

Choosing the right commercial model for your business



ADVISER PROFILES

Welcome

Advice has changed, and shifts in the global environment mean it will continue to change, presenting new challenges as well as opportunities.

Here we examine the cases of five example advisers at different stages in their careers. How could each one make changes to achieve a more sustainable and resilient business?

Becky is considering becoming an adviser. She has a friend who is a mortgage broker, but she thinks the potential of the insurance industry is better. Becky has an accounting background and a supportive partner.



PERSONAL

- 24 years old.
- Lives with her partner.
- Rents in the suburbs.
- Did a double course at university (sport and business).

FINANCIAL PRIORITY

- Immediate income.
- Buy a house in the next few years.

PROFESSIONAL

- Little immediate support.
- Looked at joining a team, but wants to be self-employed.
- No office, old car.
- Health and life focus.
- Some good ideas.

WHAT DO YOU THINK ABOUT BECKY?

- What kinds of pressures will Becky face when she joins the industry?
- Looking back what would you say to Becky about getting set up?
- What sorts of concerns do you think she has?

WHAT WE THINK ABOUT BECKY:

- Can she make it?
- Who will train her?
- Upfront is okay but once she's proven she can find clients, then let's talk options.

METRICS

- Aiming for \$50k new business commission.
- Nil renewal.
- Needs about \$2k a month minimum.
- Education and professional indemnity insurance worries.
- No persistency rate yet.

CHANGES AND RESULTS

- The first big case might be a great opportunity to consider spread on a one-off case to reduce her risk.
- If Becky can write just one case per fortnight she should be okay – so on the odd occasions she writes more, put that one on hybrid or spread commission.

Rick works alone and is a relative newcomer to the industry. He has a large mortgage, a partner who works in the home and one child, although they plan to have more. He previously worked for a bank but wanted greater reward for effort.



PERSONAL

- 33 years old.
- Lives with his partner.
- Homeowner with a big mortgage.

FINANCIAL PRIORITY

- Immediate income.
- Income stability.

PROFESSIONAL

- Uses some networks.
- Part of a group.
- Wants a permanent office but is worried about overheads.
- Health and life focus.
- Doing level 5 qualification.

WHAT DO YOU THINK ABOUT RICK?

- Can you remember being in Rick's situation?
- What kinds of choices about his business is Rick faced with?
- How should he approach the problems of maintaining the high income he needs with the desire for more income stability?

WHAT WE THINK ABOUT RICK:

- Rick's business has a future – which one will it be?
- A high upfront roller coaster always looking for the next sale?
- Or a gradual build up to a business focused on recurring revenue?

METRICS

- Current \$70k new business commission.
- \$7k renewal.
- Circa \$130k revenue, with about \$27k direct costs.
- Taxable income about \$110k.
- Home loan is about \$3k per month.
- 85% persistency rate.

CHANGES AND RESULTS

- Rick understands that spread actually pays more commission.
- Also wants a more stable income.
- Feels exposed to unexpected lapses.
- But choosing more spread on a tight budget is difficult.
- Show a model of the choice.
- Show how a persistency rate lift could really help Rick.

Kevin was originally in real-estate but has now been selling insurance and working for himself for around 25 years. He has referral networks, good income, and is in his mid-fifties.



PERSONAL

- 55 years old.
- Married with three grown children.
- Works mainly alone.
- Has a large home with a small mortgage.

FINANCIAL PRIORITY

- What will compliance mean for the capital value of his business?

PROFESSIONAL

- Worried that compliance issues will force him into a team.
- Is currently an RFA.
- Thinking about his ability to sell his business in the future.

WHAT DO YOU THINK ABOUT KEVIN?

- What do you think Kevin should focus on?
- Kevin has good persistency and a long-term focus – should that affect his choice?
- He is not so income hungry that he couldn't make a change, what would you do?

WHAT WE THINK ABOUT KEVIN:

- Kevin has plenty of time to enjoy the development of his business.
- Whether he retires at 60, 65, or 70 a switch to spread commission could pay off handsomely.

METRICS

- \$150k new business commission.
- \$35k renewal.
- Fixed costs remain low at about \$24k.
- 88% persistency rate.

CHANGES AND RESULTS

- A switch to spread commission could add substantial income and capital value. Show capital value-add examples.
- Aiming for a persistency rate about 2% higher would add substantial value and income.

Amit shares premises and administration staff with an AFA who has been in the industry for 20 years. He has quite good support, a nice shared office and mutual referrals.



PERSONAL

- 49 years old.
- Lives with partner and four children.
- Owns a home.
- Coaches a hockey team.

FINANCIAL PRIORITY

- Balanced – he looks at the asset commissions of his business partner.

PROFESSIONAL

- Shares a nice office with an investment adviser.
- He has his own PA.
- Has some referral networks and feels he's comfortably well-off.
- Looks at the asset commissions of the investment adviser.

WHAT DO YOU THINK ABOUT AMIT?

- Amit has reasonable income but due to regular expenses if he has a blank month, he's losing money – what should he do?
- How could Amit manage a switch?
- What's the payback period on that?
- What else could he change about his business?

WHAT WE THINK ABOUT AMIT:

- Given that Amit could be in the business for nearly 30 years the switch to spread will pay off handsomely – if he can do it.
- Show the payback period for the shift.

METRICS

- \$204k new business commission.
- \$70k renewal.
- Fixed costs are \$96k.
- 90% persistency rate.

CHANGES AND RESULTS

- Show the cashflow model versus fixed costs model.

Suzanne has been in the industry for 10 years. She runs a team of 10 advisers and uses a call centre. She is an entrepreneur who last owned a business selling home insulation upgrades, and has sold home loans before.



PERSONAL

- 52 years old.
- Single with two grown children.
- Owns a home.

FINANCIAL PRIORITY

- Balanced – income for sales, but also business value.

PROFESSIONAL

- Team of ten advisers.
- Call centre and lead generation website take significant monthly investments.
- When problems emerge production can dip and marketing costs can rise.

WHAT DO YOU THINK ABOUT SUZANNE?

- Upfront costs are closely matched to the upfront income received.
- Fixed costs remain a concern with the requirement for a good office to house her sales staff.

WHAT WE THINK ABOUT SUZANNE:

- Upfront must still be the option of choice.
- Hybrid could be used for a percentage of business to help manage future costs more effectively.

METRICS

- \$1.9m new business commission.
- \$200k renewal.
- Fixed costs are \$96k.
- Marketing costs are 35% of revenue: \$665k.
- Staff costs are 55% of revenue: \$1,045k.
- 80% persistency rate.

CHANGES AND RESULTS

- Show the cashflow model versus fixed costs model.
- Demonstrate the value of hybrid option.

Commercial models

A summary of the commercial models available from nib and Fidelity Life currently, showing how the new nib spread option fits into the overall range.

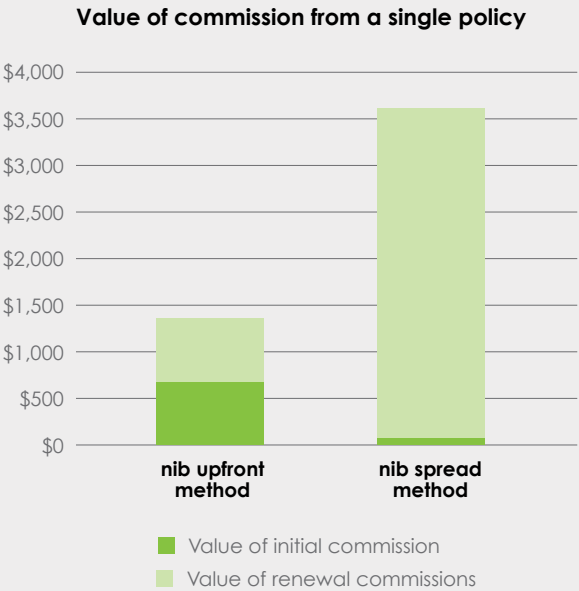
nib – commission range			
	UPFRONT	HYBRID	SPREAD (NEW)
Upfront commission	140%	87%	35%
Servicing commission	5%	17%	25%

Fidelity Life – commission range examples			
	UPFRONT	HYBRID	SPREAD*
Upfront commission	175%	140%	87.5%
Renewal commission	10%	17%	27.5%

*Selecting a spread option of 50% or less of the upfront commission changes the write-back period from two years to 12 months.

Commission evaluation tools

You can model the effect of different commission options using tools provided by both Fidelity Life and nib. The chart below is produced from nib's new commission comparison tool, and illustrates the difference between the upfront and spread models.



Source: Fidelity Life Assurance Company Limited and nib nz limited, October 2017.

NEXT STEPS

To discuss which commercial model would be best to help you achieve your business goals, and how you can transition into it, make an appointment with your BDM.



THANK YOU