

STAR PROFILE

We catch up with Len Warwick and David Burren of Warwick Butchart Associates in Cheltenham who have spent hundreds of hours instilling robust TCF processes throughout their company

# Standing firm on foundations of TCF

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Len Warwick, who has Irish roots, published his first fictional book last year called *The Unspoken* set in 1922 against the backdrop of the civil war raging in Ireland. This is something of a departure for a man more noted for his books on financial matters and a CBE for services to the financial advisory profession.

Co-director David Burren has also been hooked by a new pursuit – fly fishing, although he points out that virtually all fish are released after being caught. ‘Treating fish fairly’, he quips.

The joke hides a more serious endeavour as Cheltenham-based Warwick Butchart has done a lot of work in the last year on treating customers fairly. ‘What we did here,’ says Warwick, ‘was to form a TCF working group headed by myself consisting of one of our consultants, an administrator and our company secretary and that’s a permanent committee we constantly appraise.’

The day before my visit they both attended a TCF assessment by the FSA off site at nearby Gloucester rugby club. Warwick explains: ‘It was

about two hours and in advance of that we had to send them our latest gap analysis.’ The structure of the company, the new business register and the annual compliance officer’s report formed the backbone of the information they supplied.

Burren points out that TCF has been an important part of Warwick Butchart’s culture for many years but the FSA requirement has served as a useful reminder of something they should be documenting.

‘It was interesting to understand where the regulator was coming from on this,’ he adds.

Warwick gives an example of their approach to risk profiling: ‘We have a thorough procedure on that and the FSA were really interested and highly complementary.’

**TCF ever present**

Warwick emphasises that ‘TCF does go into everything and anything we do,’ and he cites new business, advice and office procedures they have developed and codified.

Burren says TCF requires all staff to come on board with the process. ‘We do use this in our marketing as well so if, for example, you looked at our website you will see a page explaining our policy on TCF. Across the company there were hundreds of hours spent to make sure we could give evidence we were doing this.’

Warwick adds: ‘The result has been a thorough

**FINANCIAL DATA: WARWICK BUTCHART ASSOCIATES**

	2006	2007	2008
Number of employees	11	13	11
Number of clients	4,000	4,400	4,500
Total income	£850,000	£956,000	£755,000
Total Costs	£300,000	£311,000	£321,000
Funds under management	£90m	£80m	£65m
%recurring income	27%	30%	40%
Number of active clients	1,000	1,100	1,200

review of the company. We’ve reviewed letters going out, our fact-find forms, our risk profiling system.’

How about the type of remuneration? Warwick says there is ongoing work to be done on this area. ‘We’ve put much more emphasis on it, for example, consultants are getting ongoing income that they are doing the servicing.’

He says a higher percentage of their turnover is now coming from fees and fund-based renewal, around 40%, than it was back in 2006.

‘There are undoubtedly some transactions and servicing we deal with where we are out of pocket and I’m sure I’m not the only IFA saying that,’ he adds.

**Profits hold their own**

The business trend overall has seen Warwick Butchart’s turnover peak at a record of £956,000 in the year before last, before falling to £755,000 in 2008.

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**Grand designs:** Warwick (right) has headed a TCF working party within the business and has ensured all staff are on board

However, profitability has stood up well given total costs running of £320,000, Warwick says.

#### Investment research

Unlike other wealth management focused advisers, Warwick Butchart never held back from advising on protection and the associated risks to dreams not being achieved, Burren says.

But on the investment front, Burren says he continues to do a lot of research and spends a great deal of time with senior investment managers. 'We know many advisers outsource but we don't agree with this approach. We found this at the *New Model Adviser*® conference in January.'

He gives examples of how he received the well known Barclays Capital Equity Gilt Study ahead of many others and how he looks at the minutes of the Bank of England monetary policy sub-committee. 'This sort of data comes into us. We are not relying on somebody commenting. We're trying to use it to our advantage.'

'Some people would say that has nothing to do with the job of being a financial adviser. But we say if you are growing capital to a point where you depend upon it for your future it's more than a passing interest to learn what has happened to it or what is likely to happen to it.'

Their focus is primarily on collectives rather than relying on direct holdings. In addition to the

various cash deposit funds and distribution cautious funds, four of their most favoured funds have been M&G Recovery, Schroder Income, Invesco Perpetual High Income and Invesco Perpetual Corporate Bond funds.

They validate the investment stats using Lipper Hindsight and also make use of Asset TV for investment news and commentary.

Burren says the volume of information they receive now through emails is enormous and they have to be selective.

They never got caught in the fallout with structured products because of their due diligence and use of 'old fashioned principles but with modern technology.'

However, on market conditions Burren adds a note of realism: 'It is easy to tell the positive stories. But frankly at a time like this there are few winners.'

Meeting clients on regular basis, I feel like a faulty sat nav because experience tells us if we turn left there could be a problem, and if we turn right then further down the road there could be further issues. Perhaps we should stay where we are but there are dangers in that too. There really are no easy answers.'

Burren adds: 'We note momentum drives people at the moment towards corporate bond funds and we worry about the risk of default and whether or not clients without the benefit of advice fully understand the associated risks.'

He mentions that sometimes clients move on or

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David Burren

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## TOP 5 TIPS

- 1 Diversified the amount of business written and the number of people writing it
- 2 Increased renewal income as a percentage of turnover to stand currently at 40%.
- 3 Wide ranging review of systems and procedures across all aspects of the company's business
- 4 Completely restructured the company website
- 5 Improved communications with clients

leave. 'In markets like these it's happened to us on two or three occasions. One encashed all their money two or three weeks ago and sent our team downstairs a very big bouquet of flowers. If you are going to end a relationship it's not a bad way of doing it and it was for personal circumstances with that client.'

Burren says they would like to think that they were well placed going into this difficult cycle 'albeit nobody in their wildest dreams thought that Barclays shares would drop 80% in a year.'

#### Funds and asset allocation

In their independent analysis of funds during this rocky period, Burren says he has found some managers have suffered terribly bad luck.

'There are funds that have disappointed like the Old Mutual Corporate Bond fund but I don't believe Stephen Snowdon is a poor fund manager, I just believe the holdings he's got at this moment in time are not highly rated.'

Similarly an equity fund manager like Richard Buxton at Schroders is having a tough time but I don't believe he's become a bad fund manager. The simple fact is that in this 12-month period there has been a huge amount of sector and stock rotation.'

For example, he says he could easily find people who think you should not go near the banks 'but I could also give you a list of highly rated fund managers with huge experience who believe at this point in time the opportunity presented by some of the bank shares is fantastic and it's worth an allocation. If you look at the fixed interest side of things it's a similar story. It's very helpful to be able to sit one to one with the fund managers and ask them these questions.'

On asset allocation, Burren is making fewer tactical decisions in the current climate and portfolio turnover is lower. 'We are building up to a position where we think there are opportunities to be taken,' he says.



**Team sample:** Back row (left to right) Margaret Brown company secretary, David Ithier, consultant, Tom Warwick, consultant, Bharti Mistry, client admin coordinator. Front: Len Warwick, chairman; David Burren, managing director

'I've spent a lot of time talking about default risk on fixed interest funds of late to fund managers economists and all sorts of people and it frightens me that the default risk is at extreme levels.'

#### Advisory or discretionary

Warwick acknowledges that their expertise on research and analysis means the firm is often treated as if it had discretionary status.

In that sense it seems surprising that Warwick Butchart has not gone down the discretionary route in the last couple of years in line with a wave of other wealth management advisers.

However, Burren says their advisory status has advantages: 'The main reason we're not discretionary is frankly a fear of capital adequacy. Len and I have long experience of this business but also of the nature of regulation both here and abroad.'

'And when you look at the amount of European legislation that was enacted the concern for us was that the capital adequacy requirement for a large discretionary business and the liability from compensation schemes could be huge, and of a scale not dreamed of by people in the past.'

'So fear was a factor in that and I think to a certain extent it's proved to be an understandable fear given what we now are reading about the impact of the compensation scheme levels. And we

understand the FSA is looking at capital adequacy in a new light and we need to make sure we can afford to pay its fees.'

On the downside, Burren says it is harder for them to do the work on a non-discretionary basis because they have to evidence the reason for everything that they recommend. 'Would we change from advisory to discretionary? We've still got an open mind on it.'

But Warwick also puts the emphasis on the balance to be struck between the relationship management which is part of the adviser process as well. 'We spend a massive amount of time with clients and I think we've got a pretty good understanding of what makes them tick and that is part of the advice process.'

#### Team roles

Warwick says although he still sees a lot of clients, he is now introducing more to the other consultants in the team.

He has also been the firm's compliance officer since the beginning of regulation and, with TCF compliance to deal with too, he is more bogged down in those areas than before.

Alongside this function Warwick, in common with

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Buckles Investment Services Limited

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## RDR: Capital adequacy is one issue but the re-qualification of existing practitioners is something I hope gets amended

Len Warwick

the others, does a lot of joint work and he emphasises that there is no competition between the advisers. 'We've got a good team of advisers here, sometimes I'm kicking things off doing the early work, getting the fact-finds completed and so on. Many clients here see two, three or four of us.'

### Technology

One of Burren's specific roles continues to be in charge of IT and he always enjoys the latest gadgets, one of which is the iPhone now used by both Burren and Warwick. A continuing nice touch is that Burren is still taking photos of clients to go in their files so there is a visual entry to sit alongside all the data.

Warwick Butchart already had Adviser Office back in 2006 though it has now taken on a more 'grown up' system for bigger operations which they now use. On the platform front they still use Cofunds a lot.

'More of our business is now accessed through database management systems so we can push buttons and see far more things than we did before. We are now looking at web-based systems for people to do things like fact-finds,' says Burren.

One of the best things they have done in the last couple of years is to have monthly board meetings out of the office where they discuss many issues, including their desire to spend more on marketing. 'It's about the things we want to do and as a result of these meetings the list is now longer!'

Warwick and Burren are both key shareholders, which with their wives involved too, is a straight 50-50 split.

While the shareholders have not changed, there have been some limited staff changes. One of the consultants died last year and they have since taken on a new one. They have also made a change



to the way they run their care fees planning service, where initially they had an external consultant, then decided to bring it in-house, and then went back to an external basis.

The five consultants include both Warwick and Burren as well as Warwick's son Tom who has been with the business for over a decade.

### Absorbing business plans

One area they are trying to develop is professional connections. 'We've had some training on what the structure of a solicitor's practice might be, for example, what the probate department does and what the trigger points are in terms of them wanting to seek advice from IFAs,' says Warwick.

Burren acknowledges that they should have done more about getting accountancy and solicitor connections, though he adds they are soon due to see the wills and probate department of a firm of solicitors in Cheltenham.

As far as the offices are concerned they have renewed the lease on their building and with plentiful parking opposite, all in the heart of Cheltenham, it is very convenient with views of Regency architecture nearby.

Warwick's input into the regulatory framework has continued having been on the RDR working group for the Association of Independent Financial Advisers. 'My deep concern still is possible diminution of the IFA sector if the RDR proposals go through. Capital adequacy is one issue but the re-qualification of the existing practitioners is something I hope gets amended.'

As to their exit strategy Burren says: 'It is said that every business should be made ready for sale and we agree with that. Our business is no different.'

Warwick, 64, says: 'We still think this is an

**Strong partnership:** Burren and Warwick's long solid working relationship is helping them face the headwinds of the economic storm



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absorbing business with plenty to do and get excited about but we are not spring chickens and we don't see ourselves being 70 or 80-year-old advisers.'

There are other things they both want to do with their lives though they do manage to squeeze in some interests outside of their busy business schedules.

In times like these it pays to get on very well with your business partner and both Warwick and Burren certainly deliver here.