Make Your Client Relationship Personal and Keep It Compliant

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Cultivating a long lasting client bond is crucial to both the longevity of the relationship and future generations.

Clients look to their financial services professionals as a resource for their financial needs. Whether it is a broad based conversation about their long-term financial needs, narrowly focused questions regarding their taxes or inquiring about the latest breaking news on CNBC, the financial professional is a trusted source.

However, in some cases, the client advisor relationship can deepen to a point where in addition to her traditional role, the advisor begins to play a closer role, such as a friend or surrogate family member. Introducing a client into an advisor's personal life can have a big impact on the longevity of the relationship. At the inception of the relationship the advisor learns all the pertinent financial details about the client. A good client/advisor relationship begins with the client confiding their financial position, which goes beyond the standard new account form requisites. For example, not only will the advisor learn about the client's income, brokerage assets and real estate holdings but also upcoming events, such as the sale of a property, a pending retirement or an inheritance.

An advisor seeking to deepen her relationship with a client will pose specific questions that go beyond the sole scope of managing money. For example, to a client mentioning the sale of a building, instead of asking, "What are the proceeds of the sale?" the advisor will more sympathetically inquire "How long have you owned the building?" This type of query will likely steer the conversation into a more personal discussion about the property, how and when it was acquired and the challenges the client may have faced while owning it. It takes time, empathy and patience to build a nurturing relationship that empowers an advisor to have this type of conversation with a client.

The next step is solidifying the relationship by inviting the client into your personal life. It is a long process for advisors to become their client's trusted source, but once that level is reached conversations often turn personal and the relationship is taken to a whole new height. How can an advisor get to that level with their clients? Here are three easy to implement suggestions (*):

1. Invite the client to dinner. If your client is married take the spouse too. Personal client dinners have long lasting effects.
2. Go to a sporting event or a concert. Bonding with your client at a mutually enjoyable outing yields significant returns.
3. Invite them to a charity event that you are involved with in your community. This might be the best way to have your client see you as not only a person, separate and distinct from the financial relationship, but also as a valuable member of your community active in giving back.

(*) Please check with your compliance department whether or not such outingsconflict with the firm's policies and procedures surrounding entertainment.

Once the advisor becomes part of the trusted circle for the client, the relationship bond deepens and the client will be less prone to seek out other financial advisors. Actually, your client will likely refer you to friends and family.

With a more holistic relationship comes a new responsibility. You will likely now play the role of part-time-therapist. You are likely removed enough from their day-to-day life for the client to entrust you with their problems and likely their secrets. How you handle this new responsibility is crucial. The key is to use the information learned in the relationship to help the client improve their overall financial health. By understanding the client's social interactions it can open the door to greater fiscal transparency.

It is a delicate balance but the long term rewards are quite significant. Not only is the advisor likely to have a client for the long haul, but they may even get a life-long friend. This begs the question how to avoid becoming too friendly with your client. There are definitely boundaries that need to be established. A relationship that becomes too friendly can have detrimental effects. For the advisor, conversations may become uncomfortable when discussing fees, performance and management styles. For the compliance department, there are red flags as well.

Here are four compliance related issues that can arise when an advisor and a client get too friendly:

1. Fee Reduction/Negotiation:While there is inherently nothing wrong with lowering fees to clients (and it is often a good idea, when appropriate) it can be a cause for concern when fees are lowered significantly. The concern is twofold. First, the firm and the advisor still have the same suitability and/or fiduciary duty to the client. Lowering the fees too much can expose the firm to a risk/reward scenario that is below an approved threshold. Second, sometimes a reduction in fees can raise a flag that the advisor is earning the monies elsewhere and not disclosing it to the firm. To avoid this appearance of impropriety the

advisor should reach out to compliance to explain why they are requesting a reduction in the fees charged to the account.
2. Personal Emails/Text Messages:Often, when the relationship becomes more personal advisor and client may begin corresponding via personal email or text messages. Electronic communications that are considered “business as such” require archiving. Consequently it is imperative that the advisor knows the firm’s policies and procedures related to such communication.
3. Gifts and Gratuities:On the broker-dealer side there is clear language prohibiting gifts over $100.00. On the investment advisory side, the concern can arise out of both firm policies and conflicts of interest that may arise. The lines are often blurred when dealing with a client versus when dealing with a personal friend. The advisor may think it is harmless, but the compliance department likely will not.
4. Trustee/Executor Appointments:When the advisor/client relationship turns personal it is not uncommon for the client to name their trusted advisor with such a role. It is often a violation of firm policies and procedures for an advisor to be the trustee, successor trustee or executor on a client’s account.

Cultivating a long lasting client bond is crucial to both the longevity of the relationship and future generations. It is important not to lose site of the compliance obligations that come into play when the relationship changes.

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