



Strategi  
*Compliance*

GUIDANCE NOTE

# THE 7 MOST COMMON COMPLIANCE ISSUES FAPS ARE STRUGGLING WITH

Strategi's examination of compliance assurance reviews, consultancy requests, conference participation, and feedback from Strategi Institute course attendees has revealed seven common compliance challenges that Financial Advice Providers (FAPs) are facing. These issues not only heighten adviser frustration but also impact client satisfaction, operational efficiency, and ultimately, profitability.

These challenges affect FAPs of all sizes and are interconnected, requiring a coordinated approach for resolution. The seven most prevalent compliance issues are:

- 1. Disclosure documents and procedures.
- 2. Record-keeping practices.
- 3. Ongoing client service standards.
- 4. Inefficient advice processes.
- 5. Governance structures.
- 6. Time and expertise for compliance checks.
- 7. Annual regulatory return preparation.

Strategi will host several webinars in the coming months to offer ideas and solutions for addressing each compliance issue. In the meantime, this report outlines each issue and proposed solutions.



## Issue 1: Disclosure documents and process

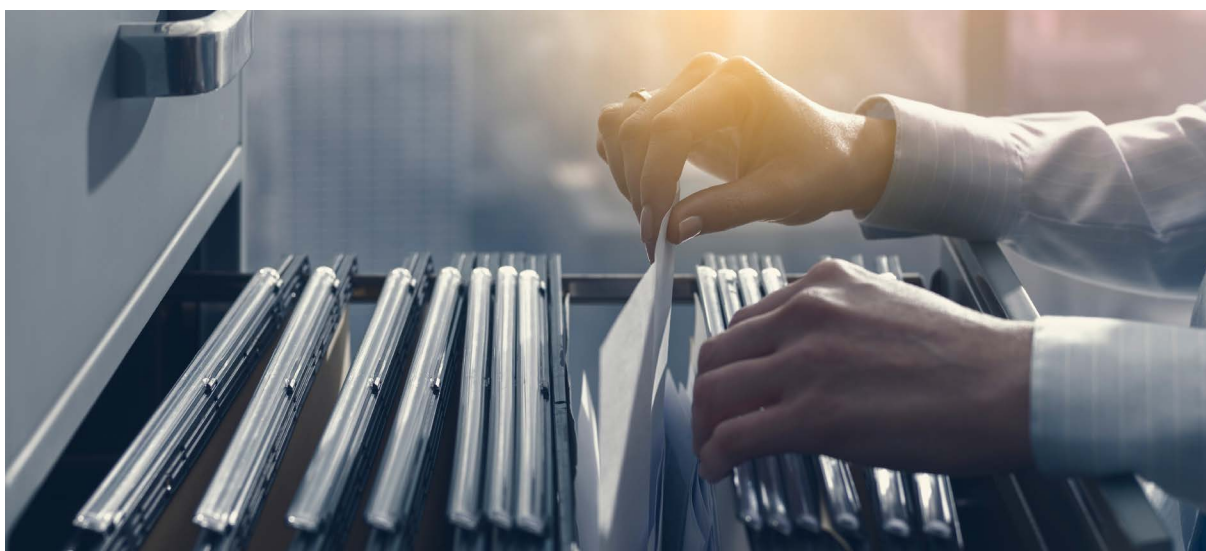
### The issue:

For many FAPs, the disclosure process has become unwieldy, with duplication of information, a requirement for client acknowledgement, too much customisation and a lack of clarity regarding what is really required. For many clients, they are being overburdened with disclosure information which they don't read and don't really understand the significance of.

### The solution:

Consider amending your disclosure documents as part of a wider review of your overall advice process. The way you deliver advice will drive the way you provide the disclosure information.

The Strategi team can show you ways to avoid duplication of disclosure information and how to combine documents to reduce the burden on both staff and clients. There are also a number of innovative ways to increase the likelihood a client will read and understand the disclosure information you provide.



## Issue 2: Record keeping

### The issue:

A number of FAPs are struggling with how to efficiently record sufficient information to be able to substantiate the advice provided. Records are split between their email system, their Customer Relationship Management (CRM) system and their file directory system which holds client records. This makes it difficult for staff within a FAP to get a holistic understanding of the client so they can answer any questions a client may have. The disjointed record keeping means the adviser has to become more involved in handling all client queries and this reduces efficiency and speedy service delivery.

Another issue we see is that a number of advisers are not documenting the analysis they conduct on the solutions for the client so it becomes difficult to prove the most suitable solution for the client was actually recommended.

**The solution:**

Consider record keeping as part of your overall analysis of the advice process. Have you got the right CRM and do your emails automatically link to the client record in your CRM? Is your CRM configured to capture the right information – especially when it comes to client file reviews and preparing annual regulatory returns? Review your record keeping policy to ensure it correctly documents the most effective process.

Are staff properly trained to understand the importance of record keeping and how to efficiently operate the CRM? Enough information needs to be recorded to provide justification for the advice provided and its ongoing suitability. However, are advisers and admin staff using the right tools to efficiently collect data. Consider speeding up the process with voice recognition, use of client portals, clients filling in fact finds, use of photos etc.

## Issue 3: Ongoing client servicing

**The issue:**

FAPs have a legal obligation to ensure the advice and products provided are suitable for the client. There may also be product provider contract obligations relating to the frequency of client contact. Many FAPs are struggling with:

- Trying to conduct reviews with a large client base of disengaged clients.
- Proving that the products clients have are actually suitable for their needs. This issue is compounded if the FAP has acquired a 'book of business' which did not have detailed client records.
- The revenue value of many of their clients is insufficient to cover the time involved in meeting to review the client situation.

**The solution:**

FAPs should consider ongoing client servicing as part of their holistic review of their advice process. There is no legal requirement to have an annual review with clients. However, there is an expectation that the ongoing relationship between the FAP and client is clearly defined as to who will do what and how frequently. FAPs could consider:

- An electronic service model for low value clients.
- Utilising multiple forms of communication to engage with clients, and making sure these communications talk about the importance of a regular review.
- Clearly outlining in the client engagement document/client agreement/ statement of advice the frequency of future reviews and the responsibilities of each party.
- Having different review frequencies for different client demographics.
- Providing a broader range of services to clients so any review meeting becomes more meaningful.



## Issue 4: Clunky advice process

### The issue:

Many FAPs have taken a paper-based advice process and simply digitised it. This is a good first step, but it still results in a clunky process with:

- Lengthy advice documents which take too long to produce, are confusing and unappealing for a client to read.
- Too many client signoffs being included in the process. Getting clients to provide signatures on multiple documents creates barriers to efficient business transactions.
- Duplication of information – especially disclosure information or information collected as part of the client fact find.

### The solution:

- Identify how each of your client demographic groupings prefer to engage with you, then design your advice process to meet their expectations.
- Develop new client advice documents. These could be colourful, have compelling visuals (pictures, infographics, tables, accordions, pop up boxes, etc) contain links to supporting information, and be radically shorter than current statements of advice.

- Have information collected as part of the fact find process flow through into the advice documents.
- Use the power of a client portal. This would help meet your record keeping obligations plus reduce client privacy breach risks.
- Remove jargon and focus on clear, concise and effective language.
- Remove duplication of information.
- Use information sheets or links to website information to help inform the client, answer their queries and reduce the size of the advice documents.
- Build chat facilities into your website so clients can quickly interact with the business.
- Take a team approach to servicing clients. This would necessitate having clear guidelines as to what is and is not financial advice. Using information sheets becomes a great way for admin staff to assist clients – thereby freeing up the financial adviser.

## Issue 5: Governance

### The issue:

When a FAP applied for its licence, it confirmed it had:

- An approved and documented policy to ensure that directors and senior managers have the right skills and experience for their role.
- The board (being one or more individuals) has the right level of oversight to ensure the business is meeting all its legal, regulatory, code, licence standard conditions, licence application expectations and contract obligations.

What has transpired is many FAPs are not keeping records of board meetings and key director decisions and the director(s) are not fully aware of what is required to govern a licensed FAP. It is common for smaller FAPs to not differentiate between the owner/director function and the financial adviser function. This often results in the director/adviser FAPs being governed by individuals who are flat out with the advice process and don't have time to periodically step back and assess the business from a 'governance' perspective.

### The solution:

It is important to 'right size' your governance. A small FAP can still have a single director but there needs to be some form of regular meeting cycle with records of the meeting being taken and saved. Consider engaging an external party to attend your board meetings (be they six monthly or quarterly). This is something that Strategi often undertakes.

Consider outsourcing your compliance checks. Strategi is doing this for an increasing number of FAPs. This enables the director to receive monthly/quarterly reports on the compliance status of the business and the adequacy of client files.

Use a standard board meeting agenda. This enables all the key issues to be covered off in each meeting.

If you are fortunate enough to have your own inhouse compliance officer, then engage a third party such as Strategi to undertake an annual compliance assurance review. This will give the director(s) an independent view of the compliance status of the business. Add onto the compliance assurance review a discussion with Strategi regarding key risks for FAPs, trends to consider and business improvement ideas. All this should be recorded as Continuing Professional Development (CPD) and governance meetings.

Obtaining the competence, knowledge, and skill to effectively govern a small to mid-size FAP is essential. The Governance for Financial Advice Providers (Small Business) (Level 6) microcredential is the ideal solution.



## Issue 6: Time and skill to undertake compliance checks

### The solution:

FAPs have a number of regulatory and compliance obligations to meet. This includes all the FAP obligations plus those relating to things like the Companies Act, Health and Safety, Privacy Act, employment and the list goes on. It is common that neither the FAP owner(s) nor their support staff have the competence, knowledge, skill or time to spend reading in detail about the legislative obligations, undertaking the regular compliance checks and then making the necessary changes.

Employing a fully trained in-house compliance officer is prohibitively expensive for many small- mid-sized FAPs. Upskilling staff to undertake the compliance officer role can be achieved via the Strategi compliance officer microcredential course, but many staff are not overly keen on holding the compliance officer responsibilities.

Consequently, many of the compliance functions are either paid lip service or else the owner or a key staff member takes on the compliance officer function and this frequently impacts upon the ability of the FAP to generate revenue and service clients.

**The solution:**

Consider outsourcing some or all of the compliance function. This is no different to outsourcing research, IT, sales and marketing. The Virtual Compliance Officer service provided by Strategi has been proven to be far more cost effective than employing an in-house compliance officer (in small to mid-sized FAPs). It frees up the owner/adviser and key support staff to focus on generating revenue. Additionally, it aids governance by having a separate entity (Strategi) independently run the monthly checks. This provides enhanced separation of duties.



## Issue 7: Preparation of annual regulatory returns

**The issue:**

Mid 2024 is when all FAPs will need to make their first annual regulatory return. The list of questions is extensive: <https://www.fma.govt.nz/business/services/financial-advice-provider/fap-regulatory-returns/>

Strategi has identified that the majority of FAPs have not yet looked at the quantum of questions and the amount of data that has to be assembled. Even fewer FAPs have worked through how they will compile this information and how long will it take to do the task.





### The solution:

If database changes have not already been made, then it is likely the first regulatory return will need to be compiled manually and it will take some time to complete. The future solution involves:

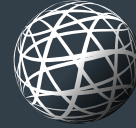
- Putting in place the right CRM and configuring it to enable the quick extraction of the required data.
- Improving record keeping so the required regulatory reporting data is being collected throughout the year as part of client file record keeping obligations.
- Implementing tighter compliance controls to ensure the required data is being entered into the CRM on a progressive basis.
- Altering a number of checklists and job descriptions.



## How can Strategi assist?

The great news is all the issues identified in this document are solvable and Strategi has a range of solutions to help. These include:

- Training for advisers, directors and compliance officers.
- CPD solutions.
- Annual compliance assurance reviews.
- Quarterly or annual client file reviews.
- Virtual Compliance Officer solution (where Strategi undertakes most of the compliance work for you).
- AML/CFT audits.
- Governance support service.
- Consultancy around improving the advice process, undertaking regulatory returns, simplifying disclosure and innovative ways to meet record keeping obligations.



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