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(photo by Ellen Bessner too!)

Grow your business using the CFRs

Stressed about the client-focused reforms? Try this different approach

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Advisors are entrepreneurs trying to build their businesses and surpass client expectations. Equity markets over the last decade have provided an ideal backdrop to do that. Recently, however, the market has been less predictable, precisely as the client-focused reforms (CFRs) have come into force. Is this a double whammy or, as I suggest, a potential opportunity?

First, let’s address the challenging market: While in a downturn, many advisors may be on the phone 24-7, addressing clients’ fears and concerns and making appropriate adjustments to their accounts. Calling your clients solidifies the relationship, as clients will know you are there for them in good times and bad.

You may even get referrals as they tell their friends and family how wonderful it was to hear from you. Others who have not heard from their advisors will compare their experiences and contemplate switching to you!

Second, let's address the CFRs. I say they're all about nothing and everything at the same time. For those of you who know your clients and are in the habit of documenting communication with them, there are a few significant changes (some of which I will explore below), so the reforms are all about nothing. However, there are many changes for advisors who have not taken a deep dive into their clients' financial situations and properly documented their conversations. If you have only a superficial knowledge of your clients, treating know-your-client (KYC) as a tick-the-box form, you will have to completely revamp your processes to incorporate note taking. While this may annoy you, it protects both you and your clients. Find the least aggravating process and move forward. Failure to do so will lead to bad audits and risks to your licence.

Regardless of whether you have a small or big adjustment to make, you can start to incorporate the CFR changes when calling clients during turbulent markets and kill two birds with one stone. Here is a list:

Client information

- Make notes of your efforts to collect pertinent information.
- Ensure you have enough client information to ascertain suitability of trades for every client. Don't automatically open accounts for prospects or continue to trade for existing clients who are not forthcoming with pertinent, personal financial information, precluding you from being able to exercise your judgment concerning suitable trades. The regulator would expect you to turn them away.

Client risk

- "Risk capacity" has been added to "risk tolerance" to determine a client's "risk profile." When you next contact each client, the CFRs require you to assess risk capacity and risk tolerance separately with specific questions for each.

- Don't be tempted to average the two results. You are required to choose the lower of the two for risk profile on the KYC form.

Here is an example tying together client communication and the CFRs.

Marion, 70 and widowed, refuses to share her personal information with you concerning her assets and liabilities during your first visit. But she tells you she has $2 million from a life insurance policy in GICs with the bank and owns her home (no mortgage). Her brother told her she should invest and recommended she meet with you. On the issue of risk tolerance, she expresses a fear of investing, says she's never invested in the market, and expects she'd lose less than 10% before wanting to sell. On the issue of risk capacity, Marion appears to have more money than she needs, but you can't be sure due to her refusal to share her spending and other key financial details.

What do you do?

Ask yourself whether you can invest for this client without exposing her to more risk than she can "tolerate" and whether you have enough information to apply your professional judgment to her account, beyond putting her in GICs. If the answer is no to either of these questions, you must protect yourself from an inevitable client complaint (from her or her beneficiaries/attorney for property) and protect your prospective client by refusing to open an account for her, unless it is for a no-risk option.

The advantage of opening an account for which you likely cannot charge fees is potential access to her successors/beneficiaries, who may be more transparent. But that is a long and uncertain game. There is likely no benefit to you of opening an account for her, and she would be better off remaining at the bank.

Another example is an existing client, Stephen, whom you call to discuss the market and his account. Stephen is always forthcoming with you, and his investments have been quite conservative, as he owns a small business experiencing a bit of a rough time through the pandemic. Stephen has not given you any new money for two years; however, when you call him you happily find that his circumstances have changed for the better. He wants to invest more money and increase his risk. You ask him questions about tolerance and capacity, and they both seem to have increased.

You have never been a note taker, so this is your opportunity to begin. Stephen is a client you feel comfortable with, so you can explain: “What you are saying is important to me, and I want to be sure I get it down in writing so bear with me.”

If this is a phone call, he won’t see that your head is down, and you are using a headset to free your hands for typing or writing your notes. If it is a video call, if your head is down, you can explain why.

Clients will be more, not less, impressed, and as you improve your note taking, it will become automatic and not distract from the fluidity of your conversation, as many advisors fear.

With Stephen, note taking will permit you to remember his specific changes and check in with him in a couple of months, potentially to get more money added to his account or to ensure any change you made to his risk profile holds.

These are two examples of how the CFRs apply and how you can use these new requirements to grow your business and improve your relationships. Good luck!

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