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# IOOF **White Paper**

July 2014

## The expectation of advice

It's true. Greater activity by financial advisers does not necessarily translate into a greater perception of value from clients. So what are the expectations of financial advice clients? What do they see as value and how do we ensure this value is met or even surpassed? What should advisers be doing to deliver a successful ongoing financial planning experience? This paper seeks to answer these questions and explore the expectations of advice.

In collaboration



For financial adviser use only

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# About the contributors



## Dean Lombardo

### Director

Dean Lombardo has experienced the financial planning industry from just about every angle, including as a business owner, corporate executive, author and financial planner.

Awarded the 2012 AFA National Excellence in Education Award, Dean is recognised as an expert in client engagement who also brings a unique knowledge of adult learning theory to deliver better client and business outcomes. Today, Dean is the founder of 'effortless engagement', a specialist training and consulting business developing high performing teams and building sustainable business models supported by a clear vision of success.

IOOF has engaged Dean to undertake research on evaluating the financial planning offer to assist advisers in understanding client expectations.



## Renato Mota

### General Manager, Distribution

Renato Mota has been with IOOF for over ten years and has held the roles of Head of Strategy, General Manager Investor Solutions and currently General Manager Distribution. In this role, Renato has responsibility for sales, marketing and product across the breadth of IOOF's offering, accounting for in excess of \$30bn across retail and corporate superannuation, platforms and investments.

Prior to 2003, Renato worked in financial services for NM Rothschild & Sons, National Australia Bank and ANZ Banking Group with a particular focus on corporate strategy and mergers and acquisitions.

Renato has a Bachelor of Business (EcoFin), a Bachelor of Commerce (Hons) and is a CFA Charterholder.



# Methodology

In approaching this topic, IOOF Investment Management Limited in consultation with 'effortless engagement' undertook research involving both financial advisers and ongoing financial planning clients during the 2014 financial year.

A total of 58 practices which encompasses 192 advisers were surveyed for the purposes of this paper. These advisers and advice businesses included both independent financial advisers and those licensed through different dealer groups. Those surveyed were from different regions across Australia and were of different sizes by both number of representatives and revenue. This cross section of those surveyed ensured that the research was able to deliver a general perspective of the industry.

To gain the client expectation data, a total of 312 existing ongoing financial planning clients were surveyed. These clients were existing ongoing fee paying clients who had entered into an ongoing relationship with their adviser and advice business at the time the research was undertaken. The definition of those clients engaged in an ongoing relationship was that those clients met with their adviser at least once a year to review their circumstances and financial plan. Clients were of different demographics ensuring a diverse range of opinions based on different experiences and expectations.

# Executive summary

Financial advertising and press coverage often focuses on fees and has created a perception that ongoing fees from financial advice are generally too high. Unfortunately this has been at the expense of the value of financial advice, which is often overlooked as people underestimate the complexities involved. We found, through our recent research, that 82 per cent of advisers feel their ongoing fees are either currently under pressure or expect them to be under pressure within the next three years.

The search to provide value has therefore intensified, with those advice businesses engaged in ongoing advice relationships continually challenging their client value propositions and method of advice delivery. We have seen more and more advisers focus on increasing the number of client contact points, enhancing client access to business websites, offering additional products or services and spending more time on the investment management function. However, greater activity does not necessarily translate into a greater perception of value.

Dealer groups and advisers have also sought to increase the pressure on product manufacturers to lower ongoing costs (ie administration and investment fees) with a view to illustrating value to their ongoing clients through negotiated lower costs. This approach, although successful in the short term, defers rather than resolves the issue.

Are our industry efforts to enhance our client value propositions and illustrate the value of advice gaining traction amongst clients? Has anything fundamentally changed with regard to what clients expect and consider being a successful ongoing financial planning experience? Our research found that the clients' expectations have not changed and simply the achievement of their lifestyle goals and objectives is the core measure of whether their ongoing financial planning experience has been successful.

So the question then is, are we succeeding in delivering these outcomes? We were surprised to discover that a significant disconnect is occurring. An incredible 60 per cent of clients did not know or were unable to answer if their advice was succeeding in achieving their goals, while almost half of our advisers surveyed (48 per cent) said they also did not know and/or lacked either the system or information to make a determination.

We believe that this represents a serious issue. If the majority of clients and almost half of advisers are unable to determine whether or not the ultimate measure of a client's success is achievable (and/or on track to do so), then the probability of discontent is high. Clients who feel that they are on track are more than twice as likely to feel as though they are receiving value for money (89 versus 42 per cent), six times less likely to consider seeking alternative advice within the next three years (5.3 versus 0.9 per cent) and almost three times more likely to refer within the next 12 months (7.2 versus 2.6 per cent) as compared with clients who were either unsure or felt they were not on track.

This paper explores these issues in detail with a view to better understand what advice businesses today, and in the future, need to look like and consider in order to sustain premium ongoing fees while engaged in an ongoing financial planning relationship. Importantly this paper will highlight that when there is clear and tangible alignment between the ongoing proposition of advice and the achievement of clients' desired outcomes, there is not only the opportunity to sustain current ongoing fees, but an opportunity to increase ongoing fees in the future.

The challenges associated with sustaining ongoing advice fees have never been greater.

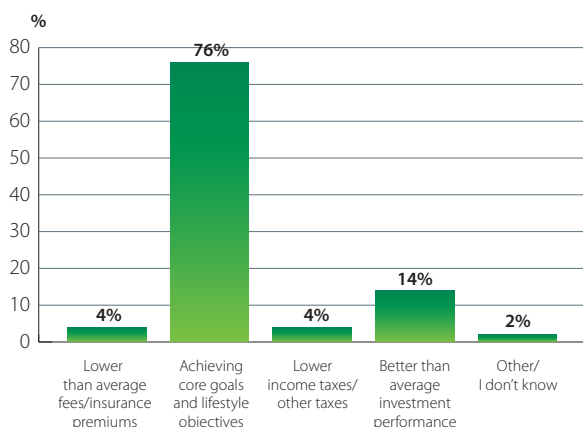
# Delivering a successful ongoing financial planning experience

## What defines a successful ongoing financial planning experience?

To deliver a successful ongoing financial planning experience it is important to understand how clients define a successful experience. Clients overwhelmingly agree that a successful ongoing financial planning experience is ultimately measured by their ability to achieve what's most important to them – their core lifestyle goals and objectives. These will be defined differently for different clients.

This does not mean that strategic advice and product related outcomes are not critical factors in delivering a successful financial planning experience; rather they are components in ensuring the core measure of success, as opposed to being the core measure themselves.

**Figure 1: What defines a successful financial planning experience?**



# Are we succeeding in delivering a successful ongoing financial planning experience?

When it comes to measuring the success of an ongoing financial planning experience, traditional measures have included client satisfaction results, average ongoing revenue per client and client retention levels. While these are important factors, we really need to ask if clients are on track to achieving their goals. In other words: is the advice relationship succeeding?

We asked clients to rate their perception as to whether or not they felt that they were on track to achieve their various goals and objectives. Meanwhile, advisers were asked to rate what percentage of their ongoing service clients they felt were on track to do the same. It is here that we found a disconnect between perception and reality.

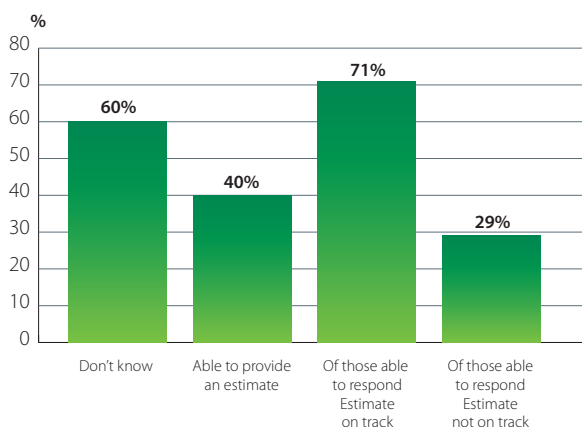
While 71 per cent of clients felt they were on track, only 64 per cent of advisers believed their ongoing clients were. This isn't an exceptional result but nonetheless it is positive. We were however surprised to find that an alarming 60 per cent of clients did not know or were unable to answer the question, while almost half of advisers (48 per cent) said they also did not know and/or lacked either the system or information to make a determination if their clients were on track to meet their own defined goals.

This represents a serious issue. If the majority of clients and almost half of the advisers surveyed are unable to determine whether or not the ultimate measure of a client's success is achievable (or on track to do so), then the probability of discontent, fee pressures and ultimately the failure of the financial planning relationship is high.

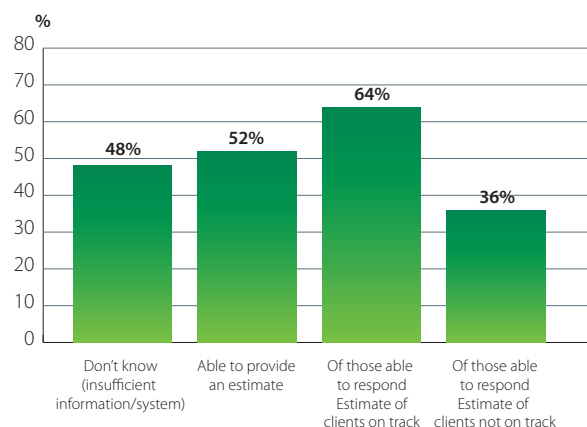
Not surprisingly, almost all advisers and practices felt that they had a system to determine how investments were performing relative to various measures and/or how insurance products and premiums compared, yet very few had a system to determine the overall progress of a client including the continual assessment of a client's cash flow plan.

An alarming 60 per cent of clients did not know or were unable to answer if they were on track to meet their defined goals. Almost half the advisers said they did not know and/or lacked either the system or information to make a determination if their clients were on track to meet their own defined goals.

**Figure 2: Client perception of whether they are on track to achieve their core lifestyle goals and objectives**



**Figure 3: Adviser perception of percentage of clients on track to achieve core goals and objectives**



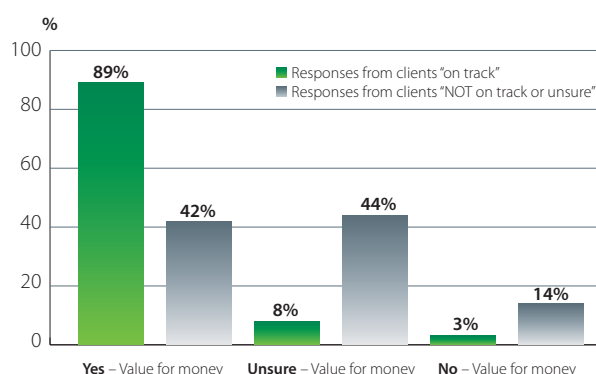
# Why measure if clients are on track?

Continually measuring whether or not clients are on track to achieve their various goals and objectives makes business sense. In addition, providing the necessary coaching relationship and framework to assist clients to remain on track is critical.

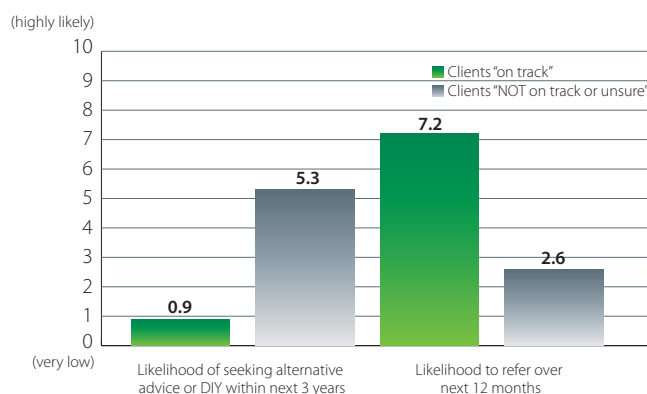
We asked clients to consider whether they felt they were receiving value for money and found that clients who felt they were on track were more than twice as likely to feel as though they were receiving value for money as those who weren't or were unsure. Over two thirds of clients who weren't on track (or didn't know how they were progressing) were either unsure if they were receiving value for money or didn't feel as though they were receiving value.

In addition, clients who were either unsure or didn't believe they were on track were almost six times more likely to consider seeking alternative advice or take over the management of part of their own affairs within the next three years. As anticipated, clients who felt as though they were on track were almost three times more likely to refer over the next 12 months. As referrals are essential to any successful business, this simply reiterates what we already know – that successful financial planning relationships are critical to business success.

**Figure 4: Value for money**



**Figure 5: Likelihood of seeking alternative advice and referring**



Clients who felt as though they were on track to achieving their goals and objectives were almost three times more likely to refer over the next 12 months.

# The great fee debate – what do clients feel their ongoing fees are paying for?

In an attempt to provide greater fee transparency and promote ongoing advice fees as a professional standard rather than from a sales perspective, the positioning of ongoing fees has continued to evolve.

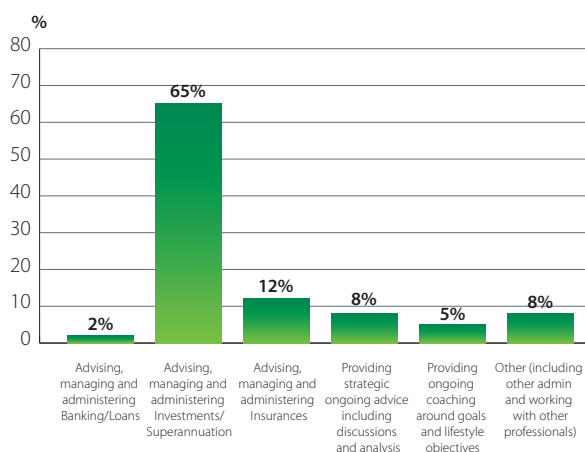
Over recent years there has been an increasing shift towards advisers positioning their ongoing service and advice fees as fee for service, yet the method of fee collection is still largely reliant on various forms of financial products. This may be a contributing factor as to why the majority of ongoing clients surveyed identified their ongoing fees being largely attributable to product related advice.

Clients were asked to prioritise what they thought their ongoing advice fee was in fact paying for. The majority felt that managing and administering investments/superannuation was at the core of their ongoing fee.

This presents an issue for advisers and advice businesses. When the value or focus of ongoing fees rests with a perception that fees are essentially paying for the management and administration of investments, then you have a relationship subjected to the forces of price, product and performance. On that basis there will continue to be pressure on fees.

With the core measure of success in the eyes of clients being the achievement of their core lifestyle goals and objectives, clearly altering the perception of clients away from price, product and performance measures towards the activity consistent with their desired outcome is essential.

**Figure 6: Client perception of ongoing fees**



When the value or focus of ongoing fees rests with a perception that fees are essentially paying for the management and administration of investments, then you have a relationship subjected to the forces of price, product and performance. On that basis there will continue to be pressure on fees.

Our industry needs to alter the perception of clients towards activity consistent with their desired outcome.



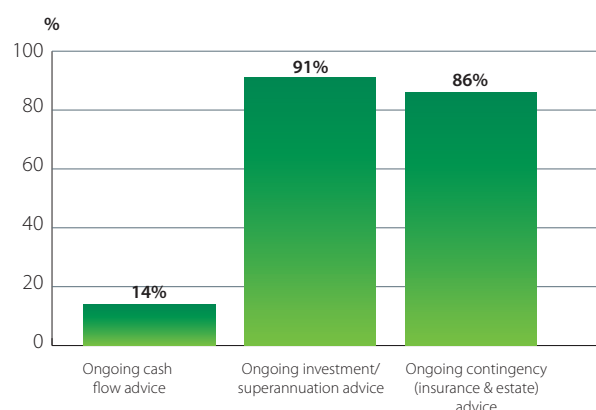
# The reality of ongoing advice delivery and client engagement

It is generally accepted that although there are a number of strategic areas to be considered when advising clients, the different areas can be categorised into three key groups:

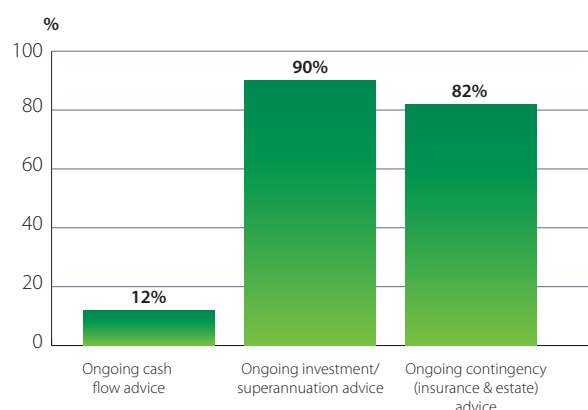
- 1 **Cash flow advice (eg strategic advice surrounding inflows and outflows/expenses)**
- 2 **Wealth advice (eg investment and superannuation)**
- 3 **Contingency advice (eg insurance, estate planning and asset protection).**

Advisers were asked whether they had a philosophy/policy (ie a defined methodology/standard) in providing ongoing advice in each area, along with whether they believed they had adequate systems and tools to measure the ongoing progress and needs of clients. It was somewhat surprising to find that of these three core advice areas, providing ongoing cash flow advice was by far the area advisers and practices least focused on and had least control. Yet this is a critical area of focus and an area most likely to impact on the long term success of the client's financial plan and core measure of a successful financial planning experience.

**Figure 7: Percentage of advisers with a philosophy/policy in each core advice area**



**Figure 8: Percentage of advisers with adequate systems/tools to measure ongoing progress/needs in each core advice area**



We explore these results and ongoing advice delivery in each of the core advice areas on the following pages:

# 1) Delivering ongoing cash flow advice

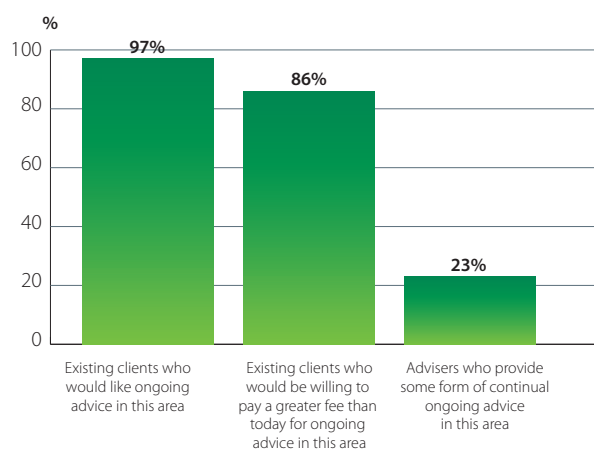
The basic principle and foundation of a successful financial planning outcome is generally regarded as spending less than you earn over the long term. Yet what is surprising is that continually providing ongoing cash flow advice to clients is nowhere near as systematised or as prevalent amongst advisers as is providing ongoing investment/superannuation and insurance advice.

Existing ongoing financial planning clients were asked whether or not they wanted their adviser to provide ongoing cash flow advice. This included their adviser advising on suitable banking/loan structures, providing strategic cash flow advice and providing regular monitoring of core spending against their overall planning objectives. Perhaps not surprisingly, 97 per cent of respondents said they would like their adviser to do so.

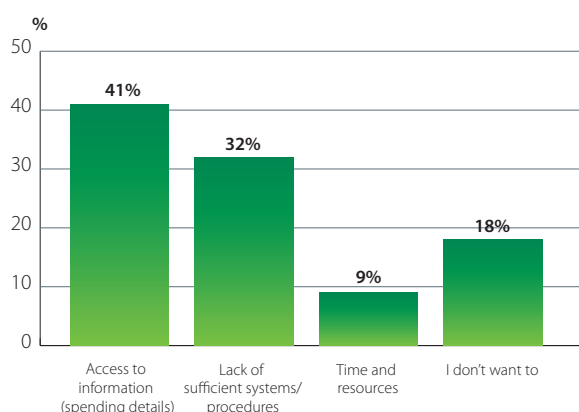
In an environment where advisers and advice businesses are continually seeking to provide value and potentially increase ongoing revenue, an overwhelming 86 per cent of respondents said they would be willing to pay a fee greater than their current fee if such advice was provided (of those clients who were not currently receiving this level of ongoing advice/service). This suggests that for advisers who elect to provide ongoing advice in this area, sustaining current fee arrangements and potentially increasing ongoing fees is a viable possibility.

Advisers were asked whether they provided the type of ongoing cash flow advice clients unanimously felt they wanted. Only 23 per cent of advisers said they provided this (or some part) to clients on an ongoing basis. Although a relatively low percentage, it also illustrates that advisers who are providing advice in this area are often doing so without a clearly stated philosophy/policy and potentially without adequate tools and resources.

**Figure 9: Clients and ongoing cash flow advice**



**Figure 10: Why advisers feel they can't provide full ongoing cash flow advice**



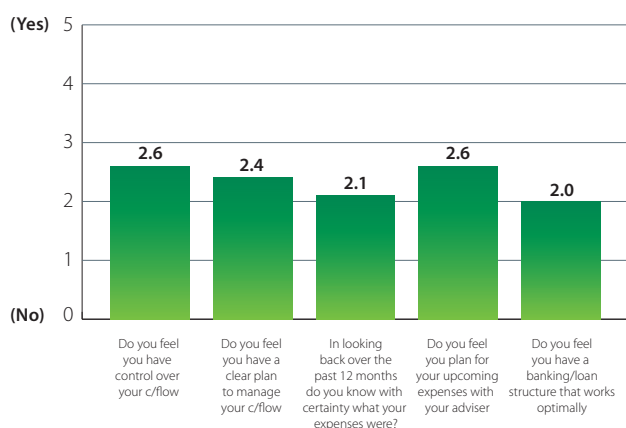
It's interesting that when it comes to cash flow advice many advisers centre their initial advice and plans on the achievement of core cash flow objectives. They consider important issues such as debt repayment, funding of expenses (day to day and capital costs), salary packaging, age pension entitlements, superannuation pensions and so on. These are often detailed and form part of the outcome and basis of initial advice.

So why is it that ongoing advice and the ongoing assessment of a client's cash flow strategy is far less focused throughout ongoing meetings and the ongoing client/adviser relationship? Perhaps a large part has to do with many advisers believing that providing ongoing cash flow advice means providing micro budgeting solutions and to do this a lack of internal systems and access to client bank transactions is an issue. Perhaps it's time allocated to client meetings and a sense that discussing the progress of previously recommended products is what clients want. Or perhaps it is because lower revenue is derived in this area as opposed to other ongoing advice areas. Some advisers also don't want to feel intrusive in exploring the day to day expenditure of clients.

Yet delivering ongoing cash flow advice does not necessarily need to be about micro cash flow management. It is fundamentally about testing and managing client behaviour to work within the parameters of their plan. It is about ensuring core inflows and outflows are consistent with expectations and where deviations occur, educating the client on the impact of any decisions made. Ultimately these are the foundations of a successful cash flow strategy and the central pillars of what clients have detailed as most important to them – the achievement of their core goals and lifestyle objectives.

It is also clear that cash flow is an area clients don't feel strongly in control of which represents an issue with respect to the achievement of a successful financial planning relationship. However, it is also an opportunity for advisers and advice businesses wishing to restructure their ongoing advice offer and increase the perception of value, along with increasing the probability of successful financial planning outcomes.

**Figure 11: Client's perception surrounding cash flow and advice**



In an environment where advisers and advice businesses are continually seeking to provide value and potentially increase ongoing revenue, an overwhelming 86 per cent of respondents said they would be willing to pay a fee greater than their current fee if cash flow advice was provided.

## 2) Delivering ongoing wealth advice

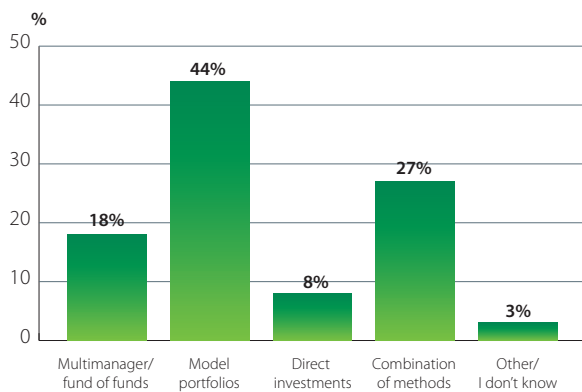
Providing ongoing investment and superannuation advice has traditionally been at the foundation of ongoing client/adviser relationships. It has often been a significant component of an advice business' ongoing revenue and an area where the majority of clients have also felt their ongoing fees directed for services received.

The philosophy and methodology used to provide and execute ongoing investment advice has continued to evolve within the advice community. In some part to deliver more robust and reliable outcomes, in other parts to continually provide a perception of value to the end client. Of clients surveyed, the method of investment implementation (for their core investment/superannuation wealth) varied and is outlined in the graph below.

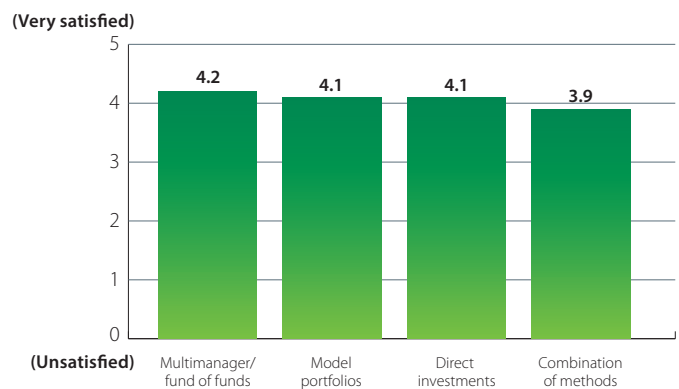
Clients were asked to consider their recent investment experience over the previous 12 – 24 months and rate their overall level of satisfaction. Interestingly, there was a relatively high level of satisfaction regardless of the method of implementation.

The relative strong and positive level of satisfaction amongst clients may be attributable to the quality of advice provided, however it is also possible that satisfaction levels may also be high due to the relatively positive results produced by investment markets during the recent period leading into the research period.

**Figure 12: Method of investment implementation**



**Figure 13: Level of satisfaction**



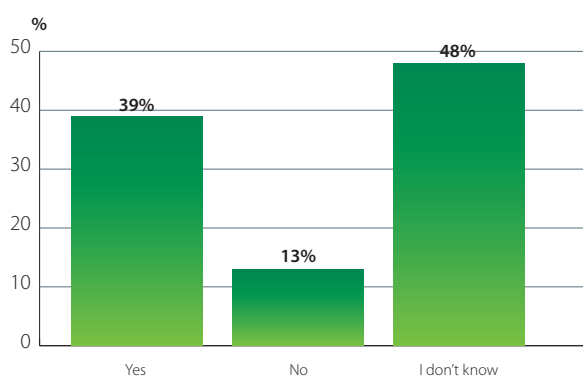
These satisfaction levels would on the surface suggest that this area of ongoing advice is well received by clients. It is of course what clients essentially feel they are paying for with their ongoing fees as detailed earlier.

With the core measure of success for clients being their ability to achieve their goals and objectives, clients were asked if they understood (or knew) the investment return required to meet their financial planning objectives.

Almost two thirds of respondents suggested they either didn't know or weren't sure. On that basis, how are clients and their advisers measuring a successful investment experience? If ongoing investment advice is not centred around specific investment objectives consistent with the client's planning needs, then the measurement of success is likely to be built around traditional performance measures, including performance against investment indices, markets and/or performance versus peers. This will continue to place pressure on advice fees.

Rather than complicating investment approaches and implementation, ensuring clients understand their core investment objective and then linking the investment solution towards the achievement of the desired outcome, will assist in focusing clients (and advisers) on what is most important. The measure of success then rests not only with investment performance, but with the achievement of the client's desired outcome.

**Figure 14: Understanding of investment objective**



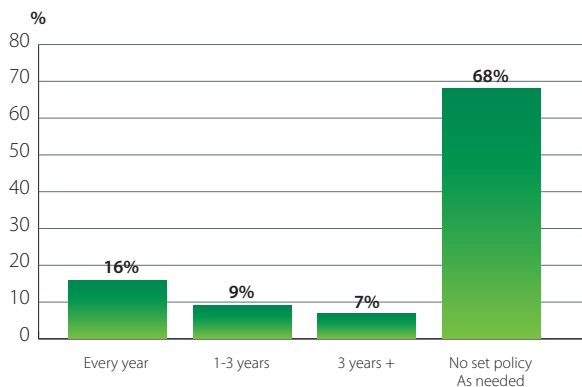
Interestingly, there was a relatively high level of satisfaction with regards to investors investment experience regardless of the method of implementation.

### 3) Delivering ongoing contingency advice

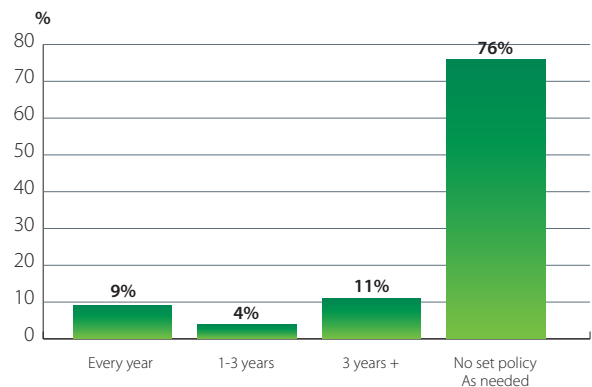
Contingency planning is an essential component in ensuring the long term success of a client's financial plan. Traditionally a client's contingency plan may consist of several areas including personal insurance protection, asset protection and estate planning.

Advisers were asked how often they reviewed the analysis, needs and solutions of their contingency advice with their client. The majority of advisers did not have a formal policy/philosophy or process of continually reviewing the progress and needs of clients relative to insurance and estate planning advice. Unlike ongoing investment advice which formed the basis of many ongoing review meetings and propositions, ongoing contingency advice was largely based on an "as needs" basis. This does not automatically mean that advisers are not actively considering the contingency needs of their clients, rather that formal review processes and procedures are not as robust or as transparent as in other areas.

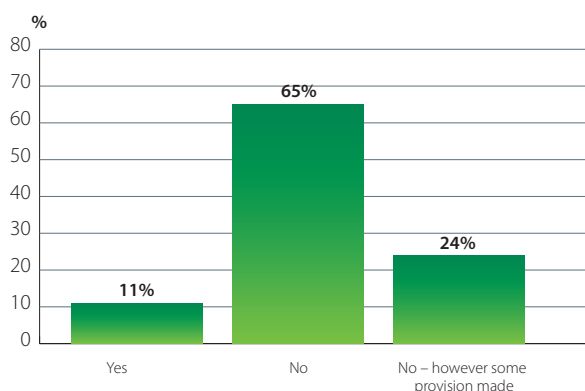
**Figure 15: Ongoing review of personal insurances**



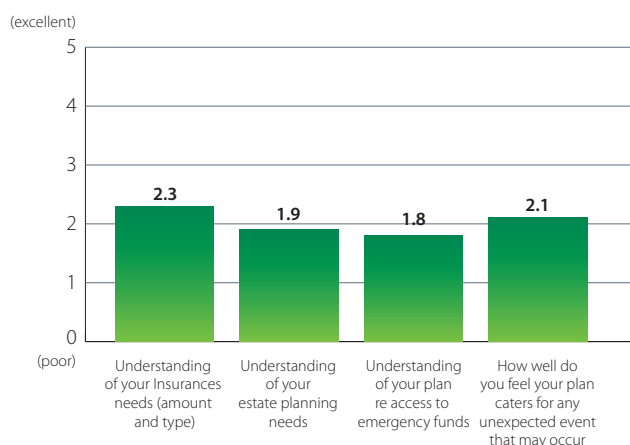
**Figure 16: Ongoing review of estate planning**



When considering ongoing contingency planning advice, not all contingency events are insurable events. Events such as a client losing their job or the requirement to access capital for unplanned costs may all require the client to have access to emergency funds. Advisers were asked whether they had a set method/policy in continually determining the amount of emergency funds a client should have available. Almost nine out of ten advisers said that they either didn't or only partially had a methodology in reviewing and assessing the emergency fund requirements of ongoing financial planning clients.

**Figure 17: Policy/philosophy for emergency funds**

Clients were asked for their perception regarding core aspects of their contingency plan. What was clear is that clients have a relatively low awareness and therefore understanding regarding their overall contingency planning. Perhaps this is due to the “as needed” focus by advisers as described previously. In this environment it is easy for insurances to become seen as expense items as opposed to core solutions which in turn places pressure on client/adviser relationships.

**Figure 18: Client perceptions regarding contingency planning**

# The premium ongoing advice offer blueprint

The desire of those advisers wishing to engage in ongoing relationships with clients and receive consistent ongoing advice fees means that traditional client value propositions need to be reconsidered.

**Business models need to make a clear and decisive decision as to whether they develop into true value models or whether they alter to price models.**

Value models are aligned to the core requirements and needs of their clients. They deliver tangible value over and beyond traditional measures such as product, price and performance. Value models are relationship based and demand a premium price. Price models are built on volume and through efficient methods of engagement and delivery, deliver a low cost advice proposition.

In the current environment we are seeing advice businesses who are facing fee pressures consider lowering fees and service levels and/or placing pressure on product manufacturers to do the same in an effort to portray value back to their end client. This methodology although successful over the short term in retaining existing clients makes poor long term business sense as any reduction in fee becomes the new base fee from which future value is measured. You cannot discount indefinitely. The current trend and traditional method of developing client value propositions often fails as neither being a true value model nor price model.

**For the clients and advisers who participated in the research associated with this paper, the desire was clearly to have rewarding ongoing advice relationships and therefore a value model is what ultimately meets with this requirement.**



# Creating the premium ongoing offer of the future

In accordance with the research and methodology we believe that the premium ongoing advice offer of the future will be a value driven model and therefore be dependent on a coaching relationship linked to a desired end outcome. A premium ongoing advice offer may include:

## 1. Specialisation within specific market segments

The premium advice business of the future will be positioned as specialists, rather than generalists by working within specific market segments or niches. This will ensure all components of the client offer, including communication methods, are able to be built according to the needs and requirements of a specific market group.

## 2. Continual coaching towards the client's desired objective

Advisers will have the tools, training and resources to help clients clarify and define their ultimate measure of success. This will form the basis of advice relationships which will be deep, have clear tangible milestones which advisers will coach clients towards, thereby ensuring a higher probability of mutual success.

## 3. Advisers to be positioned as coaches rather than technicians

Strong adviser/client relationships will continue to underpin successful advice businesses. Advisers will take a greater leadership role in coaching clients and influencing client behaviour to achieve their desired outcomes.

## 4. An ongoing evaluation of client's progress against their objectives

Businesses will have an objective method of assessing whether clients are progressing towards their desired objectives. Systems will be designed to provide both clients and advisers with continual access to information, enabling the evaluation of critical advice areas, including the client's cash flow strategy, wealth strategy and contingency strategy. Ongoing services and the coaching provided by advisers will be built upon this framework.

## 5. Clear planning philosophies and effective methods of execution and implementation

Advice businesses will have clear financial planning philosophies/policies in the areas of cash flow planning, wealth management and contingency planning. Businesses and advisers will balance efficiency and effectiveness by having clear structures and methods of implementation consistent with their philosophies/policies, thereby ensuring a consistent client experience. Advice and product solutions will be measured by their outcomes relative to the client's specific goals and objectives.

## 6. Effective front office. Efficient back office

Client engagement tools, systems and processes will all be designed to facilitate the desired relationship and outcome. All back office functions will be highly systematised. Through clear financial planning philosophies/policies, all procedures and systems will be specifically catered for the needs of the business thereby lowering administration and production time.

## Conclusion

Knowing what's valuable about your advice has never been more important. While most advisers are comfortable with explaining the value from an initial meeting, what has become clear from our research is that it is challenging to articulate the value the clients receive from an ongoing relationship. Our research clearly concludes that the opportunity to more closely align the desired outcome of clients and the ongoing proposition of advice businesses exists today, and in doing so advisers will be able to deliver even more successful financial planning outcomes.



