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Easiest Way to Make Clients Pay-up Financial Planning Fees

Communicating the value of Financial Planning and transitioning clients to a fee based advisory system is a challenge faced by many Financial Planners. Here is a deeper understanding on making the clients' understand the value of Financial Planning and making them pay for your services.

Most of us have one 'huge complaint' about getting started as financial planners i.e. "people in India are still not ready to pay financial planning fees, there is no demand for financial planning services." The onus of communicating the value of financial planning is on us. If we are passionate, knowledgeable and have a strong belief that we can make a difference to clients' lives, we don't have to wait for the market to mature and people to start calling us or walking into our offices.

Clients pay us when they see some concrete value in our services; we need to quantify the value in some way. Here is one way to show prospects the value that we bring to table. Most people have a habit of procrastinating and they very well know it - **show prospective clients what they might lose by not getting a financial plan done "now"**.

Individuals have miserably gone wrong with money management because of two things - one, they are just too lazy/busy to do it themselves and second, they have heavily been misguided by their agents / distributors / brokers / bankers. If you are genuinely offering Financial Planning services and learn to communicate its value, you will emerge out with cheques!

Try it out yourself, communicate it through mailers, during first time meetings, in public speaking, in your media writings etc - make sure your communication is polished, firm and impactful. This article will illustrate this approach with an example of a 30 year old Sanjay, quantifying what he and his family could lose by not getting his plan done for the next 5 years. He is a typical clueless investor busy with his career; gets a good salary, but doesn't know how to channelize it effectively.

Cost of delaying Retirement Planning

Sanjay's current monthly expenses are Rs. 30,000 and he needs to build a corpus of Rs. 4.25 crores to meet his 20 years of retirement expenses from 60-80 independently. To build up this corpus, Sanjay would have to invest only Rs. 7,700 p.m. in equity oriented investments over the next 30 years. The power of compounding would ensure he achieves his corpus requirement.

Opportunity Cost of Delaying a Financial Plan for a 30 Year Old

1	Retirement Corpus of Rs. 4.25 Crores by Age 60	Rs. 15,800 SIP p.m. if investments starts after 5 years	Rs. 7,700 SIP p.m. if investments start immediately	Rs. 20 Lakhs is the additional outflows for delaying savings
2	Funds of Rs. 20 lakhs in today's value for Child's Education after 18 years	Rs. 14,000 SIP if investments in FDS/ Insurance plans	Rs. 7,000 SIP p.m. if investments in Equity MFs / ETFs/ Bluechip Stocks	Rs. 15 Lakhs is the additional outflows for choosing wrong asset class for long term
3	Park Rs. 4 lakhs accumulated overtime in salary/savings account	Let it lie in Savings Bank account earning minuscule 3.5%	Park in a no-brainer FD/CD earning 8%	Rs. 1.2 lakhs is the additional inflows for taking the decision to invest
4	Adequate life insurance cover to safeguard family	Buy 6 investment oriented insurance policies yielding 8% with 15 lakh cover	Buy 1 or 2 Term Insurance policies based on need and invest the rest	Rs. 60 lakhs under insured even after heavy premium outgo
5	International Vacation for 2 costing Rs. 3 lakhs	Opt for Rs. 10,700 EMI Option to go immediately	Invest Rs. 8,800 p.m and go after 3 years	Rs. 70,000 is the additional outflows for instant gratification

But if he delays this action and starts after 5 years, he would have to shell out Rs. 15,800 p.m. for the remaining 25 years. Rs. 20 lakhs is the additional outflow required as the cost of delaying his retirement planning for only 5 years! Why not spend it on a super holiday soon after retiring?

Cost of choosing a wrong Asset Class

The simplest & most effective asset allocation strategy one can follow is 'debt for short term goals & equity for long term goals', but it can be the most difficult thing to do if someone does not have a plan in place. Sanjay wants to accumulate Rs. 20 lakhs in today's value to fund his son's education which would be Rs. 65 lakhs by the time child reaches the age of 18 and ready for higher studies.

For achieving the goal, Sanjay would have to invest Rs. 7,000 pm for the next 18 years in equity oriented investments like mutual funds, blue-chip stocks or ETFs which are likely to give a return of around 14% CAGR. Like most people if Sanjay had invested in Fixed Deposits or lousy traditional insurance products yielding around 8% for this long term goal, he would have to invest Rs. 14,000 p.m. The additional outflows would be Rs. 15 lakhs which is the cost of choosing a wrong asset class! Why not gift it to his son or spend it on his marriage?

Cost of keeping money idle in Savings Account

Thanks to lethargic behaviour, hectic life & a lack of clarity on future goals, monthly savings get accumulated over time and stay there safely...cheers to the banks! One fine day, investors wake up to realize there is too much money lying idle in account; either they buy a car or a life-size LCD TV. And if

someone is mindful, they fall prey to those touchy advertisements by financial institutions.

Sanjay had been maintaining a balance of around 5 lakhs in his savings account yielding 3.5% which had accumulated over last 6 years since he started earning. Now with a no-brainer if he keeps aside Rs. 1 lakh as emergency fund in Savings Bank A/C and invests the remaining Rs. 4 lakhs in a Fixed/Corporate Deposit at 8%, he can easily earn an additional Rs. 1.2 lakhs in 5 years. Why not hire a professional financial planner with this extra money? (Catch this point strongly!)

Cost of buying wrong Insurance Products

Sanjay is happy that he has 6 insurance policies and he pays the premiums regularly, but the total cover is only Rs. 15 lakhs and premium outgo is Rs. 75,000. Needless to say all of them are traditional policies with abysmal yields or ULIPs with higher charges. And on other hand his need-based insurance requirement is Rs. 75 lakhs. One will know the cost of being under-insured by Rs. 60 lakhs only when the ultimate uncertainty strikes and the family faces the heat in those 5 years.

Do a quick & rough calculation of the prospective client's insurance need and drive home this point. You may also include other risks faced by clients like medical, accident, critical illness etc.

Cost of getting into Bad Debts/Loans

Borrowing is "spending future uncertain unearned income today". Many of the debts can simply be avoided by delaying the buying decision. Sanjay wants to go on a vacation to Europe which will cost Rs. 3 lakhs. Now if he can't hold back this craving for

instant gratification he may end up opting for a 3 year Rs. 10,700 EMI option by the tour operator which will eventually lead to Rs. 3.85 lakhs outflow. Instead if he delays this trip by 3 years and invests Rs.8,800 pm @ 10% to build up a corpus, the net outflow would have been only Rs. 3.15 lakhs. Why not utilize the savings to fund domestic vacations for first 2 years?

Your prospects should be made to understand that a 'financial plan' gives them a roadmap which will help

them to take the right decisions and avoid expensive blunders. Motivate them to act now and start working on the financial plan, make them realize that there are many better things they can do with the extra money saved or earned.

Let's not wait for consumers to come to us, let us go to them! It's just a matter of communicating the value effectively.