WHY A SOLID SUCCESSION PLAN IS IN YOUR CLIENT'S BEST INTEREST

Best interest, as a concept, is pretty straightforward: *"conduct yourself in a fashion that is in the* ***best interest*** *of your client."*

So it makes sense that most of the conversation around the best interest standard deals only with the advisor's behavior while he or she is still in the service of the client (hence the 'conduct' part). But equally important is the standard of care a client receives when the advisor is no longer able to serve the client, for one of any all-too-common reasons.

As we all know, shit happens. Even to advisors. People get sick. They die. Accidents happen. One day you could decide you need to make a life change and pursue another passion.

"Who will provide continuity of care when an advisor exits his practice? It's a question that seems to me far more critical to a client's "best interests" than whether or not Fund A is a few basis points less expensive than Fund B." – Ray Sclafani (reg wall)

ADVISORS NEED A PLAN FOR SUCCESSION

What happens to your client in these situations? As their financial advisor, it is part of your job to protect them from this kind of disruption for one simple reason – it introduces risk that is not in their best interest. Risk that you can and must mitigate for them, by putting in place a comprehensive succession plan, with clear rules as to how and when it kicks in.

First, you need to understand what the risks actually are. Consider every (doomsday) scenario you can think of that would leave your clients without your service. For example:

- What happens if you need to drastically reduce your client load as a result of personal or health problems?
- What happens if you were hit by a bus tomorrow? How would your clients be notified? Who would assume responsibility for managing their accounts? If you're in a firm with multiple partners, what measures are in place to keep ownership of the company among the surviving partners?

If this all sounds a bit morbid – consider a more positive angle:

- What happens if your personal investments perform better than projected, allowing you to retire earlier than planned?
- What happens if you discover a new life passion and have the opportunity to pursue it by leaving your practice behind?

WHAT DOES A SUCCESSION PLAN LOOK LIKE?

Once you've given some thought to potential business disruptions, it's time to make a plan to handle them. Being prepared for succession comes down to these simple steps:

- If you haven't already done so, start planning for the next generation of advisor(s) to replace the old guard. As in, *right now*. That means looking for advisors at least a decade your junior, ideally even younger. Check out this post for more information about attracting talented young people to your firm.

- Put yourself in the shoes of someone external, suddenly stepping into your business. Are your client files tidy and well-organized? Are your systems accessible by trusted staff members if you were suddenly unable to continue working?
- Make painstaking notes. Document and record everything. Hopefully you are already doing this with your clients files
- Define your processes (and write them down). What seems obvious to you, with many years' experience in the business, may not be obvious to a junior associate trying to fill your shoes. Have your team document everything that they do in the course of a typical day. Having written materials like these will help with training new team members as well.
- Make sure everyone included in the succession plan is aware of it. Get their input. This could include your junior staff, your lawyer (or your firm's lawyer), your compliance team, and your family. Making your intentions clear up front can save a lot of headache down the road.
  Review and update the plan regularly – at least once every year.

HOW FIRMS CAN SUPPORT ADVISORS' SUCCESSION PLANS

If you are an executive leader of a wealth management or broker-dealer firm, this is an important issue to address. If your advisors don't have robust succession plans, get them support on this immediately. If they refuse to develop a plan, you have a problem. They aren't likely working in your best interest and they certainly are not working in the client's best interest.

Here are three straightforward ideas to implement at your firm:

- Build template succession plans for advisors. Most likely, they'll need the most help in simply getting started. Invest in a succession planning coach or consultant to help support Advisors and managers in completing the plans. You will see the payback with retained customers and increased advisor engagement.
- Review your advisors' succession plans as part of your regular compliance reviews. Make an approved succession plan (updated annually) a condition of access to any incentive compensation or enterprise resources. It is hard to see how not acting in Customer best interest justifies reward in the Advisor's interest.

Ironically, even insurance and estate planning firms are often unprepared for unexpected disruptions in their business. But regardless of your product offering and fee model – being prepared for the worst is just good business.