

MASTHEAD: A SIGN OF THE TIMES...

Masthead was born from the needs of the non-aligned intermediary, driven by the developments in the financial services industry over the last five years, especially the introduction of the Financial Advisory and Intermediary Services (FAIS) Act. **Peter Dempsey, Masthead's Managing Director** takes us through its experience during the first years and explains the strategy for the future.



Formed in 2004 (see July 2004 p5),

Peter says that Masthead was the culmination of behind the scenes work for over five years, initially as an Old Mutual initiative intended to protect the part of its business derived from independent intermediaries. It would not have been possible to establish Masthead if it weren't for the experience gained from the Old Mutual initiatives.

Elsewhere intermediaries have been put under significant pressure to become licenced and, in order to stay in business, obtain the necessary 'fit and proper' qualifications, which led to a fall in their production, or many of them leaving the industry. "We studied what happened in other countries, such as the United Kingdom and Australia, and wanted to put an initiative in place to counter their negative experiences," says Peter. "During those initial stages we also found that the use of technology, amongst the broker fraternity, was very low and where they were using it, it was to a very limited extent.

Says Peter: "There are three legs to our strategy, starting with our mission to do whatever is needed to keep the broker in

business". The first leg entailed helping brokers with compliance, obtaining their licences and then staying in business within the regulatory requirements. The next leg is aimed at establishing Masthead's independence within the market by having 25% of the shares held by the Masthead membership, 70% by big product and service providers, and the remaining 5% by employees. Lastly, and a major part of the strategy, is to, over time, reduce the cost of distribution for companies distributing through brokers.

"One step that Masthead successfully implemented," he adds, "was to have a single broker consultant, or 'Member Consultant', in Masthead language, which takes the products of various suppliers to members. (*André le Roux, General Manager Distribution, expands on this – see p40*). The second step, and one that is currently being worked on, is to standardise all those things that are not a competitive advantage, like business forms such as beneficiary nominations and others.

The next stage

The crucial part of the strategy, which covered the 2005/2006 period, was signing up the correct product providers. The aim was to select product providers that were able to provide the products and services that independent brokers need in order to advise the majority of their clients professionally. This leg is almost complete, with Sanlam, Old Mutual, Metropolitan Odyssey and,

soon to be completed, Liberty Life and Metropolitan Life, joining Masthead as suppliers. With Auto & General also on board, these companies occupy over 70% of the retail market, and hence most brokers' clients would happily buy their products.

Masthead has started providing brokers with the type of business support and practice management services they would normally not be able to afford as non-aligned brokers. The aim of these services is to develop brokers as professionals, thriving in a challenging environment. "Lastly, and probably the most pertinent given the current media, regulatory and client onslaught on the industry," says Peter, "is stakeholder relations, with the main aim being to engage all stakeholders in the quest to create a balanced view of

brokers in the market, and to establish their image as one of professional financial planners."

He says they will continuously engage with all stakeholders – media, product partners, members, clients and the Regulators, to reinforce what they stand for.

Masthead currently has a membership base of approximately 2 766 members, of which 977 already have 120 credits and 795 are FPI members. According to Peter, their optimum membership number is 3 200, which should soon be reached. Masthead takes its value proposition to members essentially through three deliverables, broker support services, practice management services and compliance services. ♦

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Delivering the goods

André le Roux, General Manager Distribution, takes us through Masthead's distribution strategy and explains how it delivers value to its members.



Masthead has built up a significant reach over the past 18 months, with a footprint in 25 different areas. There are six main offices, or 'hubs', located in Pretoria, Johannesburg, Cape Town, Durban, Port Elizabeth and Bloemfontein, each headed up by a Regional Distribution Manager. To deliver the Masthead value proposition, they have three main categories of distribution personnel:

- 60 Member Consultants, interacting directly with members,
- 30 Practice Consultants, whose main role is to improve the member's practices, and
- 22 Compliance Officers, outsourced to Celestis, who provide complete compliance services.

Member Consultants' main aim is to get members to be completely self-sufficient and increase their income, which is why they don't operate just from the hubs, but have decentralised offices closer to their allocated brokers. Their services can be categorised into six deliverables that members can expect:

- **Technology enablement** – Assisting members in becoming comfortable with technology and teaching them to

get the most out of electronic services from product partners.

- **Product delivery** – Segmenting their member base according to the member's particular practice and client base. They then present only the most appropriate products to them. Everything is delivered electronically and the Member Consultants do not deliver or collect any paper-based material.
- **Contact with product partners** – They provide their members with the correct detail of all contact people and processes needed within the product partner network, to ensure sufficient service from the partners.
- **Identify opportunities by means of a Gap Analysis** – The Member Consultant introduces the

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member to new product lines that may be suitable to the specific client base, and provide new opportunities for expansion of the member's business.

- **Information** – They also keep the members updated with industry developments and provide tools to the brokers which they can use to gauge the impact of legislative changes, succession valuations and help the broker with a process to handle client complaints in respect of his/her advice.

Member Consultants are appropriately qualified and accredited for all products they provide to their members.

A typical profile of a Member Consultant would include the following attributes:

- Industry knowledge and experience
- Good communication skills and a marketing flair

- Third party multi-channel distribution skills
- The ability to operate independently
- Prioritise and plan
- Technology enabled

At the end of the day, a deep understanding of what the broker faces in the current environment is required and with that information, do all we can so that the clients can get advice they sorely need from qualified professionals who are part of the Masthead network. ♦

Masthead Affiliation Process

Step One: The potential member, whether a licensed or unlicensed broker, is assessed by Masthead on behalf of the Masthead Financial Advisors Association.

Step Two: The potential member is then taken through the application process, including submission of all relevant documentation to Masthead.

Step Three: Acceptance by the potential member on the following terms of membership:

- Every member must have an FSP license. Members will be assisted with their application if they are not licensed.
- They must support the Association, and Masthead's business objectives.
- Adherence to the code of conduct of the Masthead Financial Advisors Association.
- Compliance with minimum technological requirements.

Step Four: A Member Consultant, Practice Consultant and Compliance Officer are assigned to the new member.

'Understanding what brokers face and addressing it'

This is the point of departure for **Ian Middleton, General Manager Operations**, and the real Masthead value proposition, according to him.



of the final FAIS Audits. The fourth, and last, period of the year is taken up by compliance workshops, facilitated by Celestis, an outsourced provider.

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system of checks and balances. Compliance credibility comes from the fact that the member is subjected to assessment by an external body.

According to Ian, compliance has, to

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a large extent, been embedded in most members practices, where they now welcome the visits of compliance officers and recognise the value added by this independent and objective compliance service. The emphasis is now shifting towards practice management with the recognition that it is not compliance as such that drives brokers out of business, but the inability to function effectively in the sophisticated compliance environment. It is not only about the direct cost of compliance but also about the opportunity cost of time spent on compliance. "Brokers spend too much time focusing on complying and managing their practices," he says, "and therefore they cannot run effective businesses. We

teach them to do the right things right".

There are nine modules in the Masthead practice management programme of which the most popular is succession planning, followed by client

segmentation. Many members have some sort of succession process in mind but, in most instances, even with this, the corporate entity will survive but the business will die. ♦

Our focus during the first 18 months was heavily weighted towards compliance, initially aimed at assisting members to get their licenses and then ensuring that members keep their licenses and stay in business.

Says Ian: "We start with demystifying FAIS and gearing the member's practice towards compliance by introducing processes and systems. Our compliance offering basically consists of one compliance visit per quarter. This includes assisting the broker in completing and submitting his/her annual FAIS Audit. We break the year down into focus periods," he adds, "starting with determining the 'fit and proper' status of our members, identifying specific training gaps and addressing them. For this purpose, we have a service provider agreement with Damelin.

During the next period we focus on the advice process, by assisting members to identify gaps in their advice process, addressing those gaps and showing evidence of the process followed. The third period is dedicated to FAIS audits, including the compilation and submission

The client's real need

That is the starting point for **Doug Clothier, General Manager Finance and Product**, when selecting suitable products for distribution by the Masthead network.



"A thorough due diligence process is followed when any new product is considered for inclusion in the distribution network", he says, "including testing of the product for reliability, trustworthy delivery of intended benefits, and whether the product provides true value to the client, in terms of benefits, and to the broker, in terms of ease of delivery. We have an agreed list of products with each product

