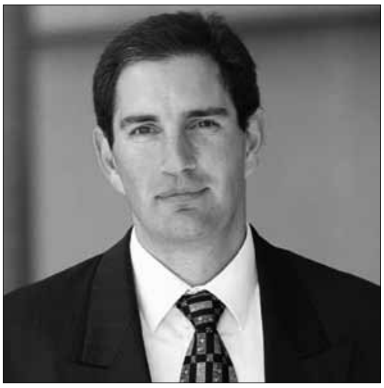
# Back to Basics – Why people with financial advisers are happier, richer and more purposeful



By **Richard Klipin**
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**Richard Klipin** is the chief executive officer of the Association of Financial Advisers (AFA) and has been in the role since January 2006. He started in the financial services in 1989 as an adviser. Five years later he joined Mercantile Mutual as a Funds Management BDM. Over the successive nine years, Klipin had a number of roles including national sales manager and head of practice management for ING Australia/Mercantile Mutual. He was also a founding partner of The Encore Group, and spent time with NAB/MLC as region manager for their Bank Adviser Channel.

Just prior to joining the AFA he was head of strategic relationships for ING Australia. He has an MBA and a BA Dip Ed from Macquarie University.

## EXECUTIVE SUMMARY

The past few years has seen the role of financial adviser and the financial services industry come under intense scrutiny. While much of this scrutiny is welcome there is a need to clearly and logically separate fact from fiction and to address the key question … "What do financial advisers do, and how do they add value to their clients?"

This is the focus of this research conducted by CoreData-brandmanagement on behalf of the AFA. The results not surprisingly are diverse and give a real sense of what consumers' value, what they need and how the Advice profession needs to deliver value.

- The reality from the research and the central proposition is that consumers who have an advice relationship are better planned, are happier with their investments, have a financial coach to help with major life decisions, provide peace of mind, administer of financial affairs and assist in facilitating a path to financial freedom.

The most significant insights and 'light-bulb' moments include:

### The happiness factor

- Those people who seek advice are significantly happier with the manageability, diversification and return of their current investments than those who are unadvised.
- Happiness with diversification in current investments increased with age, while happiness with all the aspects of current investments significantly increased with wealth.
- Advice seekers have a greater understanding of the role an adviser can play, and level of understanding increases with age and wealth.

## Greater understanding

- When asked how well they understood the role an adviser can play in assisting them with creating and sticking to a plan that will develop financial security for them and their family (regardless of whether they currently received advice), at least 70.0 per cent of those with an adviser felt they understood the role of an adviser quite well and almost one in five (17.9 per cent) felt they understood 'extremely well'.
- Level of self-rated financial knowledge and understanding is higher among those with an adviser than those without an adviser.

## The three roles of an adviser

- There are three main roles of the financial adviser from the perspective of the advised. These are: the provision of strategic advice, the provision of tactical advice and implementation.
- The strategic role involves coaching and guiding clients through the various changes they will face throughout their lives, and helping them to make the big life decisions.
- The tactical role is around providing expertise on insurance, investments and superannuation and putting in place a plan that is suited to the individual's needs.
- Last but not least, an adviser is there to turn *best-laid plans* into action. A key role of the adviser is to implement the financial plan that's been put in place, make adjustments along the way where necessary and most importantly, keep clients on track to reaching their goals.
- Topping the perceived benefits of using a professional adviser, beyond providing product and strategy solutions, are: being helped to make the big decisions, convenience of consolidating finances/planning, providing peace of mind, administration of financial affairs and facilitating a path to financial freedom.
- Those people without an adviser are significantly less cognisant of these other benefits.

## Why consumers seek advice

- The top reasons for seeking advice include access to investment advice/expertise (68.4 per cent), general investment information (53.6 per cent), help with goal setting (52.1 per cent) and provision of feedback on investment decisions (50.2 per cent).
- The main reasons for not seeking advice are that fee structures offered are not acceptable (30.5 per cent) and an unwillingness to pay fees for advice (29.7 per cent).
- While there is no overwhelming evidence that consumers want to pay for advice in one particular way, what is clear is that they want value for money and the cost of advice to be transparent and agreed by them upfront.

## Adviser remuneration

- Fee paid by commission was the most common way of paying for advice by those respondents who have a professional adviser (21.3 per cent), but was only considered the preferred method of payment by 13.3 per cent.
- At least 14.1 per cent claimed to pay a commission per transaction, yet only 9.9 per cent preferred to pay this way, while 16.7 per cent pay a fee based on percentage of assets under management (the preference listed by 8.7 per cent of respondents).
- The preferred method of payment was a fee determined by the service provided – although this was still only chosen by one in five respondents (20.2 per cent). This method of payment is currently used by 17.1 per cent of respondents.

## Trust : consumers and financial advisers

- Specialist doctors are the most trusted among those who give professional advice, receiving a rating of 8.0 out of 10.
- Financial advisers are highly trusted by the advised (7.5), coming in third behind specialist doctors and dentists, although the unadvised awarded a much lower trust rating of 4.5.
- Other barriers to seeking advice include a low level of trust of financial advisers. While financial advisers are highly trusted by the advised, the unadvised express a low trust in advisers.

## Demand for advice

- However there is latent demand for advice among the unadvised. Three quarters of those who do not currently seek advice (73.1 per cent) would possibly or quite likely consider using an adviser in the future, suggesting a substantial market opportunity to access this untapped resource.
- At least 40.7 per cent of those who are unadvised would possibly consider using a financial adviser within a few years (less than five years) while 10.4 per cent said they would quite likely consider using a financial adviser within a few years.
- Almost half of mass affluent Australians (47.5 per cent) would possibly consider using an adviser within a few years (less than five years), while 15.7 per cent would possibly use one in a few years (more than five years). Two fifths of HNWIs (40.0 per cent) would not consider using an adviser.
- The key factor driving loyalty among respondents is that their adviser takes the time to listen and explain things followed by the availability of their adviser, efficiency of issue resolution and proactive account management. The key drivers of overall satisfaction are proactive account management followed by availability, investment return and taking the time to listen and explain things.

## INTRODUCTION

A common misconception among those who do not seek advice is that the benefits of having a financial adviser are purely financial.

That is, the role of an adviser is to achieve an investment return that outperforms the market.

In fact, the benefits of financial advice are numerous, and go far beyond the role of the financial adviser as an investment expert.

While a key aspect of the adviser's role is to structure client portfolios in a way that maximises their ability to improve their financial situation, this is by no means the only aspect.

A good financial planner is not just a technician, but rather a *choice architect* – someone who helps people make good choices for their future, in the same way that a doctor, dentist, accountant or lawyer has the education, training, experience and insight to help people make smart choices.

In this paper, the AFA will set out the three distinct roles of a financial adviser and the value of these roles as attested by those people who use financial advisers.

The three key roles of an adviser are as follows:

- Strategic adviser
- Tactical adviser
- Implementer

Furthermore, this paper contains clear evidence that those people who use financial advisers are:

- Happier with their investments;
- Wealthier;
- More engaged with their finances; and
- Have certainty and control over their financial future

The AFA's research demonstrates that those people who *do* seek advice are acutely aware of the fact that they are better off for doing so, and in fact, show a high level of satisfaction and intention to recommend their adviser to friends and family.

Not only do these people understand the role an adviser can play in their life, they are able to clearly articulate the benefits – both financial and non-financial – of seeking advice.

However the research also reveals a number of barriers preventing people from seeking advice, many of which are within the financial advice industry's control.

Some people who do not seek advice are not aware of or do not understand the benefits an adviser can provide.

In addition, there is a significant gap in the trust levels of those who seek advice and those who don't.

The notion of trust is a key element of any successful relationship and has become even more critical for the financial services industry in light of the structural issues experienced globally during the financial crisis.

While those people who use financial advisers place a high level of trust in them, that trust gap is preventing a large part of the population from seeking professional guidance that would set them on the right path to achieving certainty and confidence around their financial future.

Trust is something that must be earned, and so far the industry has failed to earn the trust of the two in five Australians who have never used a financial adviser.

In some cases, this trust has even been earned and then lost, because the adviser has not clearly articulated their value proposition, or in other cases because the adviser has been seen to be flogging products that benefit their own interests rather than the interests of the client.

The great majority of financial advisers already act in the best interest of their clients; however negative publicity surrounding high profile collapses of financial planning businesses such as Storm Financial have indiscriminately tarred all planners with the same brush.

In the wake of the global financial crisis and all of its collateral damage, the Government has proposed a raft of reforms aimed at improving the quality of advice, strengthening investor protection and – most importantly – underpinning trust and confidence in the financial planning industry.

The impact of the reforms remains unknown, however regulation alone cannot address the low level of trust among non-advice users; it is up to the industry to put self-interests aside and ensure a consistent message about the value of advice is presented to consumers.

Another challenge for the industry comes in advisers' inability thus far to demonstrate *utility* – that is, the link between price and value – to those people who do not seek advice.

The AFA's research suggests a reluctance to pay for advice, predominantly due to a lack of understanding of the utility of the adviser's offer, is also behind the low take-up of financial advisers.

While those who use advisers clearly understand the benefits of using and paying for professional advice, much of the broader consumer market does not.

In the AFA's research, the top two reasons provided for not seeking advice were that fee structures offered were not acceptable and that they are not prepared to pay fees for advice.

The advice industry must ensure that the fee structures on offer are transparent, agreed and understood by the client and that price and value are inextricably linked if the large majority of the population is to change its perceptions on the cost of financial advice.

This paper will focus predominantly on the benefits of financial advice from the perspective of those who seek advice; the three key roles of a financial adviser; and the challenges for the industry in convincing the broader population of the value of advice.

## METHODOLOGY

Two main information sources were used for the *Back to Basics* white paper. The first was an online survey on attitudes towards financial advice.

The AFA's *Financial Advice* study was carried out in May 2010 and was sent to CoreData-brandmanagement's proprietary panel of more than 100,000 Australian consumers.

Some 1,054 people from across Australia responded to the survey and results were analysed with segmentation from a range of perspectives including age, gender and wealth.

The results were segmented by those who are advised and those who are not advised to identify any differences in behaviour between the two groups. The 'advised' are classified as those people who either have a dedicated financial adviser or use one from time to time, while the 'unadvised' are classified as those who have never used an adviser or used one in the past but not now.

Statistically significant differences and associations were calculated using Chi square tests, T-Tests and ANOVA and are indicated by $p<0.05$. Multiple regression analysis was also used to determine the key drivers of satisfaction.

### AFA 2010 research focus

The primary objective was to better understand:

- Who are potential and existing clients segmented by wealth and age
- What they know about advice and the associated benefits (financial and non-financial)
- What the advised and unadvised would like to know more about
- What they value most from an advice relationship beyond just strategy and product
- What are the triggers to seeking advice
- Satisfaction with investments of those currently getting advice versus those who are not
- What are the barriers to seeking advice
- How can those who could benefit from advice but are not currently getting it be reached
- How do consumers prefer to pay for advice
- How do consumers prefer to use technology in their advice relationship
- How much do consumers trust financial advisers
- What kind of relationship are consumers looking for with their adviser

The second main source informing this paper was a series of focus group discussions carried out in NSW in the first and second quarter of 2010 which explored the topic of advice and financial advisers.

The qualitative comments from these focus groups, which involved both high net worth and mass affluent investors across a range of ages, have been incorporated in this paper where relevant.

## FINANCIAL KNOWLEDGE

One of the most important roles of a financial adviser, and one which is often forgotten, is the role of financial education.

Those people who do seek advice tend to be more knowledgeable and engaged with their finances than those who don't (see Figure 1).

Many advised respondents pointed to the benefits of having an adviser as being kept up to date on regulatory changes, the ability to learn more about how to manage their finances and having the expertise on hand to help them make important decisions about their money.

Advised respondents are significantly more likely than those unadvised to self rate their superannuation and insurance knowledge and experience as generally strong or very strong ($p<0.05$).

Almost two in five of those advised (38.4 per cent) rate their super knowledge and experience as strong or very strong and 35.4 per cent rate their insurance knowledge and experience as strong or very strong.

This compares to only 22.2 per cent and 22.0 per cent respectively of those unadvised.

### Verbatim comments on the educational benefits:

"Broader knowledge of investment options and risks, along with some knowledge of possible near term regulatory changes." (Male respondent, aged 45, ACT)

"Greater knowledge of products and options and an independent informed perspective." (Female respondent, aged 31, Vic)

"Imparting their knowledge, listening to me and respecting my opinions, Keeping me informed on the state of our superannuation fund." (Male respondent aged 67, ACT)

Knowledge and experience improves significantly with age and wealth ($p<0.05$).

This finding is consistent with CoreData's observations of high net worth individuals (HNWIs), many of whom can be classified as 'controllers'.

**Figure 1. I would classify my superannuation knowledge and experience as generally ...**

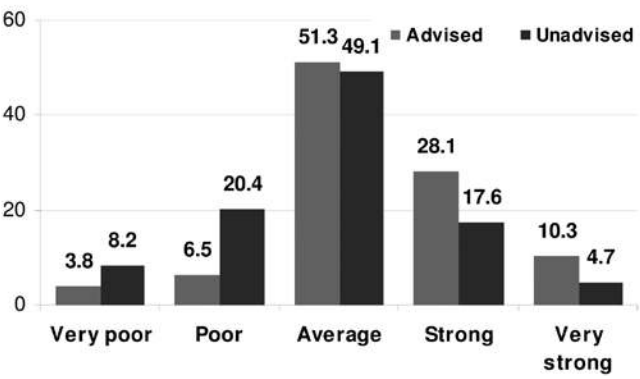



**Figure 2. I would classify my insurance knowledge and experience as generally ...**

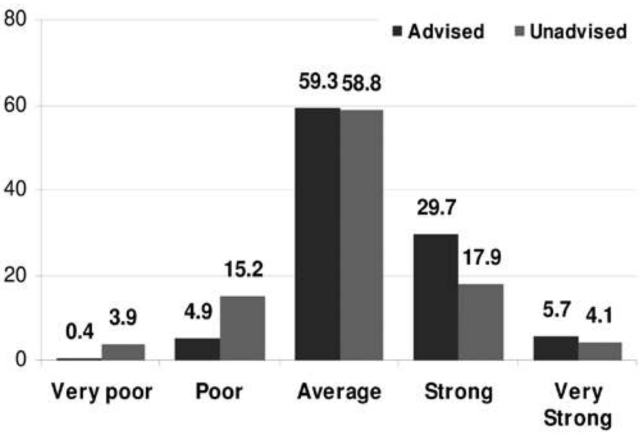


Figure 3. **How well do you think you understand the role an adviser can play in assisting you with creating and sticking to a plan that will develop financial security for you and your family (even if you choose not to use one)?**

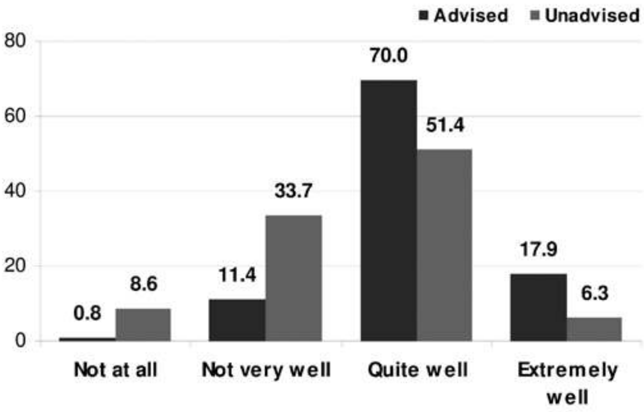
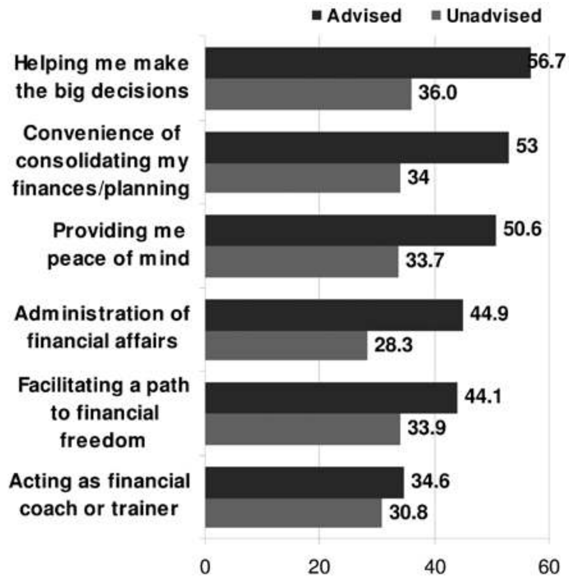



Figure 4. **Do you think there are any other benefits to using a professional adviser beyond providing product and strategy solutions for your financial needs? Please choose all that apply**




Controllers, which represent around 20 per cent of the population by number (but about 50 per cent of the wealth) make rational, data-based decisions and tend to exert a high level of control over their finances, spending numerous hours per week managing their money.

Meanwhile externalisers, who make up about 30 per cent of the population, and worriers, who represent about 50 per cent, make decisions that are based more on emotions than logic.

Worriers and externalisers are prone to inertia, and need to be led into making a choice; however those that do have an adviser are likely to pass a great degree of trust to them.

One of the barriers to doing so, however, is a lack of understanding of the role an adviser can play.

Encouragingly for the industry, one in five people who do not currently have a professional adviser say they would like to know more about what an adviser can offer.

When asked specifically what they'd like to know more about, common themes included: investment and insurance options, saving and budgeting and superannuation/retirement tips. Several wanted to know about the benefits of advice and how the business was structured.

The various roles of the financial adviser will be discussed in the following chapters.

## STRATEGIC ADVICE

More than two in five people who do not have a financial adviser admit to not understanding the role an adviser can play in their lives (see Figure 3).

By and large, the industry has failed to relay the benefits of seeking advice beyond simply investment and portfolio management.

For many people, their financial adviser behaves more like a financial coach or guide than an investment adviser.

The value of advice therein lies in the adviser's ability to help clients make important life decisions, providing them with choices for the future and allowing them to think clearly – free from external distractions or market 'noise'.

Those people who have an adviser demonstrated that they understand the strategic role of the adviser, and highly value the intangible benefits.

When asked how well they understood the role an adviser can play in assisting them with creating and sticking to a plan that will develop financial security for them and their family (regardless of whether they currently received advice), at least 70.0 per cent of those with an adviser felt they understood the role of an adviser quite well and almost one in five (17.9 per cent) felt they understood 'extremely well' ($p<0.05$).

Understanding the role an adviser can play improved significantly with age and wealth ($p<0.05$).

To the contrary, one third of those without an adviser (33.7 per cent) admitted to not understanding this very well and 8.6 per cent not at all ($p<0.05$). Only a handful (6.3 per cent) said they understood extremely well, while a further 51.4 per cent said they understand this quite well.

Those people who don't seek advice are significantly less cognisant of the benefits of advice beyond product and strategy solutions ($p<0.05$), as Figure 4 demonstrates.

While more than half of those with an adviser (56.7 per cent) felt that the greatest benefit was helping them to make the big decisions, only 36.0 per cent of those without an adviser shared this sentiment.

Advised respondents also cited convenience of consolidating finances/planning (52.9 per cent), providing peace of mind (50.6 per cent), administration of financial affairs (44.9 per cent) and facilitating a path to financial freedom (44.1 per cent).

Interestingly, the emerging HNW were significantly more likely to recognise the benefit of being helped to make the big decisions and having a path facilitated to financial freedom ($p<0.05$).

While around a third of those without an adviser identified convenience of consolidating their finances/planning, providing peace of mind and facilitating a path to financial freedom as benefits of advice, less than a third recognised administration of financial affairs as a value-add.

The idea of an adviser as a financial coach or trainer was not rated highly on the list of benefits by advised or unadvised respondents, indicating that one of the key capabilities of good financial advisers is not being recognised.

## TACTICAL ADVICE

While the reasons for having a financial adviser are many and varied, ultimately, it is the access to investment advice and expertise that drives people to seek help.

Some 68.4 per cent of people say access to investment advice/expertise is the reason they have an adviser.

Other top reasons for seeking advice include general investment information (53.6 per cent), help with goal setting (52.1 per cent) and provision of feedback on investment decisions (50.2 per cent).

Interestingly, when asked about the perceived importance of a range of advice capabilities, there was little differentiating the importance of the capabilities listed.

Investment strategy expertise ranked highest for advised respondents (7.8 out of 10), by a very narrow margin, while for unadvised respondents goal setting and financial planning expertise and retirement planning expertise (6.1) ranked equal most important (see Figure 6 below).

Goal setting and financial planning expertise, product selection expertise and retirement planning expertise also received high importance ratings (7.7) from advised respondents.

Insurance is one area where the industry faces an uphill battle, with many people apathetic about the need to insure their life and their income as a matter of prudence.

The AFA's research reveals that people perceive home and contents insurance, comprehensive car insurance and medical insurance respectively all to be more important than life insurance and income protection (IP).

Those with an adviser afforded a higher level of importance to all insurances listed, however they were still more likely to consider home and car insurance more important than life and IP insurance ($p<0.05$).

Figure 7 demonstrates that with the exception of life and income protection, the importance of insurance tends to increase with age and the importance of all forms of insurance tends to increase with wealth ($p<0.05$).

Generation X and Y placed higher importance on IP insurance and life insurance than the other generations, while the pre-boomers placed more importance on home and contents insurance, comprehensive car insurance and medical insurance than their generational counterparts.

## IMPLEMENTATION AND THE BARRIERS TO ADVICE

Having sat down with the client and developed a personalised plan that is tailored to their individual needs; the next vital step is putting those plans into action.

Everyone has goals and aspirations, yet sometimes work, family and other commitments make it hard to set out a clear path for achieving them.

The value of an adviser in helping clients to reach their goals and ensuring that they stay on track should not be underestimated.

In fact many people say that their 'perfect' advice relationship would indeed be a two-way partnership, resembling a doctor-patient relationship: regular checkups, an expert point of view and a professional who will listen and suggest an objective course of action – not always one which is easy to absorb.

There is no doubt that there are advisers out there who do have this type of relationship with their clients, but there are many who don't.

As the industry evolves and clients are required to opt-in to their advice relationship on a regular basis, advisers may need to develop this type of relationship with all their clients as a means of ensuring customer retention.

**Figure 5. Which of the following best describes your reason(s) for choosing to have a financial adviser**

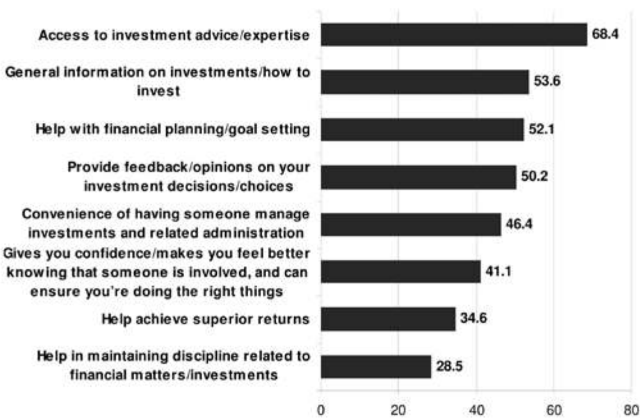



**Figure 6. How important are the following advice capabilities to you (even if you currently do not seek advice)? Please rate on a scale of 0–10 where 0= not important at all and 10 = very important**

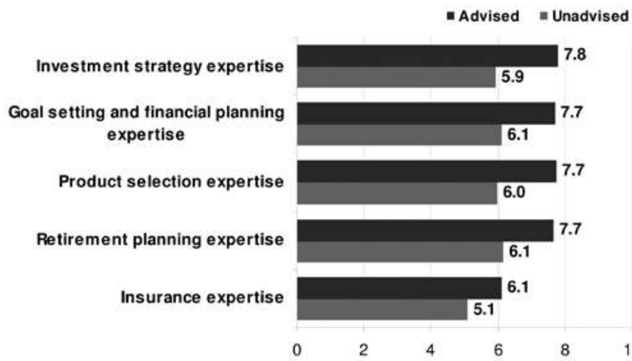


**Figure 7. How important is ensuring you have sufficient insurance cover for the following? (By Generation) Please rate on a scale of 0–10 where 0= not important at all and 10 = very**

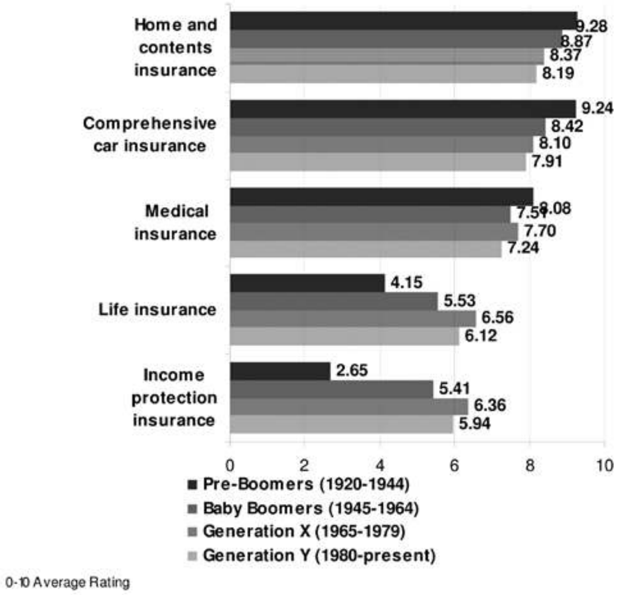



**Figure 8. Why don't you seek professional advice to manage your finances?**


## Verbatim comments on the perfect financial services relationship:

"Two-way communication, flexibility, open minded" (Male respondent, aged 60, NSW)

"A financial friend." (Male respondent aged 58, Qld)

"A trusted 'friend' who shares the risk of his advice" (Male respondent, aged 57, SA)

"Able to bounce ideas off one another and coming to a mutually beneficial action." (Male respondent aged 56, Qld)

"An open and two-way relationship with both sides listening and each party understanding their part of the relationship." (Male respondent aged 36, SA)

Those advisers who are successful in future will be those which adopt their business model and advice offering to meet the changing needs of the post-GFC consumer.

Ultimately though, the major barrier preventing the large majority of the population from seeking advice relates to payment for advice.

As mentioned in the introduction, the top two reasons for not seeking advice related to cost (see Figure 8).

Almost one third of respondents (30.5 per cent) said they did not seek advice because they find the fee structures offered unacceptable while 29.7 per cent said they were not prepared to pay fees for advice.

While at least 29.2 per cent felt they did not need or want advice, almost one quarter (22.8 per cent) did not see the benefit.

Very few respondents did not seek advice because they did not know where to go (14.3 per cent), were time poor (10.0 per cent) or couldn't find the right one (6.3 per cent).

## Verbatim comments on reasons for not seeking advice:

"Am suspicious of the industry and their kickbacks. Don't know how to find someone who isn't providing bias advice." (Female respondent aged 38, Vic)

"Fear of being scammed or ripped off." (Male respondent aged 47, Vic)

"I do not trust financial advisers; they have failed many people and still collect trail commissions. Their ethics are questionable at best." (Male respondent aged 45, NSW)

"I cannot afford the fees" (Female respondent, aged 50, Vic) "I have yet to find one that provides true value" (Male respondent, aged 45, ACT)

Financial advisers must recognise that the environment in which they operate has changed substantially, and so must they if they are to continue to appeal to clients' desire for value for money or price as utility.

While there is no overwhelming evidence that consumers want to pay for advice in one particular way, what is clear is that they want value for money and the cost of advice to be transparent and agreed by them upfront.

Figure 9 suggests consumers should be given the choice of how they want to pay for advice, considering preferences vary broadly.

Fee paid by commission was the most common way of paying for advice by those respondents who have a professional adviser (21.3 per cent), but was only considered the preferred method of payment by 13.3 per cent

At least 14.1 per cent claimed to pay a commission per transaction, yet only 9.9 per cent preferred to pay this way, while 16.7 per cent pay a fee based on percentage of assets under management (the preference listed by 8.7 per cent of respondents).

AFA 2010 white paper prepared by CoreData brand management.

The preferred method of payment was a fee determined by the service provided – although this was still only chosen by one in five respondents (20.2 per cent). Fee determined by the service provided is the method of payment currently used by 17.1 per cent of respondents.

Just under one fifth (19.4 per cent) would prefer to pay an annual retainer or flat fee for advice (the current method used by 16.0 per cent of respondents), while 14.4 per cent would prefer to pay a fee based on investment performance goals – a method currently used by very few people (1.5 per cent).

HNWIs were the most likely to pay a fee based on funds under management (31.8 per cent) whereas Gen X and Y were the most likely to be paying fees paid by commission (approximately 20 per cent, $p<0.05$).

Payment for advice is a major barrier, yet it is not insurmountable. Indeed, the AFA's research shows that there is a latent demand for advice.

Three quarters of those who do not currently seek advice (73.1 per cent) would possibly or quite likely consider using an adviser in the future, suggesting a substantial market opportunity to access this untapped resource.

At least 40.7 per cent of those who are unadvised would possibly consider using a financial adviser within a few years (less than five years) while 10.4 per cent said they would quite likely consider using a financial adviser within a few years.

The likelihood of using an adviser in the future decreased significantly with age ($p<0.05$).

Figure 10 below reveals that unadvised HNWIs are the least likely to consider using an adviser in the future, while mass market respondents are the most likely ($p<0.05$).

Almost half of mass affluent Australians (47.5 per cent) would possibly consider using an adviser within a few years (one to five years), while 15.7 per cent would possibly use one in a few years (more than five years). Two fifths of HNWIs (40.0 per cent) would not consider using an adviser in future.

To convert this interest into real business, the industry must not only endeavour to demonstrate value for money, but also address the low levels of trust that exist among the unadvised.

While financial advisers are highly trusted by the advised, the unadvised express a low trust in advisers and would sooner trust any other profession barring mortgage brokers.

Figure 11 above shows that specialist doctors are the most trusted among those who give professional advice, receiving a rating of 8.0 out of 10.

Financial advisers are highly trusted by the advised (7.5), coming in third behind specialist doctors and dentists, although the unadvised awarded a much lower trust rating of 4.5.

Mass market respondents were the least likely to trust financial advisers ($p<0.05$).

## OVERALL SATISFACTION

The AFA's research suggests that those people who have an adviser are happier with their investments than those who don't.

While the causal direction is not proved, it is not too long a stretch of the bow to suggest that professional advice drives greater investment happiness.

The caveat to this is that in the HNW segment (those individuals with more than $1 million in investable assets outside of their home and superannuation), investment satisfaction has declined considerably.

Overall, those HNWIs that have a financial planner are satisfied with their services, however the satisfaction level with advisers' investment performance is relatively poor, with only half (51.7 per cent) being satisfied.

In the broader population, advised respondents are significantly more happy with the manageability, diversification and return of their current investments than those who are unadvised ($p<0.05$), as Figure 10 demonstrates.

Happiness with diversification in current investments increased with age, while happiness with all the aspects of current investments significantly increased with wealth ($p<0.05$).

In addition, the average overall satisfaction rating for advisers – as judged by those who seek advice – is reasonably good (7.5 out of 10), while intention to recommend also rated well (7.3).

**Figure 9 . How do you pay your current financial adviser? How do you prefer to pay your financial adviser?**

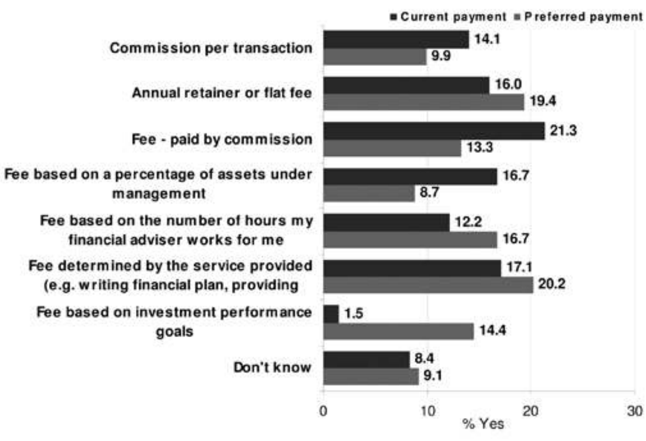



**Figure 10. Would you consider using a financial adviser in the future?**

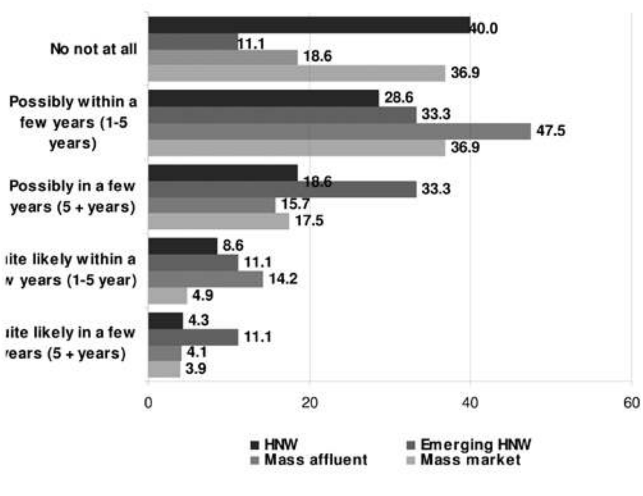


**Figure 11. How much do you tend to trust the advice given by the following professions?**

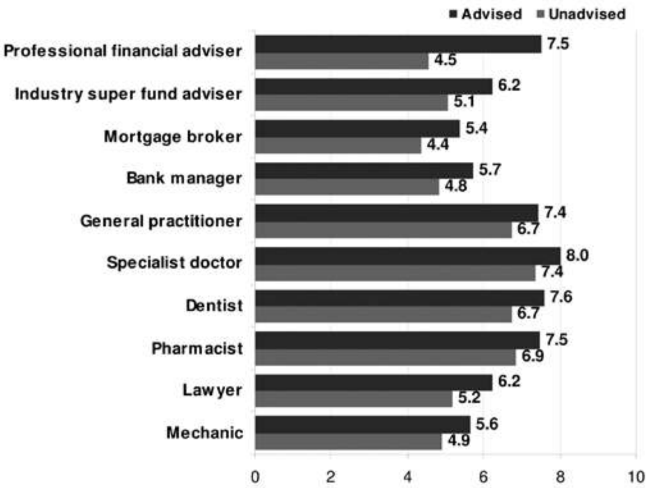
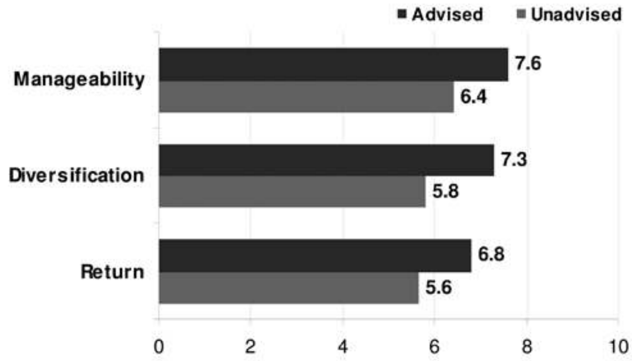



**Figure 12. Generally speaking how happy are you with your current investments? Please rate on a scale of 0–10 where 0 = completely unhappy and 10 = completely happy**




Satisfaction with advice aspects generally rated well among the advised, with taking the time to listen/explain things (8.4), availability (8.3) and efficient issue resolution (8.0) the most highly rated aspects.

Critically, these were the most important loyalty driving aspects identified by respondents (see Figure 15).

A multiple regression model was developed to look at the key drivers of overall satisfaction. Predictors tested included all the satisfaction by aspect and investment happiness ratings. The model predicted 73.9 per cent of the variance observed in overall satisfaction and is therefore considered quite strong.

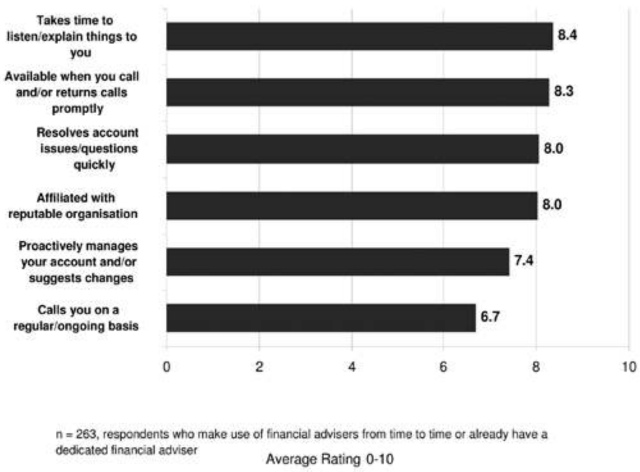
The key drivers of overall satisfaction, according to the model (see Figure 14), are proactive account management followed by availability, investment return and taking the time to listen and explain things.

Predictors Contribution Dependent variable to model

A respectable 68 per cent of those who are advised have recommended their adviser in the past.

Advocates of their advisers pointed to sound investment advice as well as key characteristics of personality and expertise as the reasons for their likeliness to recommend them.

**Figure 13. How satisfied are you with the advice and services provided by your financial adviser? Please rate on a scale of 0–10 where 0 = not at all satisfied and 10 = very satisfied**




## Why would you recommend your adviser?

"Because he is always available to answer questions and always keeps me in the loop with all aspects of the investment. Personable and reliable." (Female respondent aged 34, Vic)

"Because he takes the time to explain everything and looks at your bigger picture." (Female respondent aged 25, Vic)

"Because they are customer focused, very professional and knowledge of financial matters is very high and fees are very reasonable." (Female respondent aged 59, ACT)

"Friendly, approachable, talks in plain language and returns calls or queries quickly." (Male respondent aged 41, WA)

"Generally seems to have my best interests at heart." (Male respondent aged 65, NSW)

"He has many years of experience, a good knowledge of investment strategies and products, a good knowledge of superannuation issues and he is a good communicator." (Male respondent aged 59, Qld)

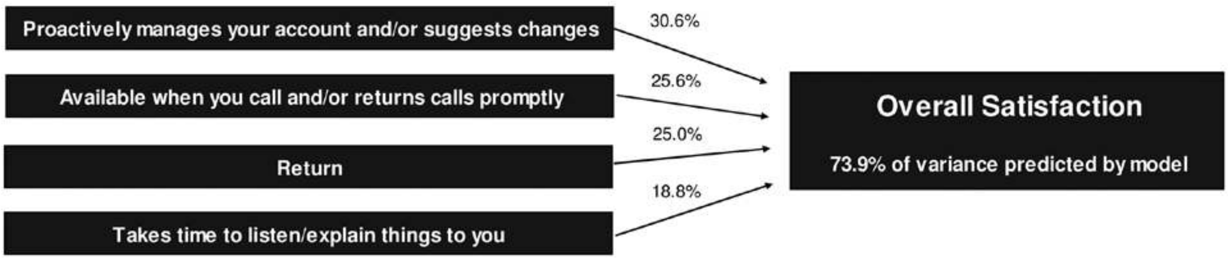
"He is honest, down to earth, understands our circumstances and looks for the best options for us." (Female respondent aged 36, WA)

"He is independent, reliable and informative." (Female respondent aged 64, NSW)

"Highly competent, cuts through the noise easily, lots of life experience, not intimidated by others and has the confidence to have his own views even if these are not the industry view at the time." (Female respondent, aged 46, WA)

"They have served me well through some very difficult financial times and protected my investments and me as much as possible." (Male respondent, aged 58, Qld)

Figure 14. **Regression model**




## LOYALTY DRIVERS

The concept of loyalty is one which is loosely held by many people when it comes to their financial services provider.

Often satisfaction is mistaken for loyalty, while in reality they are two different things.

Just because someone is satisfied with their adviser, it does not necessarily mean that they would not switch adviser if a better offer came along.

It's important to consider not only satisfaction but also intention and engagement when assessing client relationships.

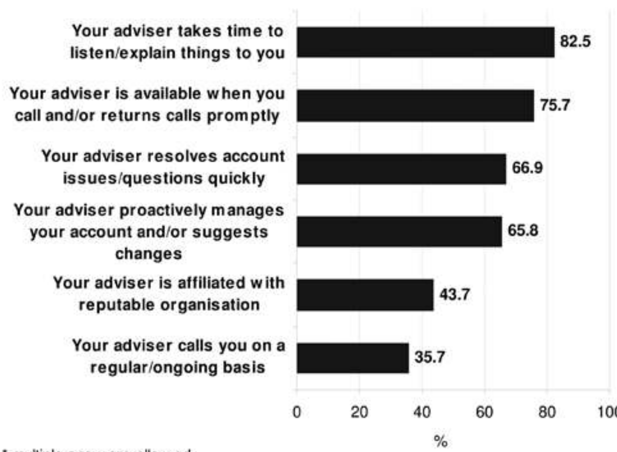
These three elements have more power in revealing the true sentiment of individuals towards their adviser, company and/or institution than satisfaction alone.

Engagement is broken down into trust, rapport, communication and loyalty.

The key factor driving loyalty among those people with an adviser is that their adviser takes the time to listen and explain things to them. This is followed by the availability of their adviser, the efficiency of issue resolution and proactive account management.

Affiliation with a reputable organisation and regular adviser-instigated contact are of less importance.

Figure 15. **Which of the following are important for choosing and staying with a financial adviser?**




* multiple answers allowed
n = 263, respondents who make use of financial advisers from time to time or already have a dedicated financial adviser

## CONCLUSION AND RECOMMENDATIONS

The Australian financial advice industry provides an invaluable service to consumers, yet two in five Australians have never used a financial adviser.

Why? By and large, it's because the industry has failed to convince them of the benefits of seeking – and paying for – advice.

The industry has for many years struggled to articulate the value of advice, making it difficult for consumers to conclude that professional advice is something worth paying for.

Many of the aspects which make advice so important are somewhat intangible and are not always visible to the general public.

These qualities, which are clearly recognised by those people who have an adviser, go beyond product and strategy expertise.

As this paper has demonstrated, a financial adviser wears many hats.

Advisers are there to guide their clients through the multitude of financial decisions they will face throughout their lives and stop them from making mistakes fuelled by emotion or outside influences.

The three core roles of an adviser are: the provision of strategic advice, the provision of tactical advice and implementation.

The strategic role involves coaching and guiding clients through the various changes they will face throughout their lives, and helping them to make the big life decisions.

The tactical role is around providing expertise on insurance, investments and superannuation and putting in place a plan that is suited to the individual's needs.

Last but not least, an adviser is there to turn best laid plans into action. A key role of the adviser is to implement the financial plan that's been put in place, make adjustments along the way where necessary and most importantly, keep clients on track to reaching their goals.

While those people who seek advice are already aware of and tapping into the knowledge, expertise and guidance of their adviser, many of those who do not seek advice remain ignorant of those extra-financial benefits.

The industry must take some responsibility for the lack of understanding by the general population about the role advisers' play in the lives of their clients.

It is vital that advisers continue to educate both clients and potential clients, through the media, professional bodies and advertising to ensure that consumers fully understand the benefits of advice and are able to make an informed decision about whether or not to use advisers' services.

It is also critical that the industry tackle the issue of trust. Now is the time to put differences aside and present a united front, instill confidence and stamp out misconceptions.

This paper clearly shows that those people who have an advice relationship have a greater level of understanding of their finances, are happier with their investments and recognise that the benefits of advice go beyond that of product and strategy expertise.

By choosing to seek guidance from a professional, they now have certainty around their financial future and greater peace of mind.

The challenge for the industry and advisers themselves is to find a way to communicate these benefits to the broader population. ●

## NOTE

Pseudonyms used to preserve anonymity

## APPENDICES

### General opinion on the benefits of financial advice

- The most commonly cited (unprompted) key benefits of using a professional adviser include;
  - Greater knowledge, experience and expertise
  - Sound advice in areas where lacking knowledge
  - Being updated of latest trends
  - Independence of advice
- The top reasons for having a financial adviser include;
  - Access to investment advice/expertise
  - General investment information
  - Help with goal setting
  - Provision of feedback on investment decisions/choices

### Verbatim comments on the key benefits of advice:

"Access to products I can't access directly -specialist training and knowledge and ability to see the big picture." (Female respondent aged 39, NSW)

"Helping me to understand finances required for retirement and a suggested plan/path to get there." (Female respondent aged 39, NSW)

"A challenge to my ideas and assumptions, detailed knowledge of tax rules etc." (Male respondent aged 51, Vic)

"Another point of view with professional knowledge in that field, which I don't have -the range of options are also more open to them that to retail investor." (Male respondent aged 51, NSW)

"Expertise in building and protecting wealth." (Male respondent aged 63, NSW)

"Forming a healthy business relationship, where the adviser guides you to financial independence." (Female respondent aged 57, SA)

"Overcome the lack of time many have to attend to their needs themselves. To tailor the simplicity/complexity balance according to the investor's profile and needs." (Female respondent aged 53, Vic)

### Comments on the role of an adviser

- Desirable attributes people look for in a financial services provider include;
  - Honesty and trustworthiness
  - Competency
  - Accessibility and availability
  - Ability to understand client needs
- According to consumers, the perfect relationship with a financial services provider would involve;
  - Two-way communication
  - A willingness to put clients' interests first
  - Honesty
  - Trust

### Verbatim comments on desirable adviser attributes:

"A consummate professional. Great communicator & a great listener with lots of experience in their field." (Female respondent aged 38, SA)

"A person who will listen to my issues and provides advise that are appropriate for my circumstances." (Male respondent aged 50, Vic)

"A track record and also I need to trust the advice I am getting." (Male respondent aged 41, NSW)

"Ability to understand my situation and advise accordingly" (Male respondent, aged 61, NSW)

"Balanced perspective (ie: not pushing a particular type of investment option, nor a set group of investment companies). Integrity, respect (can pick up a certain amount via body language, verbal language cues, direction of discussion etc)" (Female respondent, aged 55, SA)

"Honesty and empathy and a willingness to talk openly on everything including fees." (Male respondent aged 67, ACT)

**Table 1. Demographic breakdown**

| | Percent |
|---|---|
| **Gender** | |
| Female | 44.9 |
| Male | 55.1 |
| **Total** | **100.0** |
| **Age** | |
| 20 & Below | 0.5 |
| 21 -30 | 12.5 |
| 31 -40 | 20.7 |
| 41 -50 | 26.7 |
| 51 -60 | 24.1 |
| 61 & Above | 15.5 |
| **Total** | **100.0** |
| **Age generations** | |
| Pre-Boomers (1920-1944) | 9.1 |
| Baby Boomers (1945-1964) | 44.2 |
| Generation X (1965-1979) | 33.6 |
| Generation Y (1980-present) | 13.0 |
| **Total** | **100.0** |
| **State** | |
| ACT | 3.1 |
| NSW | 28.1 |
| NT | 0.5 |
| Qld | 17.7 |
| SA | 10.2 |
| Tas | 2.8 |
| Vic | 27.2 |
| WA | 10.4 |
| **Total** | **100.0** |
| **Area** | |
| The capital city of my state / territory | 69.3 |
| A regional centre | 22.7 |
| A rural area | 8.0 |
| **Total** | **100.0** |
| **Household income** | |
| $50,000 or less | 25.1 |
| $50,001 to $75,000 | 21.0 |
| $75,001 to $100,000 | 17.5 |
| $100,001 to $125,000 | 11.7 |
| $125,001 to $150,000 | 8.0 |
| $150,001 to $200,000 | 8.4 |
| $200,001 to $250,000 | 4.6 |
| $250,001 to $350,000 | 1.7 |
| $350,001 or more | 2.1 |
| **Total** | **100.0** |

| | Percent |
|---|---|
| **Investment portfolio** | |
| I have no investments | 16.4 |
| $50,000 or less | 17.3 |
| $50,001 to $150,000 | 17.0 |
| $150,001 to $250,000 | 9.8 |
| $250,001 to $350,000 | 8.1 |
| $350,001 to $450,000 | 6.3 |
| $450,001 to $550,000 | 4.5 |
| $550,001 to $650,000 | 2.2 |
| $650,001 to $750,000 | 3.6 |
| $750,001 or more | 14.8 |
| Total | 100.0 |
| **Wealth segments** | |
| HNW | 18.4 |
| Emerging HNW | 2.0 |
| Mass affluent | 63.8 |
| Mass market | 15.7 |
| Total | 100.0 |
| **Employment** | |
| Self employed | 10.1 |
| Employed full time | 50.8 |
| Employed part time | 13.5 |
| Engaged mainly in home duties | 3.7 |
| Retired | 14.4 |
| Not employed at present | 3.2 |
| Student | 1.6 |
| Other | 2.8 |
| Total | 100.0 |
| **Education** | |
| Primary | 0.4 |
| Part of high school | 9.0 |
| Completed high school | 14.3 |
| Diploma or certificate qualification (inc Trades) | 30.8 |
| Degree qualification | 23.6 |
| Postgraduate qualification | 21.9 |
| Total | 100.0 |

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