

BY MITCH ANTHONY

# The Truth about Transparency

An insurance specialist I know sat with me at my kitchen counter with forms and piles of small-print documents spread out before us. Bob had recently joined the team of my accountant, who has been managing my personal and business financial affairs for more than 25 years. Before us were applications for three products awaiting signatures: a disability policy, a term-life policy for key people in my business and a variable universal life split-dollar policy.

I like to know the stories of people I do business with, so I asked Bob where he was from and how he got involved in the insurance business. Once he had summed up his life, I asked how he liked the insurance business. He said he liked it fine, but I picked up a slight reticence in his tone and eyes. I asked him what he found difficult about it.

"I feel like I'm wrestling with my conscience every day," Bob answered. "The company tells us to do what is



**Many advisors dread the trend toward increased disclosure. By embracing this change, you can use it to your advantage.**

best for the client, but places me in situations every single day where I have to deal with the temptation of doing otherwise. There are always many products and options — and the better it is for the client, the worse it is for the advisor, and vice versa. I don't know how long I can last. It goes against the values of my faith and upbringing."

I asked for an example.

"When I was being trained," he continued, "the guy who trained me would sit down with a client and show him the fund choices for a particular product. One hundred percent of the time, he steered the client to one fund. I asked him why

he didn't steer some people to the fund that had no up-front cost, and he said, 'Because I get paid 3.5 percent when they choose this fund.'

"And that's the way it is right there. How do you reconcile yourself with that? You have to make a living but you're supposed to do what is

# "Honesty is always an alternative."

—Bob Moomey, as quoted by Ken Kirsh

best for the client — not what is tolerable, or whatever you can pull by unwitting clients."

"Bob," I told him, "I might have the answer for you. It may make you nervous at first, but will set you free in the end. It's called absolute transparency. It's where you lay your cards on the table and demonstrate transparency about how you are being compensated for everything you do."

He looked at me quizzically.

"It's funny," I said, "how the insurance industry hasn't yet caught up with car dealers on this issue. Have you ever been to one of those car lots that doesn't play games with you? They tell you what they paid for a vehicle and what they want for it. They build a profit center in the back end of the business with their service center, because they haven't sabotaged it on the front end with compensation games. How does it feel to be in a business that ranks below car dealers in transparency?"

"Never thought of it that way, but you're right," Bob replied.

"Another question you might want to ask yourself," I offered, "is how long the industry can prosper by getting paid in the shadows."

"Just for fun and illumination, I want to ask you to do something you may never have been asked to do before. I want you to write down on a piece of paper what you are being paid for all three of these products on the counter here. I want it in real dollars, not just percentage points — both the up-front and the trailing fees."

Bob blushed like a Macy's Christmas tree.

"It's OK," I assured him. "I'm not going to chase you off."

We walked through the commission and fees on the VUL, disability and term policies. When he was finished explaining every last penny he would make and how long he would make it, he stopped — and seemed to be holding his breath for my response.

"Bob," I said, "I don't have a problem with any of it, and I'll tell you why. I understand the value you and my accountant bring into my life with these products. The VUL will help my income needs and tax issues later in life. That's well worth the price. The disability policy safeguards my family in case anything unexpected ever happens, and the term policy safeguards my business, the people that work for me, and the clients we serve. I understand the value, and I'd rather you make this than someone who doesn't understand the intricacies of my situation."

"Here's the point: Being absolutely transparent forces you to put more emphasis on the front end of the conversation and truly establish a real-life context for the product being sold. If you do that correctly and with sincerity, you'll have little resistance on compensation."

"Wow," he said, with a big sigh of relief, "that feels great."

## **Under the Surface**

"Bob," I asked, "how many times have you suspected that the client was sitting there wondering what you were going to make out of this — and you were wondering what they were wondering?"

"Every time," he admitted. "Every single time."

"Bob, I can only think of two reasons you wouldn't want to do this. One, you don't believe in your compa-

ny, or two, you don't believe you personally bring enough value to my situation. With absolute transparency," I assured him, "you remove that tension and potential for distrust from your life. No more mystery. No more hiding behind jargon and fine print. And when you're finished, you can invite the client to shop around and see that you are competitive."

After hearing this, he said, "I doubt if many clients would want to go elsewhere."

"What are the odds of the next person being absolutely transparent?" I asked. "Now, the client knows something that your competitor isn't aware of."

Truth does have its competitive advantages.

## **Your Value Proposition**

Once the cards are on the table regarding what you make (and how you make it), you'll find yourself naked and blushing if you are nothing more than a product purveyor. Changing the descriptor on your business card to "wealth manager" won't change any clients' opinions of the value they have or have not received in the last 10 years.

In a truly democratic fashion, I want to shine the light of emotional reality on the value proposition of commissions, assets under management and fee-only services. I hope that advisors in all three camps are equally challenged to search for a deeper, more perpetual value proposition.

## **Commissions**

Simply reveal what you get paid. If it's fair, your clients will be satisfied. If it's not, they will go elsewhere. If it's unfair across the industry, downward

## TheBottomLine:

- **Being completely transparent about your fees forces you to emphasize the value you offer at the start of a relationship.**
- **You can then ask prospects to shop around to see that you're competitive; it's unlikely they'll find another advisor who is completely transparent.**
- **With a reputation for honesty, you build the foundation for long-lasting, mutually beneficial relationships.**

price pressure will make the correction until it is fair. Most people are reasonable and understand that, as a provider, you have to make a living.

As I recently described the concept of absolute transparency to a group of advisors, strategic coach and advisor Mary Duwe, CFP, spoke up and said, "I wish I had been practicing that my entire career. I remember an estate planning case I worked on once where the client accidentally saw my commission on the insurance piece — \$30,000. He said, "There is no way you're going to make that off my case!" And he walked away. It ended up costing him \$2.5 million in additional taxes, but he was so perturbed that he walked. I'm convinced that if I had explained the value up-front and had been forthcoming about the price and trade-off, it would have ended differently."

### **Assets Under Management.**

Why should *you* get paid more because *I* made more? Why should *you* be paid *more* for making the same allocation decision regarding \$2 million that you would regarding \$1 million?

I'm not asking these questions to say it is wrong that you are paid more on more assets under management, but to see if you can answer me without blinking. If you hesitate, you are yourself doubting the credibility of the value proposition of assets under management.

Why do asset management fees arbitrarily decrease, say, at \$3 million under management instead of \$1.5 million with one company, and at another level with another company? Because there's only so much you can do

in terms of designing an allocation plan. And the price you charge (based on how much the client brings) will, at some point, come under scrutiny.

What happens when people figure out that there are only so many allocation scenarios, and that they can get the same one you suggested from Vanguard for half of what you charge?

One advisor puts it this way to his clients: "I'm no different than you or anyone else in business. When I'm paid, I'm paying attention. What you need to decide is if it is worth it to you to have me paying attention to how your allocation is working out, and if it is still appropriate as your situation and the markets change."

While most advisors quietly seep out quarterly fees, Gerald Levin in Pennsylvania actually sends a bill that requires a check. While many advisors may think he's crazy, he has never had a problem collecting. His clients bring in referrals and tell him that they trust him because he's "squeaky clean." This industry could use a little more of that squeaky sound.

### **Fee Only**

There are no exemptions here either. Are you continuing to provide the value that exceeds the price clients are paying? Recently, an executive in the investment business said to me, "You know, I always thought the 'fee-only'

arrangement would be the purest and best value for me, but now I'm having serious doubts. I mean, the fee was worth it in the first year; but paying the same fee year after year — after most of the essential work has been done — seems like a rip-off now."

Again, if the value doesn't continue or expand, why should the price continue?

I've met some in the fee-only business whose value proposition reminds me of a security company. Once these advisors install their "security system" on your financial property, what is the ongoing value? To monitor your property? There needs to be more value than that to justify ongoing fees.

### **Epilogue**

I recently got an e-mail from Bob:

"I have already used at least a half-dozen times the advice you gave regarding the full disclosure of what I am making, and the response has been exactly what you said it would be. The undercurrent of not trusting that you, as the advisor, are really working for my best interest just fades away once I share that information. Thank you!"

Bob now knows. When you are the



one bringing truth to the top of the table, you will discover that this truth will indeed set you free. **RI**

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