

# Is the grass really greener on the tied agent side?

By Ian Middleton, Masthead managing director



One of the critical questions advisors face is whether to operate as a tied intermediary working for a life assurer or a bank brokerage, or as an independent financial advisor. While legislation, risk and cost may influence the decision, there are many other factors to take into account.

The FSB's gradual tightening of the financial services environment through regulation has brought about significant changes over the past decade. This has placed increased pressure on independent advisors to scrutinise their processes, up-skill and operate in a professional manner.

Legislation has required advisors to register with the FSB, hold recognised qualifications and continue their path of education. They are required to run their practices as businesses and comply with the rules and regulations relevant to the financial services industry, such as FICA and the FAIS Act.

Within the new legislative framework, some independent advisors are opting to leave their advice careers, while others are choosing to change their status to tied agent. Whether due to legislative or other reasons – to reduce operational risk, the administrative burden of compliance or the responsibility of running a practice – other options may appear more appealing to some.

Of course there are positives to being a tied agent, even if some of them are only part of the marketing spin. Tied agents may have a well-known company 'backing' their advice, whose brand requires little introduction to open doors in its traditional markets.

Tied agents are promised leads, which should make it easier to write business and reduce the need to find as many new clients. They also have access to a support system set up to address their operational requirements. In addition, they don't need to put down personal sureties to operate.

But sometimes the situation is not as rosy as it may seem. Many companies are currently actively growing the numbers within their tied forces and are looking to recruit from the independent advisor channel, often making lucrative offers.

They may promise up-front cash, company share options or shared costs for office rental, software and more to persuade the independent advisor to become their employee. Keep in mind that up-front payments are fully taxable and are subject to production and/or persistency targets. Lock-in periods apply too, so essentially there are penalties to exit.

In addition, the contract may require the advisor to move his or her book of clients to the 'acquiring' party's platform or product range. In this case it is likely that clients' interests will be compromised through the replacement of policies for the acquirer's gain. Given the recent introduction of Conflict of Interest Regulations, this practice is attracting the attention of the regulators.

As a tied agent, you are working for somebody else rather than being your own boss. And tied forces introduce discipline. Management manages activities and performance, from daily appointment rates to weekly sales numbers.

Becoming a tied agent reduces the need for self-discipline, so this will be the greatest attraction for some advisors to join a tied force.



Others may find that being managed is restrictive. Many advisors left the 'corporate world' to become independent as they had outgrown micro-management.

Despite being told that you are running your own business, you're building value for your employer and hence you share commission. Furthermore, you don't 'own' the client base, so the clients stay behind if you leave.

In Masthead's experience, many advisors who become tied agents see a move to a tied force as temporary, as they intend to return as independent advisors within a few years. They often try to leave the back-door open by keeping an independently licensed FSP in the name of a family member. However, this not in the companies' interests and they try to close

this door.

Fortunately for the consumers who value objective financial advice with choice, the number of advisors who give up their independence – even for a short time – is in the minority. There are still many advisors who enjoy the benefits of independence and operate in a professional, ethical manner, offering quality service.

A chief advantage of operating independently is that your time is yours. You have total autonomy to be entrepreneurial, deciding what you do, how to do it and when to do it. This includes determining what to sell and which product providers' offerings to present.

In terms of rewards, there is no need to share commission; you have complete ownership of one of your most valuable assets – your customer base, and there are tax benefits. Furthermore, you experience the personal satisfaction of establishing and growing your brand and reputation.

By applying good business skills, including succession planning, you are able to build a legacy. The potential value in a business can be significant, and can be realised through the sale of your practice at your retirement or other exit point. In addition to this financial bonus, you also ensure your clients have the lifelong relationship with your practice that they expect.

Although independent advisors still face great challenges, they have an excellent chance of staying independent and viable if they partner with a professional and objective network that provides the range of expertise they need.

Compliance, for instance, requires specialised proficiency. The chosen network partner should have a good track record in providing this support.

Other areas of support should include practice management – to address the operating needs of a small business, advice on risk management and financial assistance for expenses such as licence fees, PI cover and studies towards regulatory exams.

Masthead believes there is a bright future for independent advisors. After six years, the organisation continues to fulfil its vision: to support independent advisors so they can retain their independence and thrive.

*For more about Masthead, please consult your regional Masthead consultant or visit [www.masthead.co.za](http://www.masthead.co.za)*