

AFA White Paper
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Association of
Financial Advisers

Pathways to Excellence

Insights from leading advisory practices

Consumer's demands are changing and mapping their needs at each step of the journey they share with advisers is now a key approach taken by successful practices



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About the Authors



Dr Rebecca Sheils

Rebecca has over 15 years' research and evidence-based consulting experience across a range of industries, most recently in financial services and the professions.

Throughout her career, she has specialised in customer loyalty research and consulting in the services sector.

Rebecca is on the judging panel for the AFA Adviser of the Year Award and Leading Practices Program™ Director

For enquiries contact the Beddoes Institute on (03) 8862 4762 or visit www.beddoesinstitute.com.au



Dr Adam Tucker

As Director of the Beddoes Institute, Adam is active in Market Research, Marketing Strategy and Communication Practice. He enjoys being able to work within the highly energetic and innovative team at Beddoes Institute and his favourite tasks are design, data analysis, and strategy.

Adam is highly sought after for facilitation of advisory boards and strategy workshops. He currently works in financial services as well as in the Pharmaceutical sector with clients such as Merck, Novartis, Janssen-Cilag, Lilly, Pfizer, Novo Nordisk and Nutricia.



Marc Fabris

National Manager, Sales Strategy and Research,
Zurich Financial Services Australia
Contributing author.



Richard Klipin

Chief Executive Office, AFA.
Contributing author.



Introduction

2012 marks the 10th anniversary of the AFA Adviser of the Year Award, and sees the AFA – in conjunction with foundation award partner Zurich – celebrate a decade of excellence, commitment and innovation within the Australian financial advisory community.

Over that time, the judging panel has seen submissions from many of the leading advisers and advisory practices within our industry, representing literally thousands of clients and client experiences.

The award has always been about shining a light on those advisers who are driving the professionalism and quality of the profession. After doing so for a decade, the time seemed right to share more broadly the 'DNA' of the best advisory practices across Australia.

Utilising data from 18 leading practices and 960 in-depth client interviews, this white paper sets out to answer a fundamental question:

What do consumers value the most in their adviser relationship, and how are the best practices meeting their clients' needs?

If we are able to identify the DNA of the best practices, we can then share these learnings to build a stronger, more robust profession.

As regulatory change makes advisers more accountable for the value of their advice and the service they provide, the best advisers are finding new ways to partner with their clients in more sustainable relationships. Consumer demands continue to change, and mapping their needs at each step of the journey they share with their advisers is undoubtedly the key to success of our leading advisory practices.

The current study mapped the customer journey for clients working with leading advisory practices to understand what these practices do that sets them apart. The primary objective of this study is to use this information to:

- Raise the bar across the profession; and
- Develop an evidence based pathway for advisers to follow in order to become a leading financial advice practice.

The Client Advice Journey

The decision to seek financial advice is frequently triggered by a 'life-changing' event. The most frequent triggers include getting married, having a family, buying a house, changing jobs, retirement, redundancy, divorce, setting up a business, death of a loved one, and aged care needs.

It is with this mindset, with their lives in a state of flux, that consumers approach an advice relationship.

As a result advisory businesses need to be sensitive to both the financial issues facing clients as well as the emotional/psychological context of their clients. This is why trust plays such a central role in the client-adviser relationship.

The Client Journey

1. Key Findings - Pre Engagement	This is where the client is actively seeking out advice
2. Key Findings - Engagement	This is where the client has made the choice to engage
3. Key Findings - Ongoing Service	This continues for the duration of the relationship



The 'Blueprint' to Success

The Client Perspective

Consumers have a long wish-list in terms of what they want from a financial adviser:

- Referral from a trusted source is most important
- Good interpersonal skills and rapport
- Listening and being understood
- Tailored and unbiased financial advice
- To know that their adviser genuinely cares about them as people
- Strong ethics
- Transparent fees
- Excellent service
- Good qualifications and experience

There are 4 key criteria by which clients assess a practice. It is critical that advisers build capability around these 4 criteria.

Table 1 - What are clients looking for?

1. Adviser Qualities	The skills, confidence, capability and engagement of the adviser. Creating a trusted environment.
2. Practice Service Proposition	Ability of the practice to deliver the client experience.
3. The Advice Process	Ability to understand client needs, goals and dreams and then create a plan to achieve this.
4 The Practice Charging Model	Need for transparency and visibility of fees and charges. Need to deliver value for money.

The Advice challenge. Consumers are quite clear.

Consumers are very clear in their needs. The evidence supplied by consumers in an advice relationship are providing clear guidance to the profession.

Step up and meet these needs and your practice will prosper, fail to deliver and consumers will move on.

Table 2 on the following page captures the DNA required for advisory practices to thrive and succeed.

The business drivers are clear, know your market segment, understand their needs and ensure that your practice has the depth & capability to engage, and deliver to their needs.





Table 2 - How do leading advisers deliver through the journey?

Pre Engagement Plus Engagement	
Adviser Attributes	Leading Practices Average Rating
Technical expertise	9.0
Caring about clients	9.0
Instilling trust	8.9
Telling the 'hard truth' when appropriate	8.8
Being accessible	8.8
Providing unbiased and independent advice and recommendations	8.7
Clearly articulating value	8.7
Helping clients to formulate goals	8.6
Proactive communication	8.5
Appearance of being financially successful	8.4

Engagement	
Advice Process Attributes	Leading Practices Average Rating
Listening skills	9.1
Explaining things in a way clients understand	9.1
Getting to know what is important to clients and understanding their needs	9.0
Quality of the financial Plan (tailored to clients' values / goals, understandable, achievable and inspiring)	8.9
Communicating what to expect	8.8
Transparency and thoroughness in explaining fees	8.8
Applying the right amount of pressure to proceed with the advice	8.2

Ongoing Service	
Service Attributes	Leading Practices Average Rating
Friendliness and helpfulness of support staff	9.1
Responding promptly to queries and requests	8.8
Demonstrating strong customer focus	8.7
Delivering reliable service every time	8.6
Offering a range of services that meet all clients' needs	8.6
Making it easy for clients to work with you	8.4
Providing access to other advisers / specialists when needed	7.9
Managing complaints	7.7
Asking for feedback	7.0



Table 2 - How do leading advisers deliver through the journey?

Practice Charging Model Attributes	
Fee Arrangements Attributes	Leading Practices Average Rating
Transparent communication about the structuring of fees	8.3
Treating client's money as if it's your own	8.0
Charging appropriately for your expertise and service	8.0
Demonstrating the value you add to clients	7.8
Pricing your services competitively	7.8
Providing flexible service package options	7.8

'Leading' Practice and Client Profiles

'Leading' Practice Profile

There was a good representation of practices in the 18 'leading' financial advice practices from which the results and conclusions in the current study have been drawn:

- 50% were moderately sized financial planning practices with an annual turnover of between \$1mil and \$2mil;
- Practices were located across all states in Australia, with 78% based in a capital city, 11% in a major regional location and a further 11% in a rural area;
- 17% of practices were younger businesses that had been in operation for between 2 and 5 years, a further 50% had been in operation for between 5 and 10 years and 34% had been in operation for more than 10 years; and
- 22% were Life Risk specialists, 33% were Financial Planning Specialists 44% were mixed businesses.

Client Profile (Survey)

The profile of the 960 clients that completed the Client Experience Survey and on which some of the results in the current study are based is also equally diverse:

- 58% were male and 40% were female (the remaining were not willing to disclose their gender);
- Most (55%) were aged between 45 and 64 years, with a further 22% being younger clients aged between 26 and 44 years and 20% older clients aged 65+ years;

- 24% were new clients that had gone through the advice process in the last 12 months; and
- 27% had been with their current financial adviser for between 0 and 2 years, a further 33% had been with their current adviser for 2-5 years and the remaining had been with their adviser for more the 5 years.

Client Profile (Interviews)

Likewise, the profile of the 20 clients that were involved in the one-hour in-depth client interviews was also diverse:

- There was a good distribution of ages (5 clients were aged between 26-44 years, 9 clients were aged between 45-64 years and 6 clients were aged 65+ years);
- Two thirds were male vs. one third female;
- Clients lived in Victoria, Queensland and Western Australia;
- There was a good mix of new and longer term clients (4 clients had been using a financial adviser for between 0-2 years, 5 clients had been using a financial adviser for 2-5 years, 5 clients had been using a financial adviser for 5-10 years and 6 clients for 10+ years); and
- There was an approximately equal mix of retirees, full-time employees and business owners.



The Big Issues

Industry Perceptions

- **Limited Awareness of What Financial Advisers Do.**

The client interviews revealed that many people do not know what a financial adviser does or have a very limited understanding of their services and the value they offer prior to engagement with their financial adviser. Further, opinions on who would benefit from financial advice are stereotypical and limited.

- **Negative Portrayals of Financial Advisers in the Media.**

Public perceptions of financial advisers are clouded by uncertainty and scepticism that has been driven by negative portrayals of financial advisers in the media and the relative absence of 'good news stories'. This has been exacerbated in recent times due to the global financial crisis and the resulting casualties that have attracted the attention of the media as well as legislative reforms which have raised public awareness about remuneration structures and conflicted advice.

- **Concerns Regarding Fee Transparency and Conflicted Remuneration.**

Partly related to media attention and partly due to the historical remuneration structures in the industry, many consumers are concerned about lack of fee transparency which leads to people questioning the impartiality of advice.

- **Education and Training Requirements.**

Perceptions regarding 'basic' education and training requirements in the profession have led people to question the value of financial advice and the ethics, standards and professionalism of those that practice.

- **Implications for Financial Advisers and the Profession.**

Collectively, these perceptions are prevalent in the community and represent a barrier to uptake of financial advice and ongoing cautiousness among those who do engage a financial adviser. As a result, financial advisers often have to work harder than other professions in attracting and winning new clients as well as proving their worth to clients at every step of the journey.

The 'good news' is that when a consumer makes a decision to engage a financial adviser, what follows almost always has a positive impact on that individual's regard for financial advisers and outcomes for the individual.

Conclusions

The current study mapped the customer journey for clients working with leading financial advice practices and has provided a clear, evidence-based pathway to becoming a leading financial advice practice. The 'blueprint' for success requires an unwavering commitment to:

1. Enhancing the qualities and attributes of advisers;
2. Enhancing the client experience during the advice process with new clients; and
3. Optimising the service proposition;
4. Providing transparency and visibility around fees.

The study has also confirmed the 'big issues' in relation to the industry image that many are already aware of and that are so prevalent in the community. These issues represent a barrier to uptake of financial advice and contribute to ongoing cautiousness among those who do engage a financial adviser. As a result, financial advisers often have to work harder than other professions in attracting and winning new clients as well as proving their worth to existing clients at every step of the journey. Despite this, practices that follow the above 'blueprint' of success have enormous success with their clients which translates into positive business outcomes for their practice.

Key Findings: Pre-engagement

Industry Perceptions

Summary

During the qualitative client interviews, clients were asked the following questions:

- Thinking back to before you engaged a financial adviser, what was your overall impression of financial advisers?
- What was your understanding of what a financial adviser did?

A cross-section of verbatim comments from clients in response to the above questions is contained in Figure 1 below. These client insights indicate that the financial advice profession suffers an image problem which poses significant challenges for financial advisers in terms of engaging the broader Australian public and promoting the value of financial advice. This is partly due a limited understanding of what a financial adviser does, the global financial crisis and the resulting casualties that have attracted the attention of the media, perceptions of fee structures and conflicted advice and current / historical education standards. Each of these is discussed in more detail below.

The negative perceptions of the financial advice industry are wide-spread and entrenched in consumer attitudes and behaviour. They create a significant barrier to uptake of financial advice services among the broader community and leave financial advisers fighting an uphill battle in terms of attracting and winning new clients, making them work harder than other professions to prove themselves to new clients.

The 'good news' is that when a consumer makes a decision to engage a financial adviser, what follows almost always has a positive impact on that individual's regard for financial advisers and outcomes for the individual.

Awareness of What Financial Advisers Do

Many clients that participated in the qualitative interviews in this study reported not knowing what a financial adviser did or having a very limited understanding of their services and the value they offered prior to engagement with their financial adviser (Figure 1). Further, opinions on who would benefit from financial advice are stereotypical and limited. For example, many younger people believed that financial advisers only worked for wealthy individuals or older people, particularly those approaching retirement. These misconceptions are prevalent in the community and represent a barrier to entry for the profession. They help explain why such a large proportion of Australians do not receive financial advice and highlight the need for community education on the value of advice to drive uptake.

The Media

Sadly, public perceptions of financial advisers are clouded by uncertainty and scepticism that has been driven by negative portrayals of financial advisers in the media and the relative absence of 'good news stories' (Figure 1). This has been exacerbated in recent times due to the global financial crisis and the resulting casualties that have attracted the attention of the media as well as the significant legislative reforms that are underfoot which have raised public concerns about remuneration structures and conflicted advice. Again, this creates a barrier to entry for many and drives significant and ongoing cautiousness among those who do engage a financial adviser.

Fee Transparency and Conflicted Remuneration

Partly related to media attention and partly due to the historical remuneration structures in the industry, many clients that were interviewed expressed specific concerns regarding lack of fee transparency which led people to question the impartiality of advice (Figure 1). The Future of financial Advice (FoFA) reforms have provided some reassurance to consumers that are aware of these. Further, financial advisers that participated in the current study are generally focussed on providing a high degree of transparency and many are moving more towards fee for service models. These efforts are being recognised and strongly appreciated by their clients.

Education and Training Requirements

Perceptions regarding the education and training requirements to become a financial adviser have also fed into negative perceptions of the industry and led people to question the value of financial advice (Figure 1). Specifically, some clients interviewed expressed concerns about qualifications and training requirements and how this links to ethics, standards and professionalism. These concerns were magnified when clients compared the education requirements of financial advisers with those of the more traditional professions such as the accounting and legal profession. Encouragingly, this is an area of strong focus for the AFA and the profession as a whole but it is important to recognise that public opinion will take longer to change than it will take to improve the formal education of those who practice.

Key Findings: Pre-engagement

Client Question - Thinking back to before you engaged a financial adviser, what was your overall impression of financial advisers? What was your understanding of what a financial adviser did?

Verbatim Client Comments

Figure 1

"I had no idea of all the things they were capable of doing."	Uncertainty regarding what a Financial Adviser does	"A bit of a mystery. I suppose my broad bannered perspective was sort of personal and life insurance plus a step by step year by year plan whereby one day you can say I'm done and slow down."
"Had no idea how he would help just knew he would. That was the purpose of the first meeting to work out how. I just knew that we needed advice for the future."		
"I thought they were for rich people. We were young and spending all our money week to week."	Uncertainty regarding who needs a Financial Adviser	"Helped set you up to make the most of your income. Mostly for people over 40 years."
"You always hear in the media bad things about advisers. I don't think the media helps who they are. It's the bad apples but there are bad apples in every industry."	Perceptions shaped by the media	"A bit 'iffy' to start with, should we shouldn't we? It was a one off advice he gave us and charged us a few hundred dollars and the advice was sound. You read these things in the paper about different financial things that have had problems and you are not sure. I am glad we did."
"I wanted to take a cautious approach because of the bad reports in the media."		
"I am still not clear in my mind what they are reaping off the top. I don't think that's still clear enough. It should be more open than it is."	Perceptions about conflicted advice shaped by fee structures	"I worried about whether they all had vested interests. What they might put you into. It might be all about their income rather than growth of your assets."
		"I had some concern that they are just about feathering their own nests, pushing clients into investments that were only going to benefit them."
"A lot of them are underqualified and it would be hard for me to see value in the service....All of a sudden these guys are experts in the financial planning industry after just 6 months of training."	Perceptions shaped by education standards	"They have to have the same ethics [as accountants and lawyers]. They have to look after clients' interests. But does their training give them this?"

Industry Perceptions Post-Engagement

During the qualitative client interviews, clients were also asked the following question:

- Now that you have engaged a financial adviser, has your perception of financial advisers and the industry changed?

A cross-section of verbatim comments from clients in response to this question is shown in Figure 2.

Notably, it appears that negative industry perceptions are slowly transformed once a consumer engages a 'leading' financial adviser, although many still remain guarded until such time that a deep level of trust between the client and adviser has developed.

Key Findings: Pre-engagement

Client Question - Now that you have engaged a financial adviser, has your perception of financial advisers and the industry changed?

Verbatim Client Comments

Figure 2

"They are your most important running mate."	"I think the most important thing we have learnt is that you need to be careful of who you go with, if you don't understand then don't use them."
"I'm reasonably comfortable with my financial adviser now. But I still have concerns about the industry."	"Our financial adviser is very upfront about the fee, which is great. Our image of financial advisers has gone up a little because we are a lot more aware of these things."
"Tend to be sceptical of financial advisers as a species. But I specifically find them useful to explain the statutory framework within which I am operating. I use them as source of information."	"It's a safety net for our business to keep going forward. It's a must have. It's not an 'if' or 'but'."
"I was a bit wary for the first 6 months but I could see that their plan was working. They put everything on the table and said everything I needed to do."	

The Adviser Selection Process and the Role of Trusted Referrals

Summary

A deep exploration of the adviser selection process was undertaken during the qualitative client interviews. Specifically, clients were probed on the following questions:

- Why did you first start looking for a financial adviser?
- What was the process you followed to find the 'right' financial adviser? What research (if any) did you undertake? Where did you look?
- What were all the things that you were looking for when choosing your financial adviser?

A cross-section of verbatim comments from clients in response to these questions is shown in Figure 3, Figure 4 and Figure 5.

As expected, these client insights show that significant life events usually provide the trigger for seeking financial advice. However, the findings suggest that the somewhat negative image of the profession and the gravitas of the decision to trust someone with one's financial affairs mean that many people approach the decision to engage

a financial adviser cautiously, often adopting a structured research and assessment approach in their search for the "right" adviser. Notably, while it appears that consumers have a long and varied wish-list in terms of what they are looking for in a financial adviser, referral from a trusted source is the single most important factor in adviser selection.

The Precursor to Engaging a Financial Adviser

Client insights from the qualitative interviews indicate that a significant life event is typically the trigger for a consumer to begin exploring the option of seeking financial advice (Figure 3). This includes things such as impending retirement, increased income, a change in business circumstances and health scares. The results also show that taking this first step is significant for consumers as it requires an individual to let go of control and place enormous trust in an 'unknown' individual to look after their money and future livelihood.

Key Findings: Pre-engagement

Client Question - Why did you first start looking for a financial adviser?

Verbatim Client Comments

Figure 3

"The magic 55. Needed to do something to take advantage of super laws approaching retirement"	"Our accountant could see we were increasing our income and we just weren't getting anywhere with it. We had nothing to show for it. She said we need to start making our money work for us"
"One business had just got to 9 years and was strong... and we needed some security"	"My health issue was a wake-up call to start looking after myself"
"I was approaching retirement age and it was a matter of being prudent and making sure things were set up well"	"Plan for the future. Make our money work for us. Everyone else was getting ahead and we weren't"

The Search for the Right Adviser

The somewhat negative image of the profession and the gravitas of the decision to trust someone with your financial affairs mean that many people approach the decision to engage a financial adviser cautiously (Figure 4). With this as the backdrop, it is no surprise that once a decision has been made to seek out financial advice it appears that many consumers follow a semi-structured research and assessment process in their search for

the right adviser. Among those interviewed this typically involved attending seminars, meeting with different advisers, speaking to family and friends and undertaking desk-top research. Notably, some clients interviewed reported by-passing the 'research' process altogether if their financial adviser came highly recommended by someone they trusted.

Client Question - What was the process you followed to find the 'right' financial adviser? What research (if any) did you undertake? Where did you look?

Verbatim Client Comments

Figure 4

"You shouldn't go out and just get one. Should go to a few seminars and have meetings with a few and make comparisons."	"I was aware that you needed to do some research if you were looking to appoint a financial adviser. I had heard a lot about people losing money through them. There was no regulatory body. This made me approach the process with quite a bit of caution."
"Went to a couple of golf days and a board room event where they spoke about the broader markets in simple English. This was enough."	"I looked for reviews and complaints on the internet."
"I asked a lot of questions from family and friends."	"I went to a few seminars to educate myself about what to look for."
"Read all their stuff. Was reading generic information on financial advisers – government legislation plus what is in the fin review popular press. They seemed to fit the criteria I was looking for. I didn't shop around for cheapness, I shopped around for service."	"I went to a lot of seminars to ask questions...4-5 on financial advice."

Key Findings: Pre-engagement

The Complete Selection Criteria

When consumers were asked about all the things they looked for when choosing their financial adviser during the in-depth client interviews, it became apparent that the consumer wish-list is long and varied (Figure 5). Coming with a strong recommendation from a trusted source is very important as are the adviser skills in being able to

relate and build rapport, listening and understanding the clients' needs, offering tailored advice, genuinely caring about clients, strong ethics, an unbiased approach, fee transparency, quality of service, qualifications and industry experience, and, to a lesser extent, convenient location.

Client Question - What were all the things that you were looking for when choosing your financial adviser?

Verbatim Client Comments

Figure 5

"Somebody that we could keep in close contact with, someone we felt comfortable with and had good knowledge...having a strong recommendation"	Strong recommendation	"Personal financial success, longevity in the industry, a personal relationship with the adviser. He has to know his product, understand my business and offered tailored advice, someone that I know and I would talk to them, I would interview them and make a decision, a referral from a friend / someone that you trust, similar clients"
	Able to relate and build rapport	"Both of us had to relate to them. Very first step is being able to relate to them even before you know whether they are any good. Then you start to move into their skills"
"Important that they take notice of what the client puts forward and how the client feels about different ways of achieving that goal. Is there a willingness to listen and take account of what they say"	Listening & understanding clients' needs	"Two things only – understand everything that he was saying and felt comfortable with his personality"
"Someone who would listen to me and our needs and align advice to this. And, to spend enough time doing this. Getting the strategy right up-front"		"Ability to understand our needs. What we were trying to achieve. What lifestyle we wanted. What our values were"
"Uncomplicated language so that I could understand"		
"Specific advice for my needs – not general advice given to everyone"	Tailored & unbiased advice	
"It has to come from the heart. Treating you like family"	Genuinely caring about clients	
"Someone focused on growth of your assets rather than their own income"	Strong ethics & an unbiased approach	"Someone that is genuinely interested in my long term financial future"
"I was obviously looking for someone who was ethical. Who would work with me to make sure that what they were suggesting was going to benefit me"		"Someone that's not pushing or selling all the time"
	Fee model & quality of service	"There are really two – the fee and service model. Both are equally important. If I got a good fee model but couldn't relate to the service or the people I wouldn't have gone with them"
"Degree qualified is very important"	Qualifications and industry experience	
"Convenient location"	Convenient location	

Key Findings: Pre-engagement

The Most Important Factor Driving Adviser Selection

As part of the quantitative Client Experience Survey, 374 consumers who had been with their adviser for less than three years were asked the following question:

- What was the one thing that most influenced your decision to engage your financial adviser?

Referral from a trusted source emerged as the most important factor in adviser selection, mentioned by 36% of clients and highlighting the importance of referral in

new client acquisition (Figure 6). This was nearly three times as important as tailored financial advice, the next most important factor mentioned by 13% of clients. A multitude of other factors were also mentioned as being most important by one in five clients.

Client Question - What was the one thing that most influenced your decision to engage your financial adviser?

Verbatim Client Comments

Figure 6

Referral from a trusted source (36%)	"Friendliness of the support staff and broader team"	Other (21%)	"Access to other relevant professionals / specialists that were part of the same business e.g. accountants, lawyers, mortgage brokers etc."
Tailored financial advice (13%)	"Good interpersonal skills"		"Experience working with clients similar to you"
Communication skills (9%)	"Transparent fee model"		"Technical expertise"
Understanding your needs (8%)			
Service offering (5%)			
Reputable business (4%)			
Product knowledge (4%)			



Key Findings: Pre-engagement

The importance of referral from a trusted source in adviser selection that was identified in the quantitative Client Experience Survey is backed up by anecdotal client feedback that emerged during the qualitative interviews (Figure 7).

Client Question - What was the one thing that was most important in choosing your financial adviser? Why?

Verbatim Client Comments

Figure 7

"Referred to the business by the guy I worked with for 20 years and trusted"	"I mentioned his name to our lawyer, the accountant, our bookkeeper and no one had heard of him. This was a bit scary. You crave for someone to say I have heard of him and he is brilliant"
"My adviser got recommended. I did not do a great deal of background research. The recommendation came from a solid person who had been using my adviser for a long time"	"Getting a recommendation is very important. If I had got this I would have felt a lot more confident. They are worth their weight in gold"
"By default you have a respect and some sort of safe harbour feeling with the referral"	"Friends in the profession recommended them. Just went on their advice"
"The referral source is 98% important. It is everything in selecting an adviser"	"Spoke to a few people I worked with"



Key Findings: Engagement

Driving Client Referrals

Summary

Given the role of trusted referral in new client acquisition, understanding what drives client referrals will empower advisers to focus their business improvement efforts in areas that will directly impact the bottom line.

Using the data from the Client Experience Survey, advanced statistical modelling was conducted to understand what drives client referrals among both new and established clients. This modelling identified two areas as being most critical in driving referral across all client groups; 1) qualities of the adviser; and 2) service.

Furthermore, performance during the advice process was equally important for new clients and fee arrangements become more important for established clients.

The current study mapped the performance of participating financial advice practices on these four key drivers of referral. The results confirmed that leading practices perform strongly in these areas in spite of high client needs and expectations. Further, the study showed that this strong performance translated into an extremely high propensity to recommend, significantly higher than other industries, as well as positive business outcomes including a high proportion of new business revenue stemming from existing client referrals, and relatively high nett new client gains.

In essence, the qualities of the individual adviser, the advice process, the client service offer and the fee arrangements are the four most critical building blocks of becoming a leading practice. Performing well in these areas is part of the 'DNA' or 'blueprint' of leading financial advice practices.

How do you Get More Referrals?

The importance of trusted referral in new client acquisition raises the question of what drives referral and how this differs between new and established clients. Driving referrals is very much about the client experience during the engagement and advice process and at all stages of the adviser-client relationship and is strongly related to trust. Specifically, many of the factors that build trusted client-adviser relationships are also reasons why clients refer.

To provide advisers with guidance on how best to drive client referrals, statistical modelling was conducted on the 2012 Client Experience Survey data to understand the key drivers of referral among; 1) new clients that had gone through the initial engagement and advice process in the last 12 months; and 2) established clients (more than 1 year with their adviser) that had received some form of advice in the last 12 months.

From nine customer touch-points that were used in the modelling, two emerged as being universally critical across both new and established client groups, approximately twice as important as all other drivers:

1. Qualities of the adviser; and
2. Service aspects.

Furthermore, performance during the initial engagement and advice process was equally as important in driving referral as adviser qualities and service among new clients and fee arrangements become more important with established clients.



Key Findings: Engagement

How do Leading Practices Perform in areas that Drive Referrals?

1. Adviser Qualities

A deep exploration of what clients look for in their financial adviser was undertaken during the qualitative client interviews. Specifically, clients were asked the following question:

Client Question - What do you look for in your adviser?

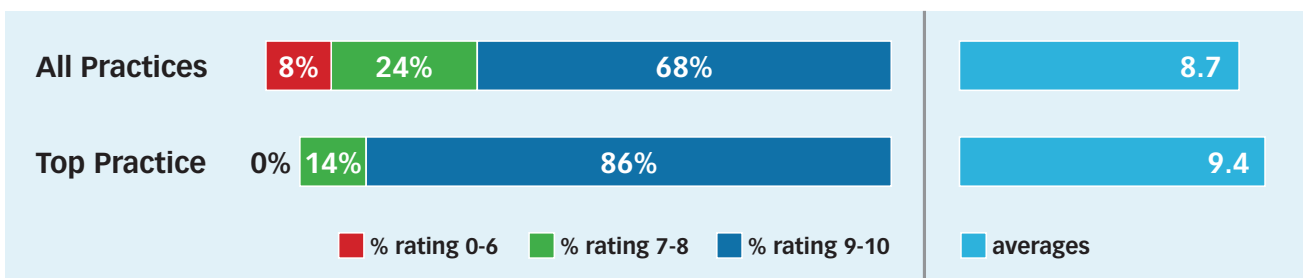
Verbatim Client Comments

Figure 8

"Trust, confidence, knowledgeable"	"Connecting on a personal level"
"Affability, availability and ability"	"Ability to be able to communicate, to be forthright in decision-making processes and be able to speak at the level to the person they were speaking to, appropriate language and keeping things relatively simple and without jargon"

In the Client Experience Survey, clients were asked to rate their overall satisfaction with their adviser taking all their experiences into account over the last 12 months. Ratings were given on a scale of 0-10 where 0 is 'not at all satisfied' and 10 is 'extremely satisfied'. The results are presented in Figure 9.

Figure 9: Taking all your experiences into account over the last 12 months, how satisfied are you overall with your adviser?



Average adviser satisfaction was 8.7 out of 10 for all participating practices with 68% of clients rating their adviser a 9 or 10 out of 10. The highest rated practice achieved an average adviser satisfaction rating of 9.4 with 86% of its clients rating a 9 or 10 out of 10. These results confirm that clients of leading practices are highly satisfied with their advisers and show that these practices deliver on the client expectations that were identified in the qualitative interviews.

In addition to overall adviser satisfaction, the Client Experience Survey also asked clients to rate their adviser on 10 detailed attributes such as technical expertise, providing unbiased advice, proactive communication and being accessible. Consistent with overall satisfaction results, clients of leading practices rated their advisers highly in all areas, with scores ranging from 8.4 to 9.0 (Figure 10).

Key Findings: Engagement

Figure 10: Consumer rating of advisers' performance

Adviser Attributes	Average Rating
Technical expertise	9.0
Caring about clients	9.0
Instilling trust	8.9
Telling the 'hard truth' when appropriate	8.8
Being accessible	8.8
Providing unbiased and independent advice and recommendations	8.7
Clearly articulating value	8.7
Helping clients to formulate goals	8.6
Proactive communication	8.5
Appearance of being financially successful	8.4

Clients were asked an open-ended question in the Client Experience Survey about what their adviser was really good at (Figure 11). Themes that emerged were aligned to clients' requirements in choosing a financial adviser (Figure 5) and support the high satisfaction ratings.

Client Question - What are they really good at?

Verbatim Client Comments

Figure 11

"Listening & acting on your requests Giving sound, clear advice"	"She explains information in a manner that the client can understand"
"Communication & interpersonal skills explaining technical information in an easier to understand manner explaining ALL options available to you ability to be adaptable to your changing needs"	"Being easily accessible for advice and replies promptly to requests for information or follow- up. She has a genuine interest in her clients and a lovely nature"
"Staying in touch, follow up and knowing when to push and when to back off"	"Listening to our needs and providing advice to satisfy these needs"
"She is a warm and caring person and one who instils confidence in her ability to manage our financial affairs with understanding and empathy. Her knowledge and ""no fuss"" approach combined with the ability to explain financial and insurance advice in an easy to understand way is appreciated"	"Good communication skills, understanding of my personal circumstances"

Key Findings: Engagement

Clients were also asked about the way/s in which their adviser could improve in the Client Experience Survey (Figure 12). As to be expected, there is always room for improvement with many clients expressing a desire for more proactive and personal management. This is a challenge for any small business and financial advisers are actively adopting innovative solutions and technology to assist them in addressing these needs.

Client Question - In what way/s could they improve?

Verbatim Client Comments

Figure 12

"While he knows that different personalities see things differently, he doesn't really understand or respect the value inherent in a complementary thought process. He's so focused on the 'rational' side, he sometimes comes across as patronising"	"I would appreciate a more personal face to face approach on some occasions throughout the year"
"Make contact with us instead of waiting for us to contact him"	"Sometimes I need to be taken on the journey to believe in actually making the decision myself and not feel like I just trusted his decision"
"We just feel that the team needs to improve on keeping the customer informed when decisions are made, steps are to be taken, what steps are to happen, when there are delays etc"	"Be more proactive in the approach and offer advice on suitable changes to my investments"

2. Service

Together with the qualities of the adviser, service is the other key driver of referral across all client groups. Client expectations of service delivery were evaluated in the qualitative interviews while service performance was quantitatively assessed in the online Client Experience Survey.

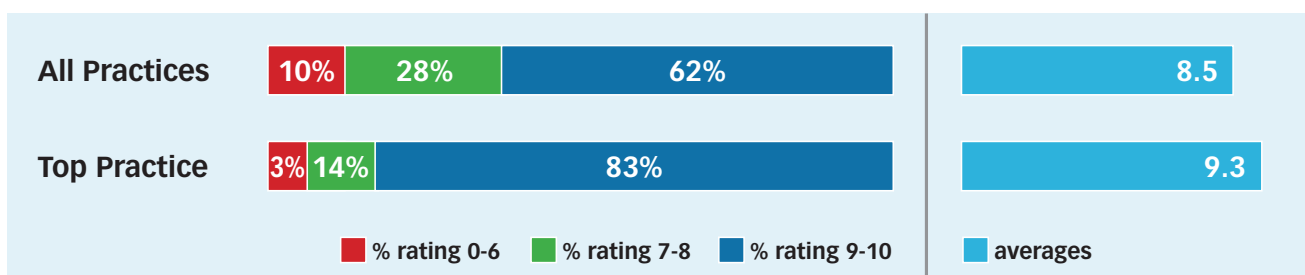
Clients were probed on their expectations of service during the qualitative interviews. From these discussions, it was clear that clients have very high expectations of service. In the words of two clients:

"Reliable and responsive, there whenever you need him."

"I want proactive communication about what is happening with my portfolio at regular intervals. They need to understand what we want to know at all times."

In the Client Experience Survey, clients were asked to rate their overall satisfaction with the level of service they had received over the last 12 months. Ratings were given on a scale of 0-10 where 0 is 'not at all satisfied' and 10 is 'extremely satisfied'. The results are presented in Figure 13.

Figure 13: Taking all your experiences into account over the last 12 months, how satisfied are you overall with the service you received in the last 12 months?



Key Findings: Engagement

Average satisfaction with service was 8.5 out of 10 for all participating practices, with 62% of clients rating their adviser a 9 or 10 out of 10. The highest rated practice achieved an average adviser satisfaction rating of 9.3 with 83% of its clients rating a 9 or 10 out of 10. These results show that clients of leading practices are highly satisfied with the service they receive from these practices.

In addition to overall satisfaction with service, the Client Experience Survey also asked clients to rate their practice

on nine detailed service attributes. Client ratings of service across these attributes were more wide-spread, ranging from 7.0 to 9.1 (Figure 14). Lower rated areas include asking for feedback, managing complaints in the best possible way and providing access to other specialists when needed.

Figure 14: How would you rate the performance of the practice over the last 12 months in the following service areas?

Service Attributes	Average Rating
Friendliness and helpfulness of support staff	9.1
Responding promptly to queries and requests	8.8
Demonstrating strong customer focus	8.7
Delivering reliable service every time	8.6
Offering a range of services that meet all clients' needs	8.6
Making it easy for clients to work with you	8.4
Providing access to other advisers / specialists when needed	7.9
Managing complaints	7.7
Asking for feedback	7.0



Key Findings: Engagement

3. Client Experience during the Advice Process (new clients)

Performance during the initial engagement and advice process was also a primary driver of referral among new clients, equally as important as the qualities of the adviser and service aspects among this client group.

When clients were probed about what was important to them during the initial engagement and advice process

in the in-depth interviews, common themes emerged including the importance of listening, clear communication, and thoroughness in the conduct and preparation of the advice (Figure 15).

Client Question - What was important to you during the initial engagement and advice process?

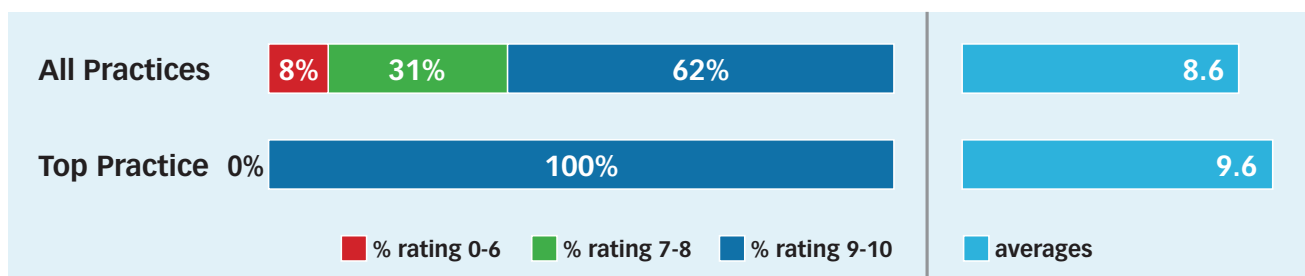
Verbatim Client Comments

Figure 15

"Listened to what my needs were rather than tell you what you want. This was the first thing that sold me about her"	"Talk back to me, paraphrase, so that I understand what we are talking about and be transparent about fees and value"
"For them to be able to enable me to understand it. Talk back to me so that I understand what we are talking. Then it got down to the point about how much it was going to cost. You want to get perceived value for money"	"Someone that would understand exactly what I wanted to achieve and who would give me the time to communicate that and come up with a plan for how I could achieve those goals"
"Thoroughness in collecting and documenting information. Face-to-face meetings. Accessibility"	

In the Client Experience Survey, clients were asked to rate their overall satisfaction with the initial engagement and advice process taking all their experiences into account over the last 12 months. Ratings were given on a scale of 0-10 where 0 is 'not at all satisfied' and 10 is 'extremely satisfied'. The results are presented in Figure 16.

Figure 16: Taking all your experiences into account over the last 12 months, how satisfied are you overall with the initial engagement and advice process?



Key Findings: Ongoing Service

Average satisfaction with the initial engagement and advice process was high at 8.6 out of 10 for all participating practices, with 62% of clients rating a 9 or 10 out of 10. The highest rated practice achieved an average rating of 9.6 with 100% of its clients rating a 9 or 10 out of 10. These results show that new clients of leading practices are highly satisfied with the engagement and advice process at these practices.

In addition to overall satisfaction with the initial engagement and advice process, the Client Experience Survey also asked clients to rate their adviser and practice on seven advice process attributes. Ratings were consistently high across all attributes, ranging from 8.2 to 9.1 (Figure 17).

Figure 17: How would you rate the performance of your practice over the last 12 months in the following areas of the initial engagement and advice process?

Advice Process Attributes	Average Rating
Listening skills	9.1
Explaining things in a way clients understand	9.1
Getting to know what is important to clients and understanding their needs	9.0
Quality of the financial Plan (tailored to clients' values / goals, understandable, achievable and inspiring)	8.9
Communicating what to expect	8.8
Transparency and thoroughness in explaining fees	8.8
Applying the right amount of pressure to proceed with the advice	8.2

4. Fees Arrangements (established clients)

Clients' perceptions of the current fee structures and arrangements were explored during the qualitative interviews. Specifically, clients were asked the following questions:

- Tell me how your fees are structured. Are you happy with this? Would you like anything changed in relation to the fees?

A cross-section of verbatim comments from clients in response to these questions has been grouped into themes and is shown in Figure 18.

While most clients interviewed understood the fee arrangements, many questioned what a reasonable fee is and it was clear that many expected fees to be "low". This is captured in the words of one client; "I think everyone thinks it costs too much". This suggests that the price consumers are willing to pay for financial advice is low,

lower than other professions, most likely due to negative perceptions of the industry discussed earlier in this paper.

Fee transparency also emerged as being extremely important to clients. Clients need to know what they are paying for and how much. This needs to be explained face-to-face and there is an expectation that the adviser "checks in" on the client's understanding on an ongoing basis.

Clients need to have visibility over what they are paying for. There is a direct link between clients awareness of the time and effort put in by the adviser and the work that is done and their willingness to pay and level of comfort with fees.

There was a general understanding that "you get what you pay for". Clients were happier with fees if they felt they were getting value for money and making good returns.

Key Findings: Ongoing Service

**Client Question - Tell me how the fees are structured. Are you happy with this?
Would you like anything changed in relation to the fees?**

Verbatim Client Comments

Figure 18

"One area I still have question marks about is about whether I am paying more fees than I should be paying"	Uncertainty around what is a reasonable and downward pressure on fees	"I need to know that they are competitive with everybody else"
"We would all like to pay less"		
"It is important to have transparency even if you can't remember off the top of your head. Need to explain face-to-face and then check that client fully understands and check in on an ongoing basis"	Importance of fee transparency	"I can see where all the bits and pieces go. That's the good thing about what she has done. I can't remember of the top of my head but I understand."
"There is not enough transparency about what they are getting from us – the extras. But I feel bad for asking. Should I be asking this question? Should I have more faith and trust?"		"I don't know how other financial people charge but with my adviser it's been written down, the % are there, it's pretty easy to work out the amounts and I think for me it just works fine because I just don't think about"
"It was a big fee because there was a lot happening"	Clients need to have visibility over what they are paying for	"You look at the amount of money upfront and you think that's big. But when you think about the time put in and the various inputs – I understand why the fee structure is the way it is"
"Fee structure is irrelevant as it is all my money. Just need to feel comfortable with the amount paid and value received"	Perception of fees is directly related to value	"I feel I am getting benefits for the fees I am paying because I am tapping into their expertise"
"Interesting question that everyone asks me when they are looking for a financial adviser – how much do you pay and do you get value for it? I think everyone thinks it costs too much. But, you don't get anything for nothing"		"Her advice has really paid dividends. In many cases you get what you pay for. I don't begrudge paying her a penny"
"I don't know if I am getting value for money based on what I spend but you probably get what you pay for"		"We are happy with the fee we pay – the fact is we are making a bit of money at the moment"

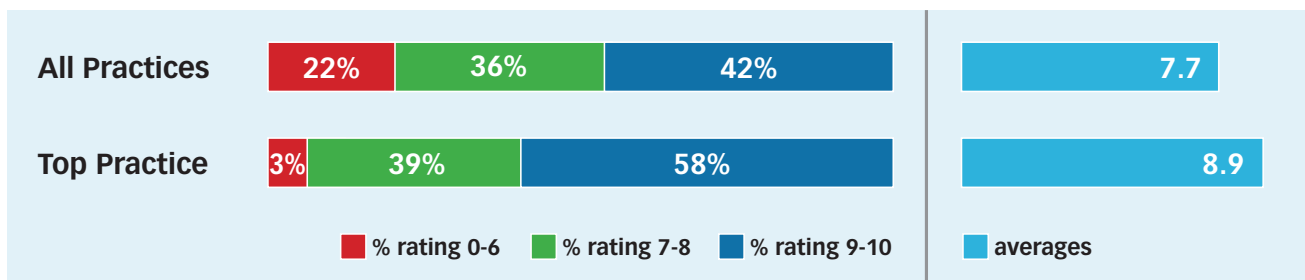
Key Findings: Ongoing Service

The statistical modelling also showed that fee arrangements become increasingly important as the client relationship matures. In fact, fee arrangements are second to adviser performance and service in driving referral among established clients. This is most likely related to client's need to have visibility over what they are paying for and to know that they are getting value for money (Figure 18). This is more obvious during the initial engagement and advice period and subsequent implementation of the Statement of Advice where there is a lot of contact and visibility of the work being done by the adviser to the client. However, this becomes less obvious to the client when

they move into the 'maintenance stage' during which the contact between the client and adviser often reduces and work done 'behind the scenes' is less obvious. It is during this stage that it becomes critical for advisers to articulate the value they are adding and demonstrate the work they are doing to earn their ongoing service fees.

Clients were asked to rate their satisfaction with the fee arrangements on the Client Experience Survey. The results are presented in Figure 19 below.

Figure 19: Taking all your experiences into account over the last 12 months, how satisfied are you overall with the fee arrangements?



Despite fee arrangements becoming increasingly important as the client relationship matures, leading practices are only rated mid-range in this area achieving an average satisfaction rating of 7.7 out of 10.

More detailed analysis of performance across fee arrangement attributes (Figure 20) shows that advisers

are rated lowest on demonstrating their value, competitive pricing and providing flexible service package options (all 7.8).

Figure 20: How would you rate the performance of your practice over the last 12 months on the following fee-related aspects?

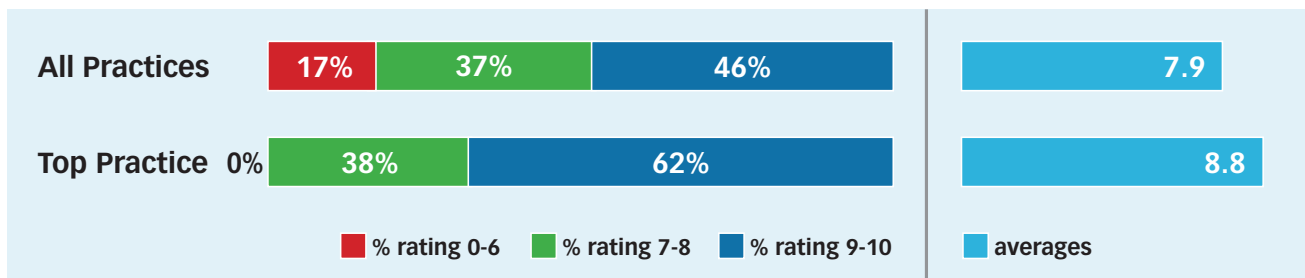
Fee Arrangements Attributes	Average Rating
Transparent communication about the structuring of fees	8.3
Treating client's money as if it's your own	8.0
Charging appropriately for your expertise and service	8.0
Demonstrating the value you add to clients	7.8
Pricing your services competitively	7.8
Providing flexible service package options	7.8

Key Findings: Ongoing Service

In the professions, perceived value is closely related to fees in that it is a function of the performance of a service relative to fees paid by the client. Using this construct as the framework, perceived value of financial advice services was measured in the Client Experience Survey

by asking clients to rate the performance of their adviser and practice in the last 12 months across all services received relative to the fees they had paid. The results are presented in Figure 21.

Figure 21: How would you rate the value delivered over the last 12 months based on overall performance relative to fees paid?



Consistent with lower ratings of fee arrangements, perceived value was also rated mid-range (7.9). This is in stark contrast to the high performance ratings that were given across all critical customer touch-points and is most likely being driven by clients' expectations that financial advice is "cheap".

The Link between Strong Performance on the Key Drivers of Referral and Business Outcomes

Both the qualitative and quantitative survey data confirms that advisers perform strongly in the areas that matter most to clients and that drive referral. How does this translate into actual referral behaviour among clients and positive business outcomes for advisers?

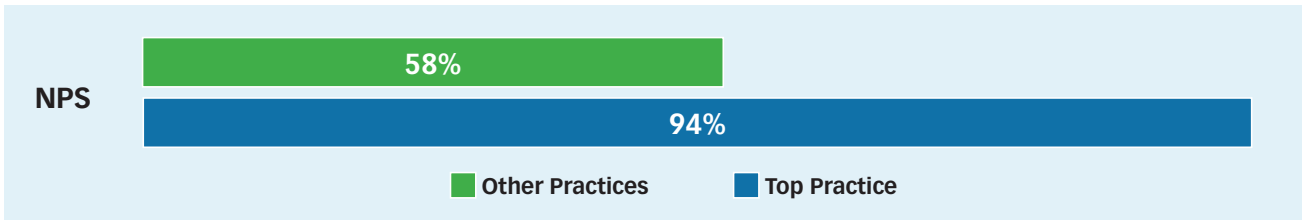
The client's propensity to recommend their adviser was measured in the online Client Experience Survey. Specifically, clients were asked the following question:

- Assuming you came into contact with a friend or colleague who was looking for a financial adviser, how likely is it that you would recommend your financial adviser for the services you currently use them for?

The average adviser Net Promoter Score (NPST[™]) was calculated using 897 active client ratings in response to this question. The results are shown in Figure 22.

Key Findings: Ongoing Service

Figure 22: Assuming you came into contact with a friend or colleague who was looking for a financial adviser, how likely is it that you would recommend your adviser for the services you currently use them for?

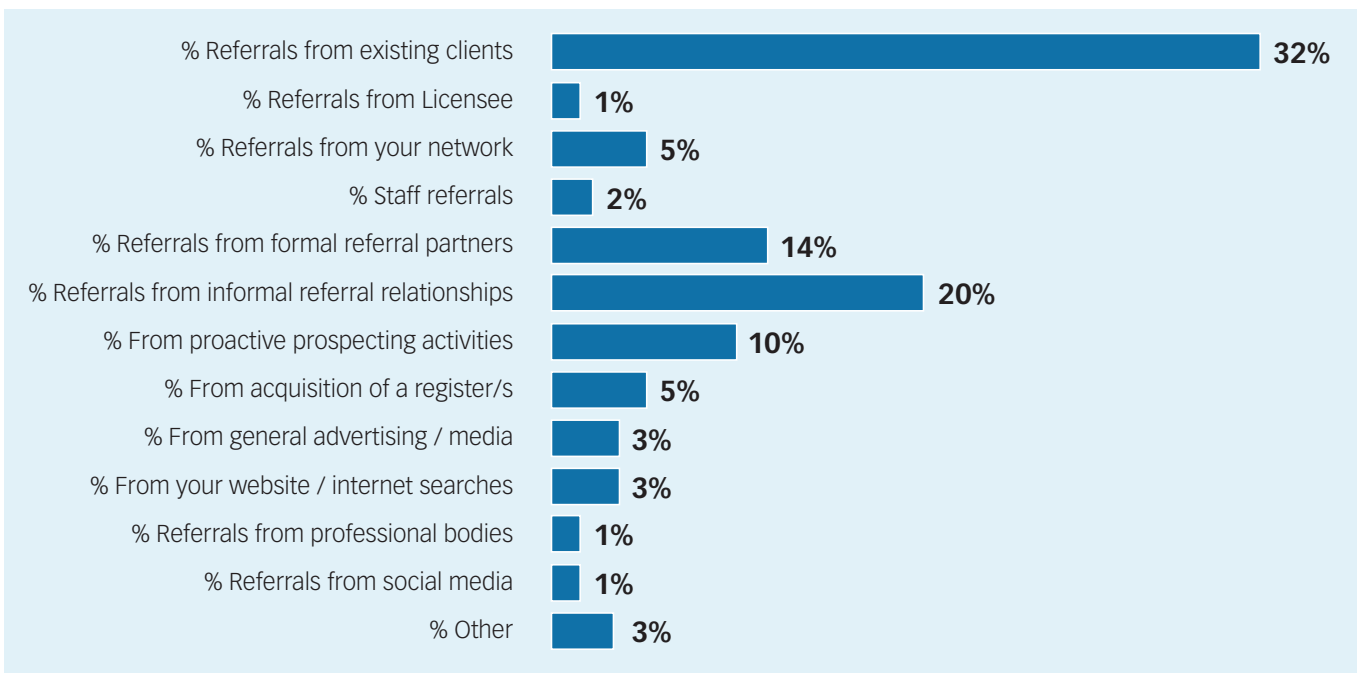


With potential scores ranging from -100 to +100, the average adviser NPS was extremely high at 58.5, significantly higher than scores reported in other industries.

Business outcomes from strong performance on the key drivers of referral were measured in the Practice Benchmarking Survey using; 1) the % of new business

coming from existing client referrals (Figure 23); 2) reported 'life-stage' of the business (Figure 24); and 3) nett client gains as a % active clients (Figure 25). The results are presented in the charts that follow and all support the notion that positive business outcomes result from strong performance on the key drivers of referral.

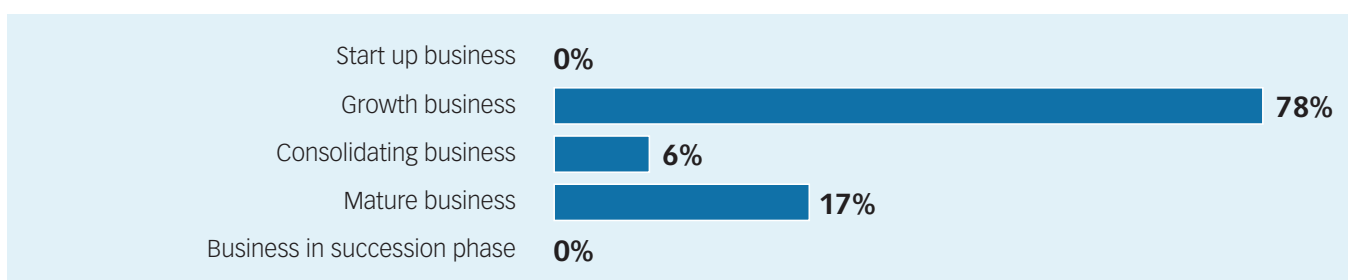
Figure 23: What percentage of your new clients in the last 12 months came from each of the following sources?



Key Findings: Ongoing Service

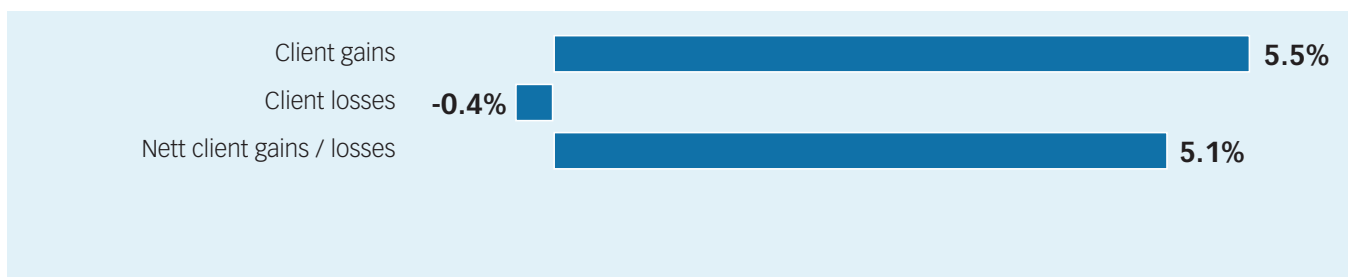
The average number of referrals coming from existing clients in the last 12 months across 18 leading financial advice practices was 32%. The best performing practice reported that 67% of its new business came from existing client referrals.

Figure 24: Which of the following best describes your practice's current life-stage?



78% of the participating practices reported their businesses to be in a growth stage.

Figure 25: How many new clients did your practice acquire during each of the following quarters? How many clients did your practice lose during each of the following quarters?



The average nett client gains as % of active clients across all participating practices was 5.1%, with a maximum of 23% achieved by two practices.



Methodology

The customer journey for clients working with financial advisers in 2012 has been mapped using data collected from 18 "leading" Australian financial Advice practices and their clients, 15 of which were owned and run by advisers participating in the AFA Adviser of the Year Award 2011 and 2012.

The framework used for the study was the Leading Practices Program™, a new evidence-based business improvement program that conducts a 360 degree evaluation of financial advice practices by collecting, collating and analysing the client and business process data to identify strengths and priority areas for financial advice practices.

The comprehensive nature and quality of the data contained in the current study is unrivalled and unprecedented in the industry. It has been collected over the last 10-months during the rigorous development, testing and validation of the Leading Practices Program™ and has drawn from multiple data sources including:

1. Three months of consultation with eight leading financial advice practices to understand business structures, processes and how financial advice practices interact with clients;
2. 20 one-hour qualitative interviews with active clients of these practices to undertake a detailed exploration of the 'customer journey';
3. 960 quantitative Client Experience Surveys measuring the client experience across nine customer touch-points specific to how financial advice practices interact with clients; and
4. Practice Benchmarking data across 18 of Australia's best financial advice practices, most of which were involved in the AFA Adviser of the Year Award 2011 and 2012, and covering all aspects related to business systems, processes, operations and practice management.

The practice profile of the 18 'leading' practices, the respondent profile of the 960 active clients that completed the Client Experience Survey and the profile of the 20 active clients that participated in the qualitative interviews is presented below.

'Leading' Practices Profile

In summary, the profile of the 18 'leading' financial advice practices from which the results and conclusions of the current study have been drawn are relatively diverse in terms of annual turnover, geographic location, years in operation, specialisation, revenue source and FUM per adviser:

- 50% were moderately sized financial planning practices with an annual turnover of between \$1mil and \$2mil;
- Practices were located across all states in Australia, with 78% based in a capital city, 11% in a major regional location and a further 11% in a rural area;
- 17% of practices were younger businesses that had been in operation for between 2 and 5 years, a further 50% had been in operation for between 5 and 10 years and 34% had been in operation for more than 10 years;
- 22% were Life Risk specialists, 33% were Financial Planning Specialists 44% were mixed businesses;
- On average, 29% of revenue across practices came from direct client fees, 44% from insurance commissions, 21% from managed funds and 4% from other sources; and
- Funds under Management (FUM) per full-time equivalent adviser ranged from \$100mil down to \$16.7mil.



Client Profile (Survey)

The respondent profile of the 960 clients that completed the Client Experience Survey and on which results in the current study are based is equally diverse.

- 58% were male and 40% were female (the remaining were not willing to disclose their gender);
- Most (55%) were aged between 45 and 64 years, with a further 22% being younger clients aged between 26 and 44 years and 20% older clients aged 65+ years;
- 24% were new clients that had gone through the advice process in the last 12 months; and
- 27% had been with their current financial adviser for between 0 and 2 years, a further 33% had been with their current adviser for 2-5 years and the remaining had been with their adviser for more the 5 years.

Client Profile (Interviews)

A good mix of clients also participated in the client interviews.

- There was a good distribution of ages (5 clients were aged between 26-44 years, 9 clients were aged between 45-64 years and 6 clients were aged 65+ years);
- Two thirds were male vs. one third female;
- Clients lived in Victoria, Queensland and Western Australia;
- There was a good mix of new and longer term clients (4 clients had been using a financial adviser for between 0-2 years, 5 clients had been using a financial adviser for 2-5 years, 5 clients had been using a financial adviser for 5-10 years and 6 clients for 10+ years); and
- There was an approximately equal mix of retirees, full-time employees and business owners.

