



Advocis 

PFA Study Group

CHAPTER PROGRAM

PRACTICE DEVELOPMENT SERIES

Module 4
Engagement

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Module 4: Engagement

Learning Objectives

Engaging with clients and prospective clients effectively is a skill that will serve you well throughout your entire career as a financial advisor. Your ability to connect with clients will allow you to build lasting, trust-based relationships. The initial client interview is a significant step in showing your prospective client the value of the advice that you provide. It is also an important milestone in the trust-building process and preparation plays a central role. Upon completion of this Module and the accompanying Practice Development Activities, you will be able to:

- Navigate and explain each of the five stages of the Client Relationship Cycle
- Adapt the Client Relationship Cycle and make it a part of your own client process
- Prepare for an initial client meeting by developing an agenda and learning as much as you possibly can about the prospective client prior to the meeting
- Explain the Client Relationship Cycle and how it serves to connect a client's needs with the most appropriate solutions and services through a comprehensive or modular financial plan
- Understand the role of a client engagement letter or agreement and how to introduce it to your prospective clients
- Anticipate and prepare for questions that may arise from prospective clients during the initial meeting
- Accept that a client's decision-making process is unique when contemplating the purchase of an advisor's services and solutions

When you first contact a prospective client in your ideal target market, you initiate the Client Relationship Cycle. You and your prospective client evaluate each other and the possibilities for the relationship. At this stage, you need to determine if you can truly assist the prospective client with her concerns. In turn, the prospective client needs to assess whether you are a good fit for her personal and financial circumstances and are able to provide the services she is seeking. The following is a framework for understanding the development of a client-advisor relationship and how it integrates with a defined six-step financial planning process.

Introducing the Client Relationship Cycle

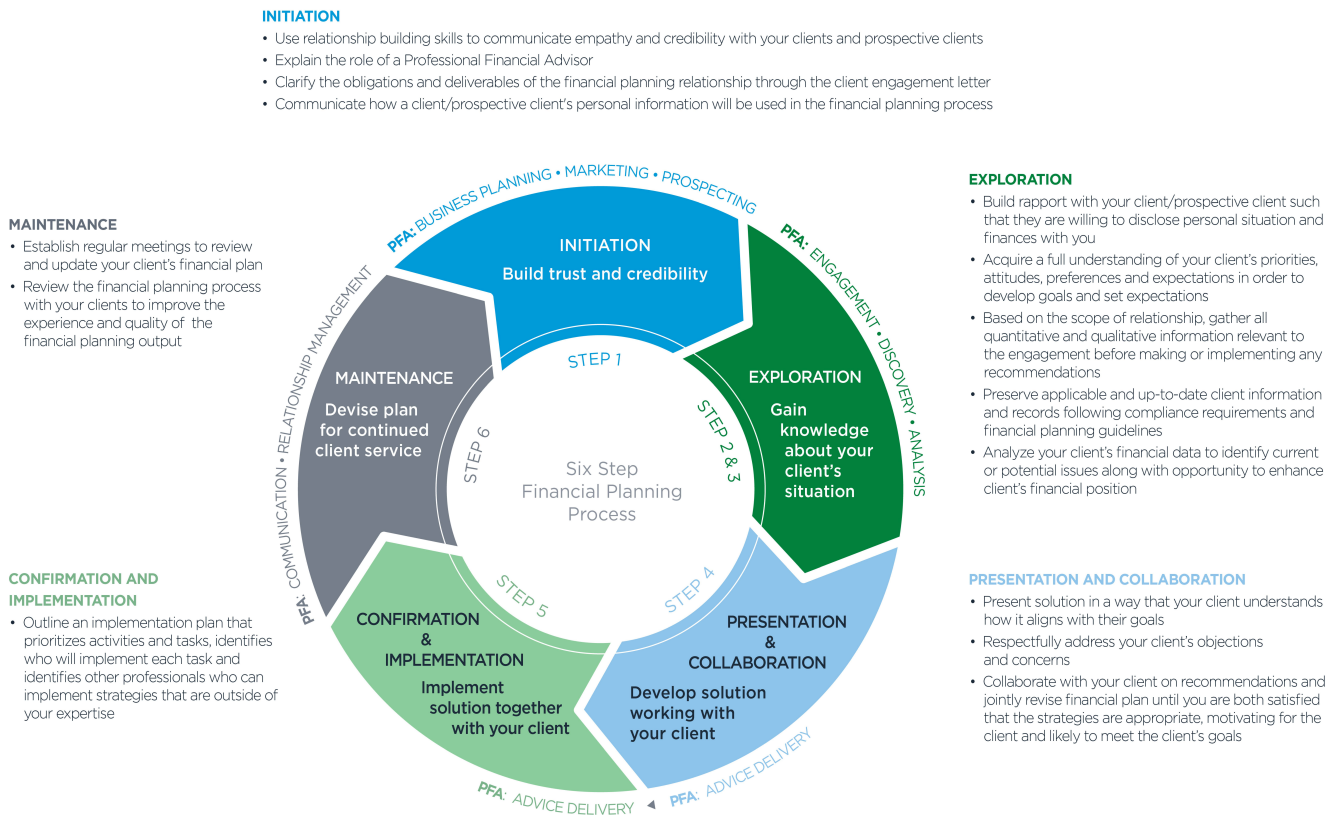
The Client Relationship Cycle encompasses the entire process from first identifying a prospective client to making them a valued client for life. As an advisor, you are selling two things – yourself (your knowledge, expertise, advice and trustworthiness) and your recommendations. It is not possible to rush through the Client Relationship Cycle. It takes time – and it should – to progress through each stage of the cycle in order to develop a long-lasting and productive client relationship.

Overview of the Five Stage Client Relationship Cycle

The Client Relationship Cycle is a process that takes you through each phase of financial planning, starting from prospecting. It may require an investment of time and effort from both yourself and your client(s). The time commitment varies depending on your client's readiness to move forward with you to achieve their financial goals. The entire Client Relationship Cycle may take several months to complete as you progress through the stages with a prospective client or client. In fact, you may spend several months in stage one (Initiation), before the initial meeting takes place. It may take more than one fact-finding or discovery meeting before you have gathered all the information you need and have permission to proceed with the development of a financial plan. Several more meetings could take place over which you gather more client data, analyze it, reveal gaps and unmet needs, and then finally develop recommendations. It may take another meeting or two to present and discuss your recommendations, collaborate with your client on the solution(s), and decide upon an implementation plan.

Successful financial advisors who take a comprehensive, total needs-based approach to planning will have clients at various stages in the Client Relationship Cycle. They recognize that clients often have more than one unmet need, and that their needs will change as they experience different life events. As a result, clients and financial advisors often work through parts of the Client Relationship Cycle several times throughout their relationship. Here is an overview of the Client Relationship Cycle:

Advocis Client Relationship Cycle



Stage one – Initiation: The Initiation stage is critical in establishing trust and credibility with the client. During this stage:

- Rapport is built to lay a solid foundation for an enduring, trusting and fruitful client relationship.
- You describe your process for working with clients, the compensation you receive, and how you recommend and deliver agreed-upon solutions to your clients.
- Clients learn about the information they need to supply in order for you to prepare a meaningful financial plan.
- The Client Engagement Letter or Client Engagement Agreement (you will see these two terms used interchangeably) is an important document that arises from this first stage. The Client Engagement Letter is the blueprint for the relationship and confirms the scope and details of the engagement. The roles and responsibilities of client and advisor are also clearly delineated through the Client Engagement Letter.

The Initiation stage is covered in detail in this module. This stage of the Client Relationship Cycle is aligned with Step 1 (Establishing the Client – Planner Engagement) of the Financial Planning Process. For more details on Step 1, please refer to the Financial Planning Process located in the Resources section of this course.

Stage two – Exploration: The Exploration stage involves building further rapport with clients and collecting all of the relevant financial data to gain a full understanding of their financial situation. It is not just financial data that contributes to an accurate and relevant financial picture:

- Financial advisors must also have a very good understanding of the client’s goals, priorities, values, preferences and attitudes.
- Financial advisors are tasked with determining both quantitative (personal data and financial statements) and qualitative (aspirational, values-based, expectations) information. The data collected provides the financial advisor with insights into a client’s life and helps determine the client’s financial goals.

- Information is best gathered through a combination of a standardized questionnaire and open-ended questions in a face-to-face meeting. It is important for a financial advisor to have all of the information needed to produce a thorough analysis (the scope of which is determined in the Client Engagement Letter) that results in the identification of current and future needs and opportunities specific to a client's situation.

Stage 2 (Exploration) of the Client Relationship Cycle aligns with Step 2 (Gathering Client Information & Determining Goals and Expectations) and Step 3 (Clarifying and Identifying) of the Financial Planning Process. For more information on Steps 2 and 3 of the Financial Planning Process, please refer to the Financial Planning Process located in the Resources section of this course.

Stage three – Presentation and Collaboration: The Presentation and Collaboration stage distinguishes a financial advisor's skill in communicating issues and opportunities based on a client's situation and personal financial goals. After performing an in-depth analysis, financial advisors must use their skill, education and experience to develop appropriate strategies to help clients achieve their financial goals, based on the issues and opportunities defined during the Exploration stage. The needs, objectives and strategies can cover a wide range of areas, including insurance, investments, tax and retirement planning. Strategies developed by the advisor are influenced by, and take into consideration, a client's temperament, values and attitudes ascertained during the Exploration stage.

In this stage, financial advisors and their clients review the recommendations made and jointly revise the solution(s) until they are both satisfied with the strategies to be adopted.

Stage three – Presentation and Collaboration of the Client Relationship Cycle aligns with Step 4 (Developing & Presenting the Financial Planning Recommendations) of the Financial Planning Process. For more information on Step 4 of the Financial Planning Process, please refer to the Financial Planning Process located in the Resources section of this course.

Stage four – Confirmation and Implementation: Once the client confirms their agreement on the strategies to be adopted, the advisor outlines an implementation plan that prioritizes solutions and tasks. The implementation plan identifies particular tasks, assigning time horizons or due dates for each. Should any strategies fall outside a financial advisor's area of expertise, the plan also identifies other professionals (accountants, lawyers, estate specialists) needed to implement those particular elements of the plan. You can think of the actual implementation plan as a list of strategies with defined target dates. Scheduled follow-up meetings are included in the implementation plan to ensure milestones are being met.

While some recommended strategies and solutions can be considered over a period of time, there are some on which it is important to act immediately in order to alleviate serious risks to a client's long-term interests. For example, a family or a business could be at serious risk due to a lack of life, health or disability insurance coverage. During this stage, financial advisors should identify urgent situations and the importance of action, to ensure that clients are aware of the appropriate steps to be taken.

Stage 4 of the Client Relationship Cycle is aligned with Step 5 (Implementing the Financial Planning Recommendations) of the Financial Planning Process. For more information about Step 5 of the Financial Planning Process, please refer to the Financial Planning Process located in the Resources section of this course.

Stage five – Maintenance: During the Maintenance stage, the financial advisor monitors a client's financial plan to ensure that it is on track. After a financial plan has been implemented (or partially implemented), the financial advisor schedules regular client meetings (annual or periodic) during which the financial plan is reviewed and updated to stay in tune with life and goal changes. It is important that clients understand that significant changes in personal circumstances may affect or require changes to the financial plan. This might include marriage, birth of a child, change in career, or divorce. Moreover, financial advisors should contact their clients in the event of material changes in tax laws, financial markets or other significant developments. Educating a client about the market and other financial/technical developments and putting this in the context of the

client's financial plan helps you to establish yourself as a subject matter expert. This helps you to continue building trust and client loyalty over the longer term.

Stage 5 of the Client Relationship Cycle is aligned with Step 6 (Monitoring the Financial Plan) of the Financial Planning Process. For more details on Step 6 of the Financial Planning Process, please refer to the Financial Planning Process located in the Resources section of this course.

The Client Relationship Cycle Begins: Initiation Stage

In this section, we take a closer look at the first stage of the Client Relationship Cycle: Initiation, in which financial advisors build trust and credibility with prospective clients.

This critical first stage involves marketing yourself as a financial expert. The initial meeting is critical and is often secured through good prospecting. At the beginning of the cycle, you need to put yourself on the radar of your target market clients to ensure they are aware that you are open for business. This will be the culmination of your successful marketing and networking efforts. Your value proposition highlights how you are different from other financial advice providers. Your elevator speech helps spark interest from prospective clients to learn more about the solutions you offer. Prospecting involves finding the right clients for your business and motivating them to come and see you for financial advice. Please refer to *Practice Development Module 2, Marketing and Practice Development* and *Module 3, Prospecting* for more information on developing your value proposition and elevator speech. Remember, the purpose of your marketing endeavors is to get that all-important first meeting with a prospective client. When your marketing endeavours are successful, they are persuasive enough to give prospective clients enough information to make the decision; to listen to more of what you have to say.

This is likely to occur during the first meeting you have with a prospective client.

While this initial meeting is a potential gateway to a promising long-term client relationship, it will take a while to cultivate the client connection, to build rapport and earn their trust. Think of the initial meeting as your audition to educate a prospective client about the planning process, to highlight the value of your financial advice in achieving their goals and showcase the excellent service you will provide along the way.

The initial meeting is ultimately a two-way street. One in which you find out more about the prospective client and the prospective client finds out more about you and your unique client relationship process.

In the initial meeting, the primary goal is to establish credibility and trust so that your prospective clients will feel comfortable sharing aspects of their financial situation, aspirations and desired outcomes. This connection is essential to securing future meetings and ultimately engaging in a long-term client-advisor relationship.

Booking That Critical First Appointment. How Does It Happen?

Buying financial advice is not like buying a typical retail commodity, such as food. Few people actually feel an overwhelming need to consult with a financial advisor, whereas they are accustomed to regularly going to the store to purchase groceries. What triggers a prospective client to want to seek out the services of a financial advisor?

Seeking financial advice is closely linked with life events – events that at times clients are reluctant to confront. These events might include taxation, investments, death, disability and living through illness or a fast approaching retirement date. There are also joyous events that will trigger a client to seek the counsel of a financial advisor, such as the birth of a child, the purchase of a house or a change in career. What are the series of

events that trigger an initial meeting? As you have learned, effective marketing and prospecting are key to securing a first meeting. However, there are a few catalysts that motivate a client to act:

- ***Life Events*** - There are certain moments when someone is more “open” to speaking to an advisor. For example, if the prospective client’s close peer died unexpectedly, she may visualize herself as that person and understand that it could happen to her. Marriages, the birth of a child, the loss of a partner, the start of a new business, and planning for retirement are other life events that prompt the need for financial advice.
- ***Referrals*** - If someone you respect and trust makes a recommendation about a movie or book, wouldn’t you be more likely to follow that recommendation? For financial advisors, obtaining an introduction from a client, family member or individual from your centre of influence network (accountant, lawyer, coaches, professional associations etc.) will enhance your probability of meeting with a prospective client.
- ***Curiosity*** - By effectively and strategically using your quick elevator speech, you can spark curiosity and introduce a concept that might be new, intriguing, or relevant to a prospective client. For example, delivering a seminar on incorporation and its benefits for doctors and medical professionals could attract the interest of your desired target market.

There may be other potential reasons that a prospective client has agreed to an initial meeting with you:

- The prospective client is interested in learning what services you provide, including your fees and your approach. Perhaps the prospective client is shopping around for an advisor and not ready to take the next step.
- There is an immediate need or concern – such as a life event or perhaps your elevator speech has highlighted a need
- There’s a gap in financial literacy and the prospective client wants to learn more about how to use a specific financial product or how to maximize wealth

- The prospective client was recommended or referred to you and wants to meet you to see if there is a comfort level in potentially working with you.
- Perhaps the prospective client discovered your blog post or LinkedIn article and is interested in the way you approached a financial planning topic or challenge. They may be looking to see if your views are consistent when they meet you in person or, they may wish to dive deeper into your subject matter expertise.

Whatever the reason may be, you will want to understand what motivated a prospective client to say yes to meeting with you and build on it.

Preparation is paramount to addressing their true need, which will in turn build trust and loyalty

Preparing for the Initial Interview

Once you've secured an initial interview with a prospective client, it's time to prepare for it. Preparation is crucial. Not only is the initial interview the gateway to the discovery meeting but the more prepared you are for the initial interview, the more confident you will feel. Confidence will enable you to describe your client process well, answer your prospective client's questions in a self-assured manner, and prepare your client for the discovery meeting. Throughout this meeting, you must be knowledgeable, confident, trustworthy and genuinely interested in learning about the prospective client's personal situation. These factors help to build trust, and failure to do so may result in the prospective client not wanting to continue the process.

The success of the connection you establish with prospective clients in initial interviews is linked to their evaluation of the relevance and value of your services and advice, and whether they feel they are being heard and understood. Prospective clients will meet with a financial advisor based on an introduction or reference, but the process will not proceed further unless they believe that the investment of their time and effort is worthwhile.

How to Build Trust and Credibility Ahead of the Initial Interview

Before your prospective client is willing to be open to a financial advisory relationship with you, you need to establish a level of trust and credibility. One way to accomplish this is to show prospective clients you are prepared and engaged – even before the meeting takes place.

Of course, trust and credibility can take years to build. However, there are a number of tactics and strategies to help financial advisors establish credibility and trust in a relatively short period of time with both prospective clients and clients – some of which can even be applied before you meet each other face to face.

Top Eight Ways to Build Trust and Credibility with Clients

- **Follow through on your commitments.** This is simple: keep your promises. Even if you have interacted with a client for a short period of time, be sure to follow through on your commitments. For example, if your client requests information, send the requested information when you say you will.
- **Address client concerns** – Be sure to use an agenda to properly set expectations and show that you are organized. This way, you can ask clients for items they to discuss beforehand, and ensure that they are addressed during the meeting.
- **Be punctual** – It pays to be on time. This sends a strong message about both your organizational abilities and your respect for your client's time.

- **Return calls** – Returning calls promptly speaks volumes about the level of service you provide. You may not be able to solve each issue on the spot during the call, but getting back to the prospective client or client quickly and establishing next steps is key to building trust and credibility.
- **Listen actively** – Prove that you are listening by paraphrasing or summarizing what clients says back to them. Your ability to listen will help clients gain confidence that you are familiar with, and empathetic to, their situation. This starts with paying attention to what’s important to them, such as remembering the names of family members and pets.
- **Ensuring you are respectful of industry peers** – Badmouthing the competition is far from productive when it comes to establishing your credibility with clients. If a client complains about another advisor, avoid joining them. Instead, take an objective and positive approach and outline your process and how you might avoid a similar situation or pain point.
- **Be empathetic** – Demonstrate your understanding of a prospective client’s situation and come to the table with non-judgemental solutions. For example, you want to emphasize that you understand how they got into a particular situation and offer constructive, unbiased solutions. Avoid using a prescriptive and judgemental approach (i.e., that’s an interesting approach but not very effective – now this is what you need to do)
- **Use inclusive language** – “We” is a powerful term when it comes to building and strengthening bonds in the advisor-client relationship. Use phrases like “We’re going to find a solution together that fits your needs and situation.” and “Let’s solve this challenge by...” This type of language demonstrates your willingness to share responsibility and success when it comes to your client’s financial future.

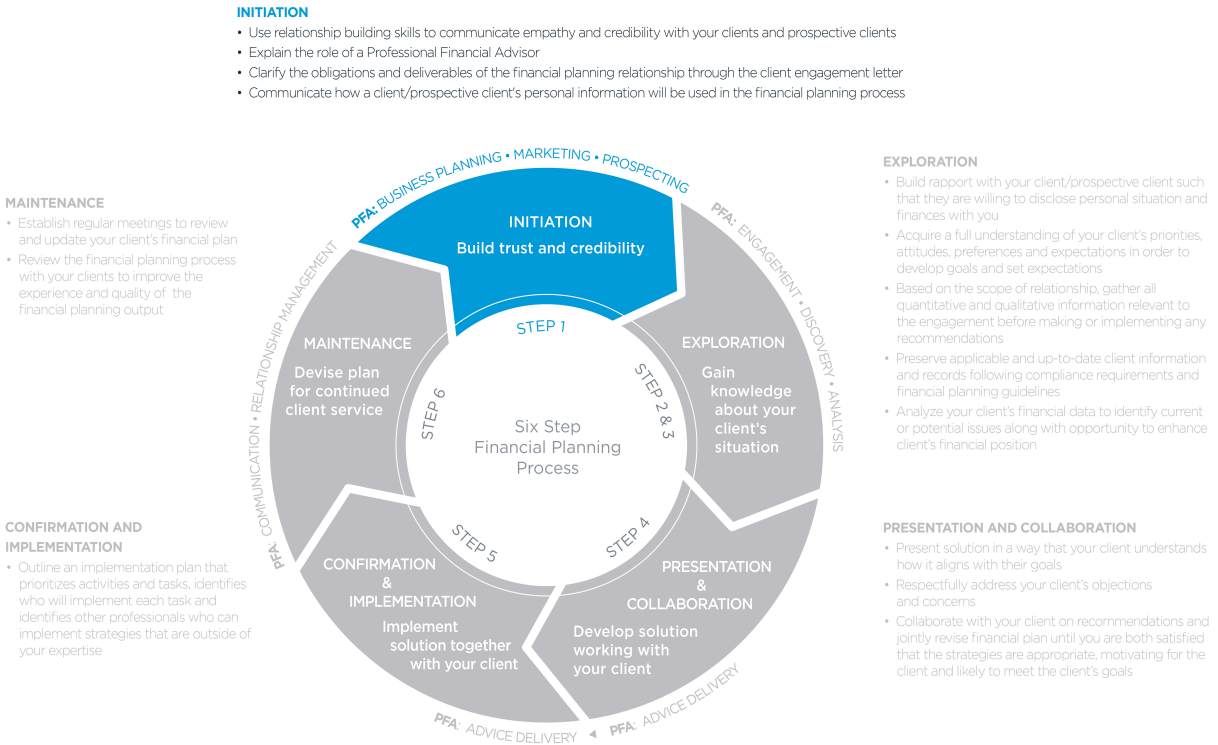
The Initial Interview

Your initial client interview will take place relatively early in the Client Relationship Cycle, the Initiation stage. However, keep in mind that the client interview can continue into the Exploration stage. The main objective of your initial interview with your client or prospective client is to learn about the client's financial situation as well as their hopes, dreams, goals and concerns.

There is often overlap between the initial interview and the "discovery" meeting. It is possible that a prospective client comes to an initial interview with some or all of the documentation you need to incorporate into a financial plan and, may also be prepared to answer many of the probing questions required as part of the discovery process. As prepared as your prospective client is, it is unlikely that you will be able to complete the discovery process in that initial meeting and it is best to prepare your client for a second discovery meeting. We will discuss the discovery meeting in detail in *Practice Development Module 5, Discovery*.

You will be able to gather some of this vital client information as you build trust with your client or prospective client in the Initiation stage. It is a good time to set expectations with respect to how you intend to use their personal information in the financial planning process. Continuing to build trust and rapport in the Exploration stage is essential to obtaining the answers you need to develop an effective financial plan for your client that incorporates and sets effective goals and expectations.

Advocis Client Relationship Cycle



Let's take a closer look at the initial interview and how it can define the course of a client relationship. When prospective clients take the first step and agree to an initial interview, all they have done is agree to meet and learn more about how you might help them. At this stage, there is no agreement to become a client. That is why the first interview is so important. How effectively you conduct the initial interview with prospective clients will define your relationship with them and may determine whether you'll be able to convert them into engaged clients for life.

Preparing for the Initial Meeting

Begin your preparation for the initial meeting by reviewing all the notes you have about the prospective client and preparing a file for the meeting. You may be meeting at the prospective client's location or at your office. In either case, you will want to maintain a professional approach and anticipate the forms and information you may need to access during the meeting. Ideally, the prospective client's spouse or partner (or in the case of a business owner, other decision-maker(s)) will attend the meeting as well and you will want to be ready to answer any questions they might have about you and your business.

One best practice that you can adopt is to send a meeting agenda a few days prior to the date of your initial meeting.

An agenda helps you to:

- Better manage the client or prospective client's expectations
- Ensure the meeting stays focused and on track
- Address the client or prospective client's concerns and questions

Sending the agenda a few days in advance of the initial meeting ensures prospective clients have time to review it and potentially can add items of interest they wish to have addressed in the meeting.

Note that an agenda is ideally produced in advance of every client or prospective client meeting – not just the initial one. Reviewing an agenda at the beginning of every meeting helps to set expectations and gives the meeting focus – whether it is an initial meeting, a discovery meeting, an annual review or an introduction to a specialist or COI.

Preparing the Prospective Client File in Anticipation of the Initial Interview

While each financial advisor will prepare for a meeting differently, here is a checklist you can use as a starting point to prepare your client or prospective client file.

Meeting Checklist:

1. Did the prospective client return the agenda to you?
 - Were items added to the agenda? Are you prepared to discuss these items?
 - Do you need any material to assist in responding to their questions? Did the prospective client request any additional information or material?

2. Do you have the paperwork you need for the meeting?
 - Do you have literature and marketing material about your firm and process?
 - Did you bring new account applications?
 - Do you know how to complete these online if they're not paper-based?

3. Do you have all the technology you will need for the meeting?
 - Is your laptop charged?
 - Is your phone charged?
 - Do you have your portable scanner or printer?

4. Is the Client Engagement Letter in the file?
 - Are you prepared to explain how the Client Engagement Letter is used and the significance of the document for you and the prospective client?

5. Do you have a copy of the Discovery document in the client file?
 - Review the Discovery document and highlight areas of information on it that you anticipate will likely be relevant. This will be useful as a prompt to remind you of the kinds of information you need to collect.
 - It also lets the prospective client know that you have a process and the type of information you will want to collect in the Discovery meeting.

Day of Interview

If you completed all of your meeting preparation, you are on track for a successful initial interview. On the day of the interview, here's a step-by-step guide to ensure that you and your prospective client get the most out of your interview, while modeling a great client experience along the way.

Setting the stage:

Once you have thanked your prospective client for taking the time to meet and have everyone seated, it's a good idea to create rapport and find common ground with them before discussing business. Start with what you know about your prospective client – whether it's their business or hobbies such as travel, cooking or gardening. You can talk about the connection you have together and what prompted them to meet with you in the first place. Was it through a networking event? A referral through your COI network? The possibilities are endless, but the main thing is to be authentic and set your prospective client at ease as they begin to establish a bond with you.

TIP

Ensure your client is comfortable and find common ground before discussing business.

Remember, you will want to use the initial interview to tell prospective clients a little bit about yourself and your business. It's a good idea to send them your biography ahead of the meeting, so you can keep this portion of the meeting brief. Remember to keep the focus of the meeting on them and their goals, needs and aspirations rather than on you.

TIP

It's a good idea to send them your biography ahead of the meeting, so you can keep this portion of the meeting brief.

Describe how you work with clients so that your prospective client is aware of what to expect from the relationship and why you might be asking many personal questions. Your agenda will go a long way to helping you guide the conversation and reinforce that you are organized and process-oriented.

You may want to start by saying something like this:

“I go through a disciplined process with all of my clients. Let’s start by reviewing the agenda. I hope you have had a chance to review it in advance. Are there items that you would like to address or any questions you have before I review the topics we’ll discuss today?”

You can then provide a quick overview of your process – if you wish to help put it in context for your prospective client you can use the Client Relationship Cycle.

1. The first step (Initiation stage) is for us to discuss the type of work I do with my clients, and to better understand your situation. If we decide that it’s the right time to proceed, we will move onto the next step together.
2. Step two (Exploration stage), is where we will discuss your goals and objectives, talk about what you’re currently doing to achieve them. I will then ask questions to help me understand how you are doing that. . Here’s a copy of the form I use to gather that information. We can use it as a guideline for our conversation to ensure we’re covering all the bases. It’s not something you would ever need to fill out on your own. All the information you provide me will be kept in the strictest of confidence and will be used only for the purposes of analysis and to prepare a financial plan.
3. Once we’ve assembled all the facts and copies of documentation together, I will take this information away and analyze it, and prepare a financial plan outlining your current financial situation, and identify solutions that can help you to achieve your goals.

4. Our next meeting (Presentation & Collaboration stage) is when we will discuss the findings of the financial plan together, and decide on priorities and timelines that make sense to you. This is a collaborative process and coming up with a financial plan that will meet your goals and aspirations is ultimately a joint effort. I am committed to addressing any questions or concerns that you have at any stage of the process. I also want to ensure that we identify and discuss any gaps in your plan together.
5. The fifth step (Confirmation & Implementation stage) usually happens over a period of time, and that involves us implementing your decisions. At this stage, I outline an implementation plan for you based on the solution(s) that we mutually agree to put into place within your financial plan. During this stage, all tasks and priorities are broken down and there are clear accountabilities. If I need to consult another professional for areas outside of my expertise (will and estate planning, for example), I will do so, with your agreement, at this stage.
6. The most important step for my clients, is the final step (Maintenance), which is the equivalent of an annual checkup with your physician. I will meet with you at least once a year to review any changes in your personal or business life and revise your financial plan and analysis, if necessary. Remember, your financial plan is a living document and you can expect it to change over time so that it stays relevant to your goals and life developments. It's important to understand that there will always be tax law revisions, new estate planning legislation, and the introduction of new financial solutions and enhancements to existing ones. I am committed to keeping you on top of these developments, and – most importantly – explaining how and why they might affect your financial plan. There may also be changes in your life, such as children leaving for university or the purchase of another home, which may affect your financial planning. It's important that you inform me about these new developments, so that I can help you adjust your financial plan accordingly.

Beginning in this manner will help set the tone of the meeting and give your prospective client a good idea how you run your business. Remember, you want your prospective clients to understand that you are working on their behalf to determine goals and objectives, analyze financial situations, achieve consensus on your recommendations and regularly monitor them to ensure they are on track.

Note that there is a great deal of overlap between the initial meeting and the discovery meeting. In practice, the division between these two meetings is not always clean cut, and you can expect some fluidity between both of these meetings with your prospective client or client.

During the initial meeting you will ask questions to get to know more about your prospective client's family or business and financial situation and probe to uncover unmet needs. ► **Activity 4.1** will help you prepare for initial prospective client meetings by summarizing what you know about your prospective client's personal situation and challenges.

Wrapping Up the Initial Interview

You've had a great and productive initial interview with your prospective client. You've established a connection, set the stage by going over your process and the Client Engagement Letter and enabled them to ask questions. Now you need to wrap things up. Here are several best practices to consider for the close of the initial client meeting:

- Quickly outline your process and the value you bring to your clients
- Summarize any outcomes from the meeting .
 - o Is there anything you need to provide such as additional literature, research or product information?

- Identify next steps in the process
 - Does the client need to sign a Client Engagement Letter?
 - Are they ready to proceed to a fact-finding interview or data gathering session?
- Provide the client with a checklist of items to bring to the next meeting should they wish to proceed
 - If the client has signed a Client Engagement Letter, you can provide a copy at this stage

After you discuss your client process, you should review a few other important details with your prospective client in this first meeting. These include the Client Engagement Letter, how you are compensated, and the additional resources that you can access to help meet their financial goals. Let's discuss each of these in turn.

The Importance of Obtaining a Client Engagement Letter

In any client relationship, effective communication is essential. One critical tool that you have to help establish scope, guidelines and manage client expectations is the client engagement letter or agreement. The root of many disagreements and conflicts in life can be traced back to misaligned communications. In the case of a financial advisor-client relationship, the **Client Engagement Letter** or **Client Engagement Agreement** (you will hear both of these two terms being used, and they can be applied interchangeably) helps to establish scope of relationship, expectations and time horizon. With these elements clearly and unambiguously outlined, you can proactively alleviate potential conflicts, mitigate risks and provide a relationship charter that serves as the blueprint for you and your client. As a client's circumstances and needs evolve, so does the client engagement letter. You need to revisit this key document from time to time to ensure that the parameters you initially established with your client are still valid.

A well-defined engagement process leads to greater client and advisor satisfaction. A financial advisor thinks holistically and anticipates client needs. You want to cultivate the type of relationship where a client will keep you top of mind and want to inform you of important life changes that may affect their plan or strategy.

A Client Engagement Letter helps to clarify the role of the financial advisor and service expectations. To minimize the possibility of misunderstanding between a financial advisor and their client, the use of a Client Engagement Letter is recommended before providing any service for a prospective client. This helps create a process to follow and encourages ongoing dialogue.

A client engagement letter is a very valuable document and it is a recommended part of a holistic financial planning approach. The client engagement agreement can be used for modular or comprehensive planning and for fee-based, commission-based or salaried compensation arrangements.

Reinforcing the Benefits of a Comprehensive Planning Approach

The Client Engagement Letter is a great tool to remind clients that a comprehensive or holistic approach to financial planning is considered a best practice to help them achieve their goals, dreams and aspirations. However, a comprehensive financial requires a greater commitment in time that some clients may not be ready or prepared to engage in. In the event that a client prefers a modular plan approach, the Client Engagement Letter can be used to indicate the financial planning areas in which your client is interested. With a modular plan approach, it is vital that financial advisors communicate the risks around understanding only a portion of their client's financial situation. For example, if a client only wants a retirement plan and does not wish to discuss their estate plan, it can be challenging for the financial advisor to help minimize a client's tax burden at death and ensure there is sufficient wealth to pass on to beneficiaries and heirs. Similarly, if a client only wants to perform a single transaction such as an RRSP contribution, without knowledge of the client's broader goals and aspirations as well as

the allocation of her other investments, it will challenge a financial advisor's ability to help the client make the most tax-conscious investment decision.

The Client Engagement Letter spells out the services to be provided to the client, and the responsibilities of the financial advisor and the client. It also underscores the importance of adhering to the advice and recommendations put forward by the advisor, and warns that failure to do so may put the client at risk of not meeting their stated goals and objectives.

The client engagement letter (or client engagement agreement) should include:

- The names of the parties to the engagement
- A description of the services to be provided
- The responsibilities and accountability of each party
- How decisions will be made
- The term of the agreement
- The method of compensation for the advisor
- How the agreement can be dissolved
- The need to use outside professionals if required - and payment of any associated costs, clearly identifying who bears these costs
- A statement of the advisor's intention to protect the confidentiality of the client information (i.e., PIPEDA rules)
- Disclosure of the financial advisor's business affiliations and any conflicts of interest
- Inclusion of a description of the method of client redress regarding conduct, service, or product information

Please navigate to the Resources section of this course to review a sample client engagement letter.

Best Practices for Delivering a Client Engagement Letter

When delivering a client engagement letter, take the time to walk your client through each aspect of the document to ensure they understand what the contract entails. This is a great way to proactively answer client questions, manage client expectations and explain the financial planning process.

Encourage the client to contact you should she have any questions about any aspect of the agreement. The client engagement letter is a document that is fundamental to your relationship. It should be revised and revisited if there is a material change in a client's circumstances.

Finally, ensure that you revisit the letter with your client from time to time, especially if your client only agreed to a few financial planning areas in the original meeting. Circumstances may change and it's important that you remind your client of the scope of your engagement and make sure that it effectively serves your client's financial objectives and best interests.

It is also important for you to discuss and clarify your areas of expertise as it relates to a client's financial situation. You may need to use other professional alliances and subject matter experts in speciality areas, such as taxation, will, and estate or business succession planning that are relevant to your client's needs. Your client should be consulted and provide consent prior to engaging any of these other specialists and their involvement should be discussed and documented.

After you review the client engagement letter with your prospective client, you are in a position to ask her what she thinks about the process you have outlined and the information that you've discussed together. This is a good opportunity to address questions or clarify points that are unclear. Assuming your prospective client responds favourably, this is the point at which you would discuss the next step in the process to proceed with a signed client engagement letter.

If ready, ensure that your prospective client signs the Client Engagement Letter and has a copy to take home and review.

Congratulations, you have now welcomed a new client. Remember, prospective clients may not be ready to sign the Client Engagement Letter until there have been a couple of meetings with you, which is perfectly normal. For example, this could mean they become a client later in the process, during the discovery process rather than during the initial meeting. If the prospective client is unsure, or has concerns, this represents an excellent opportunity for further discussion as to the root of their uncertainty or concerns.

Comprehensive versus Modular Plans

Building lasting client relationships requires client engagement and commitment. Even with this approach, there will be times when a prospective client tells you that they simply want to buy a certain dollar amount of a specific product. In these situations, what should you do? In addition to ensuring the product is aligned with the client's tolerance for investment risk, it's an opportunity to steer them back towards a more holistic approach to financial planning. Let's consider the following situation:

You are meeting with a prospective for whom you've just described your client process, including the Client Engagement Letter and the benefits of completing a comprehensive financial plan. Afterwards, your prospective client tells you that they are not yet ready to work through a financial plan and just want to start a monthly contribution of \$50 to their RRSP. What should you do next?

You could start by demonstrating to your prospective client the impact of their \$50 / month contributions on their retirement plan in 20, 30 or 40 years. As you do this, you could also ask your client some open-ended questions (such as those found in Practice Development Module 5 – Discovery) about retirement. You might discover that your prospective client is actually saving towards their first home with the \$50 pre-authorized contribution (PAC). If that is the case, you might then want to suggest a conservative asset mix for the PAC (depending on the time horizon and risk tolerance of your prospective client) and you may want to provide a

description of the Home Buyer Plan Loan (and provide supporting take-away information).

As you gently probe further into the desire to purchase a first home, the conversation may also lead to an acknowledgement from your prospective client that they have existing debt and may need some assistance with financial management. Through more discussion, it might make sense for your prospective client to consider paying down debt instead of or along with the \$50 / month PAC.

This is a much different outcome than going immediately to the account application process and the \$50 / month PAC. This pathway serves to demonstrate the financial planning process to your prospective client and your additional value to the relationship.

Respecting the client's time and personal reasons for the meeting, use the Client Engagement Letter to remind them about the comprehensive level of service you can provide. You ultimately want to convince your client of your ability to add value by examining the prospective client's needs at a bigger-picture level. You can then complement and reinforce this important concept by directing your clients to your blog or web site, where you may have developed content to reinforce the value of a holistic approach to financial planning.

Oftentimes, your prospective clients need to be educated about the value of your advice and the disciplined processes you follow. By introducing your process, you open the opportunity to address other financial issues that you may uncover.

It is also very important that your prospective client participates actively and in full cooperation throughout the financial planning process – your initial meeting is a good time to set this expectation. After all, the advice you provide will be based on the quality of information provided to you. If that information is inaccurate or reluctantly provided, the level of engagement and your ability to provide quality advice will diminish.

How Will You Be Paid?

Financial advisors play an important role providing advice and solutions to solve many financial issues for clients, helping them reach their financial goals. While a growing number of advisors in Canada charge a fee for this advice, the majority are paid through commissions, trailing commissions or other fees generated from product sales.

It is now standard practice to discuss fees with prospective clients and clients. Client Relationship Model - Phase 2 (CRM2), which came into effect July 15, 2016, affects all organizations regulated by the Canadian Securities Administrator. This piece of legislation is meant to standardize reporting to clients, including the performance of a client's investments as well as detailing advisor compensation. Starting July 2016, on an annual basis, financial advisors, and the firms they work for, are required to disclose the amount of compensation paid for the products and services they provide to clients.

In many ways, CRM2 legislation supports you as an advisor. Being transparent about how you will be paid removes any ambiguity and demonstrates the value of both the investments you recommend and the advice and services you provide to clients. Under CRM2, reporting will disclose the fees you generate from commissions, trailing commissions and administration costs.

In reviewing your compensation model with clients, it is a great opportunity to remind them of the value of the advice you provide. This advice includes a full complement of services that may include financial planning, regular review of a client's investments, an annual review, asset allocation decisions, quarterly newsletter, investment insights and other reporting, investment research, due diligence, coordinating with other experts and more. The client engagement letter is an excellent tool to complement this discussion as you can see a comprehensive, high-level summary of the services you provide.

Additional Resources

As a newer advisor, it is reassuring to a prospective client to know that you have resources you can call on for support if needed. You may want to mention that you are part of a financial institution, a team of professionals working together or, are associated with an MGA, all of which have the resources to support you in delivering solutions to meet the financial needs of your clients.

In addition, consider introducing your prospective clients to members of your team during the initial meeting (including assistants, sales managers and other professionals within your network of experts) and include a bio sheet with their names and credentials.

Addressing Questions from Clients

Financial advisors often believe that the initial meeting is only about getting to know prospective clients, qualifying them as ideal clients and learning what prompted them to meet with you. However, you should always be prepared to answer questions that prospective clients may have about you and your business. As a newer advisor, you may be asked difficult questions, including how long you have been in business, your experience dealing with situations similar to a prospective client's situation and the stability of your business. Do not feel that you have to enhance or embellish your experience. Instead, focus on the positive, such as your education and commitment to ongoing professional development, which reinforces that you are up-to-date on solutions and products, as well as legal and regulatory aspects. Mention that you work in an industry in which you have a strong support network that can include a sales manager, peers and centres of influence and that you are backed by a professional association (i.e., Advocis).

Disclosure of Conflicts of Interest

In addition, in the initial meeting, disclose any actual, potential or perceived conflicts of interest. If a conflict exists, it must be discussed and documented immediately. Alternately, if a conflict of interest issue manifests over the course of the relationship – one that had not been previously disclosed and discussed – you need to ensure full and complete disclosure. You can read more about conflicts of interest in *Compliance & Regulatory Topics for Financial Advisors (Module 1, Marketing & Communications)*.

► **Activity 4.2** was developed using the Advocis Consumer Interview Guide as a model. This activity gives you an opportunity to prepare for interviews by answering important questions from prospective clients. The Advocis Consumer Interview Guide is available in the Resource Section of the Advocis Learning Environment. While this guide is geared to what consumers should be asking when searching for the right advisor, it is an excellent starting point for you to develop clear and confident responses to common questions from clients and prospective clients.

Summary

In this module, we explored the concept of client engagement as you learned about the Client Relationship Cycle and the all-important initial meeting. You learned about the importance of properly preparing for the initial meeting as part of the long-term process of building trust and respect with your prospective client. You also learned about the significance of the Client Engagement Letter and how to walk your client through the document and use it to help reinforce the value of a financial planning approach and the distinction between comprehensive and modular financial planning. A prospective client becomes a client when that document is signed – but this can often extend beyond your initial meeting to the “discovery” or fact-finding meeting(s). Finally, you learned about compensation and the importance of introducing your clients to the resources you can access to help them achieve their goals and how to effectively address their questions.

Module Checklist

You should now be able to:

- Navigate and explain each of the five stages of the Client Relationship Cycle
- Adapt the Client Relationship Cycle and make it a part of your own client process
- Prepare for an initial meeting by developing an agenda and learning as much as you possibly can about the prospective client prior to the meeting
- Explain the Client Relationship Cycle and how it serves to connect a prospective client's needs with the most appropriate products and services through a financial planning approach
- Understand the role of the Client Engagement Letter or Agreement and how to introduce it to your clients
- Anticipate and prepare for questions that may arise from prospective clients during the initial meeting
- Accept that a client's decision-making process is unique when contemplating the purchase of a financial advisor's services and solutions