regulatory obligations and those of the relevant professional associations (FPA, CPA, CA) and the measures required to satisfy your insurer?
- How do you select the investment products that you recommend to your clients?
- Is your process of preparing financial plans and advice applied in a consistent, impartial and systematic fashion?
- Do your advisors clearly explain all costs and risks associated with products they recommend?

If you cannot answer these questions with confidence, then you may be exposing your business to the risks listed earlier in this document. If you apply the same principles applicable to sound investment practices, you need to ask yourself one critical question if you contemplate providing direct financial advisory services...

Is the return worth the risk?

Avoid the risk to your business and refer your valued clients to Flair 4 Finance.

Table 1.1 Commissions

Service Partners receive an up-front commission on any client referred to F4F. That commission is a percentage of the up-front engagement and on-going subscription fees for the first year of service. See our standard Schedule of Fees for further details of the fee structure.

As your level of referrals grows, so do your commissions and your right to trailing commissions. The percentage rate depends upon the total value of clients referred by you. That scale is based upon the total engagement fees* earned by Flair 4 Finance in a financial year and is scaled in the manner illustrated within the following table. All commissions will be paid quarterly in arrears.

Total Engagement Fees*	Engagement Commission	Trailing Commission
Below \$50,000 in fees	10% including GST	None
\$50,000 to \$100,000	10% including GST	5% including GST
Above \$100,000	10% including GST	10% including GST

* The “Total Engagement Fees” upon which the commission is payable is the first year fees paid by the client upon initially engaging the services of Flair 4 Finance. The quarterly commission is calculated as the current commission rate multiplied by the total first-year client fees accrued during the quarter. The rate applicable is based upon the total first year client fees accumulated over multiple periods from the Service Partner’s referrals – possibly spanning several years. The commission rate graduates in the quarter when the threshold is exceeded.

For example, if a Service Partner refers 5 clients in a given quarter, each investing \$200,000 as an initial total investment, then those clients would each pay \$4,400 in engagement (\$2,000) and year 1 subscription fees (1.2%), totalling client fees of \$22,000. The referral commission would be \$2,200 (10%).

Then in a subsequent quarter the Service Partner refers 5 clients investing \$500,000 each, resulting in $(5 \times \$3,000) + (5 \times \$500,000 \times 1.0\%) = \$40,000$ in client fees, the referral commission would be \$4,000 (10%) in the first year, plus \$2,000 (5%) for each subsequent year of continued service.

In summary, the figures excluding GST are as follows:

Number of clients referred	10
Total funds invested	\$3,500,000
Total client engagement fees paid	\$62,000
Total referral commission year 1 & 2	\$8,200 (average \$820 per referral)
Continuing passive, recurrent income p.a.	\$2,000 (average \$200 per referral)

The process is similar for mortgage referrals, however the scale of commissions differs slightly, as follows:

Tier No.	Total Principal Borrowings	Up-front Commission	Trailing Commission
1	Below \$12,000,000 aggregate borrowings referred	20% to 35% of lender commissions ##	None
2	Between \$12,000,000 and \$24,000,000 in loans.	20% to 35% of lender commissions for subsequent referrals##	
3	Over \$24,000,000 in aggregate referrals.	25% to 40% of lender commissions for subsequent referrals##	

For example, as at 1 July 2004 the net broker commissions for common lenders would be:

Lender	Up-front Commissions on \$100,000 loan	Trailing Commission on \$100,000				
NAB	0.44% of principal borrowed=\$440. 40% = \$176, referrer gets at least 20%.	None				
ANZ	0.66% of principal borrowed=\$660. 40% referral = \$264.	0.275% of outstanding principal=\$275. 40% referral = \$110 p.a.				
Westpac	0.77% of principal borrowed=\$770. 40% referral = \$308.	0.275% of outstanding principal=\$275. 40% referral = \$110 p.a.				
Referral Commissions are paid monthly upon receipt from the lenders. For example:						
Lender	Up-front Referral on \$100,000 loan			Trailing Referral on \$100,000		
Tier No.	1	2	3	1	2	3
NAB	\$154	\$154	\$176	-	-	-
ANZ	\$231	\$231	\$264	-	\$ 96/year	\$110/year
Westpac	\$269	\$269	\$308	-	\$ 96/year	\$110/year

For more detailed Service Partnership conditions please request a formal agreement from one of our consultants on:

Phone: 1300 20 20 12