FINANCIAL ADVICE – AUSTRALIAN CONSUMERS HAVE THEIR SAY

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The big picture - The truth revealed

Based on the findings of our research, we can conclude that the main reason consumers have not engaged with financial planners is a lack of understanding and appreciation of the true benefits of financial planning.

Contributing to this is:

- Consumer exposure to communication mediums such as television, radio and newspapers that portray financial planners in a negative manner
- Financial planners have lacked confidence in articulating their value because of the myth that consumers don’t trust them and that their services are too expensive
- Confusion has stemmed from the generalised labelling of financial planners, which implies that all financial planners offer the same range of services
- The industry still doesn’t satisfy adequately the singular issue advice needs of the bulk of consumers.

Whatever the root cause, there is no doubt that client value and service propositions could be articulated better at both industry and adviser level.

In the past we may have dismissed the issue as one related to trust and cost. We have found though at least some evidence that this is not necessarily the case, which we comment on in our research paper.

So, if the industry’s value proposition is not resonating what can be done? We believe at least part of the answer lies in articulating an ability to contribute to the financial security of the family through the intergenerational transfer of advice rather than wealth (the latter being only part of the process). To do this, value propositions need to be simplified and better focused to reflect the true value, scope and relevance of the services financial planners offer.

Executive summary - Our findings

The summary of findings from our research that support our ‘big picture’ view are as follows:

- Consumers are not aware of the full range of services that are offered by financial planners. Specifically though, they don’t seem to be aware of the specific nature of those services available.
- When asked if consumers would seek the advice around non investment related issues such as personal insurance, debt management, cash flow management the responses were very low. Because consumers don’t seem to be aware of the specific nature of the services that a financial planner can offer, they therefore also don’t know what to expect.

- If we can say one thing with some certainty it is that financial planners are perceived as investment managers.

When asked the single reason why respondents had not used a financial planner, the two key reasons were that they didn’t think they had enough to invest and they were happy to look after their own finances.
Our findings also confirm consumers are not particularly interested in, nor attracted by, comprehensive/holistic advice. They would rather have singular issues dealt with. Consumers are telling us that they want singular issues addressed before they consider exploring more comprehensive financial planning solutions.

Trust and cost is not the issue. Demonstrating value is the key for consumers.

Contrary to popular belief (refer Morgan Poll – Roy Morgan Image of Professions Survey 2013 survey) our research indicated that consumer mistrust of financial planners is relatively low (although we must stress that this research was conducted prior to the latest negative media coverage of the planning industry as reported in June/July 2014). Consumers want a financial planner that they trust and can demonstrate value as opposed to how much the service cost. Consumers need to be convinced that the planner is working in their best interest.

Only a small percentage of consumers say that they would primarily look to their accountant for financial advice.

Despite accountants being rated higher in terms of honesty and ethics than financial planners, only a small percentage of consumers indicated they don’t use financial planners because they get advice from their accountant. This represents an opportunity for a closer referral relationship between financial planners and accountants.

Successful referrals = education, identification of opportunities and trust

The key to success would appear to hinge on providing the referrer with a clear understanding of what services the financial planner provides, their ideal client profile and what are the trigger points to identify the need for consumers to seek their services.

Research findings

Consumers are not aware of the specific nature of services that are offered by financial planners.

- 2% would go to a financial planner to take out life or other personal insurance such as income protection or trauma insurance
- 9% would go to a financial planner for retirement planning
- Only 2% of consumers would go to a financial planner for personal insurances, whereas, 12% would seek investment advice from a financial planner. Based on these findings and the consumer’s perception that financial planners are primarily investment managers, we can conclude that consumers have a general lack of understanding of the range of services that are offered by financial planners. This can be attributed to a lack of education and current value propositions missing the mark.

Commentary

There is clearly lack of clarity around the value and services that a financial planner can provide. For example, 27% of respondents said that they had never engaged with a financial planner because they didn’t have enough to invest. Yet when asked what would it take to make them consider using the services of a financial planner only 12% said that they would do so to seek investment advice.

In a more general sense, the survey responses suggest that financial planners do not articulate their value and service proposition clearly - not just to prospects and existing clients, but also to their centres of influence.

The result is disinterested consumers with little understanding around the breadth of issues that can be addressed by financial planners from, for example, cash flow management to aged care advice.

The table below illustrates the main reasons why consumers would seek advice from a financial planner.

Table 1: Most likely specific advice related reasons to seek the services of a financial planner

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>Investment advice</td>
<td>12%</td>
</tr>
<tr>
<td>Debt Management</td>
<td>9%</td>
</tr>
<tr>
<td>Retirement Planning</td>
<td>5%</td>
</tr>
<tr>
<td>Health advice</td>
<td>5%</td>
</tr>
<tr>
<td>Budgeting</td>
<td>3%</td>
</tr>
<tr>
<td>Personal Risk</td>
<td>2%</td>
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25–34 year olds are more inclined to seek investment advice (17%) compared to 18-24 year olds (6%). There maybe a case to argue here that early education (at high school level) is required to draw attention to the value of seeking advice from a qualified financial planner starting at understanding superannuation through to budgeting, debt reduction and cash flow management. The surveys reveal that 18-24 year olds require greater assistance with debt management (20%) compared to 45-54 year olds (9%).

Other results indicate that both the 45-54 year age group and 55–64 year age group are more likely to seek advice regarding retirement planning (12%) compared to 25–34 year olds (5%). Whilst obvious, this is in fact important to note because the 25–34 year olds are embarking on careers, buying first homes and starting families. The benefit of understanding how to maximise Super earlier rather than later is an engagement opportunity for this age group.

Opportunities

Client value proposition

Our research suggests advisers need to do more to give “disinterested” consumers a reason to seek out help. Doing nothing really isn’t an option for those advisers who want to grow and prosper. There’s a wonderful opportunity to gain a toehold in an expanding market for advisers who can re-imagine the possibilities of their business. Reinigorating value and service propositions relevant to ideal client targets and making sure marketing plans are up to speed is critical.

Advisers, themselves, need to clearly articulate value, ensure service delivery is as effective as possible and make the most of strategic alliances. Marketing plans should have a strong education focus.

Professional labels

Perhaps the term ‘financial planner’ is too broad to be truly descriptive. Professional ‘labelling’ may contribute to the confusion. For example, the terms financial adviser and financial planner are used to describe the same function. Is there therefore a case to examine ‘labelling’ more clearly? We think so. Not all financial planners offer the same services.
Consumers don’t want holistic advice

- 5% would go to a financial planners to establish goals and develop a plan to achieve these goals
- Consumers want advice that addresses and resolves one or more specific, immediate needs – not the holistic advice that the financial planning industry has been preferring to date. Consumers are telling us that they want singular issues addressed before they consider exploring more comprehensive financial planning solutions.

Commentary

While the benefits of a comprehensive, holistic financial plan cannot be argued the reality is that consumers are saying this is not what they want. Only 5% of respondents are interested in identifying a range of financial objectives and developing a plan to meet them (sound like holistic advice?).

As an industry, we continue to espouse the benefits of long term planning around a set of financial and personal goals and objectives. While a noble pursuit, and something that should be encouraged, it is clear this approach will not initially engage ‘disinterested consumers’.

Furthermore, the survey results are consistent with the fact that there is a widespread view that the key function of financial planners is to manage investments. Consumers are saying that the main reason they would seek advice is due to a financial event such as a redundancy or receipt of an inheritance for example.

Additionally, consumers would not necessarily seek other advice services offered by financial planners such as debt management, cash flow management and risk protection as a priority. Anecdotally though we know they will readily take up such services once they engage with advice, which again points to the lack of understanding about adviser capability.

This response is equally held across the age groups from 35 to 65 years plus (nb: the low percentage for the under 18’s can be attributed to the relatively small number of survey responses for this age group). Refer to Table 3 below.

Table 3: The desire for singular issue advice is relatively consistent across the age groups.

Table: Responses to perception that financial planners are investment managers
Opportunities

‘Life stage’ service packages
We now know that consumers would engage if they had a specific need and/or recognised that we could deliver on that need.

Traditionally clients have been segmented using criteria such as the revenue contribution or funds under management (FUM). As a result service packages have been constructed based on these criteria.

The research shows that consumers want one or two singular issues addressed at a time and that their needs are clearly different based on their age and the issues relevant to their stage in life.

Therefore there is a worthy case for the re-examination of current client segmentation models. If clients want only one or two immediate needs to be addressed then why not look at segmenting clients into ‘life-stages’ and developing an appropriate service offering accordingly. In this way consumers only pay for the adviser to address issues relative to their stage of life. It would be far easier for the adviser to demonstrate value if they were attending to ‘immediate’ needs. Furthermore, the initial and ongoing service agreement costs would be on a fee for service basis, which could be dialled up or down depending on the lifecycle that the client is entering into and the associated services required.

Singular issue advice
The point made in table 4 is that there is an opportunity to assist consumers to understand the broader nature of the services that a financial planner can offer. For example, as indicated in the following table the age group that most needs assistance in managing debt is the 18-24 year olds.

Whilst experience will tell us that the associated debt is most likely credit card debt, there nevertheless is an opportunity for a financial planner to provide singular issue advice (debt and cash flow management). And in most cases this will be to their existing client’s family members (refer section on intergenerational transfer of advice).

Furthermore this age group’s response was that only 5% said lack of trust was the reason that they didn’t use the services of a financial planner and only 3% said that they would need a planner to convince them of value. The benefit of educating this age group is to tap into the next generation of consumers and to ensure that their perception of ongoing financial advice is more aligned to what our industry wants to represent.

Table 4: Would seek the services of a financial planner to help to get out of debt

Trust and cost are not the main issues
● Only 9% of respondents said a lack of trust was the key reason they haven’t engaged with advice.

Contrary to popular belief, the reason why consumers haven’t engaged the services of financial planners is not due to a lack of trust. Consumers need to know that the financial planner is working in their best interests.

Commentary
When we initially asked consumers why they hadn’t engaged the services of a financial planner only 9% stated that trust was the main reason. This view was help equally amongst the age groups as demonstrated in table 5 below.

Table 5: Consumers saying trust was the main reason why they hadn’t used a financial planner.

However when the question was re-couched to ask what would it take for them to use the services of a financial planner the response indicated that 17% would need to find a planner that they could trust – so therefore trust is still an area that needs some focus. The 55 – 64 age group tend to place more importance on trust with a response of 20%. This may be attributed to the fact that 32% of respondents within this age group had previously used the services of a financial planner and have a benchmark to compare against and understand the value of a trusted relationship with their financial planner.

Table 6: Responses that indicated consumers would need to find a financial planner that they could trust before they would engage advice.
Consumers don’t want to pay for something they perceive they don’t need
- 12% believe that financial planners are too expensive

When asked the reason why respondents had not used a financial planner, only 12% claimed that it is due to costs. Consumers will use the services of a financial planner based on how they can demonstrate value as opposed to how much the service costs.

Commentary
Consumers surveyed in the Morgan Poll 2013 rated accountants higher (49%) in terms of honesty and ethics than financial planners (25%) yet only 7% of consumers surveyed in the BusinessBlades research indicate that they get financial planning advice from their accountant rather than a financial planner.

The new limited AFSL certainly allows suitably qualified accountants to provide the strategic advice that consumers appear to want. That along with the ‘trusted adviser’ status that accountants enjoy surely points to a great opportunity for accountants (and a potential challenge to financial planners).

Accountants may well be the sleeping giants for the provision of financial planning advice. Financial planners therefore should look for opportunities to forge strategic alliances or joint ventures with accounting firms.

Table 8: Consumers who would get advice from their accountants in preference to a financial planner.

Successful referrals = education, identification of opportunities and trust
- Unless a consumer had a specific, immediate need only 8% of respondents would consider using the services of a financial planner if they were referred by a friend, family member or trusted source

Unless a consumer has a particular immediate need to seek advice only 8% would seek out the services of a financial planner if a friend, family member or trusted source suggested they do so. However, if there was a ‘life event’ as described earlier, 17% would seek advice from a trusted source when they were ready to seek advice. Consumers will choose to seek advice based on their current understanding of what services are offered and whether it is relevant to their circumstances. Existing clients and referral sources should be educated on how to identify these opportunities and to articulate the services and value offered by financial planners.

Commentary
Referrals, sourced from either existing clients or centres of influence (alliance partners) are the most effective and efficient method of organic growth through new client acquisition. The key to success would appear to hinge on providing the referrer with a clear understanding of what services the financial planner provides, their ideal client profile and what are the trigger points to identify the need to seek their services.

Again, consumers need to know that financial planners can address singular issues and that value, best interest and fees will reflect this.

Opportunities
Referrals
Referrals from existing clients and professional sources are still considered the best way to tap into the 80% of Australian consumers that are currently not using financial planners.

The survey revealed that only 8% of consumers would consider using a financial planner from a referral – unless they believed they had an immediate need.

Even if we included those that believed they had an immediate need, there is currently only a pool of one in five adult Australians who are engaging with a financial planner and therefore in a position to make the referral. There is a heavy reliance on providing clients with a clear understanding of the scope and benefits of the services a financial planner provides so that they can identify and articulate a successful introduction.

The figure below indicates that 67% of Australians turn to their family members as their first port of call to discuss financial life and financial decisions. This certainly reinforces the concept of ‘intergenerational transfer of advice’ rather that the intergenerational transfer of wealth as discussed earlier in this document.

Table 9:

Intergenerational Transfer of Advice
For some time now the industry has been talking about the concept of “intergenerational transfer of wealth”. However, according to the ABS (Australian Social Trends Survey, 2014) Australians aged 35 to 54 collectively account for most household debt. Given that this is the group demographically most likely to receive an inheritance, it’s reasonable to argue that a large proportion of family wealth will be used to extinguish that debt.

Perhaps in view of this, there needs to be a paradigm shift in the way advisers think about the intergenera-
ional transfer of wealth to focus instead on the intergenerational transfer of advice – engaging other members of the client’s family by addressing their specific needs at any given point in time.

Delivering life stage service packages means that the consumer’s desire for singular issue advice is met. Doing so through the family unit is the logical path by which future clients can be educated and become engaged in the advice process.

We believe that part of the consumer education process is to introduce clients and consumers to the concept of intergenerational transfer of advice. The transition from one service package to another is achieved when a client moves from one life stage to the next. Clients will better understand the value proposition delivered by financial planners and as a result will find it easier to introduce family members who are at different life stages.

A very simple case study where intergenerational transfer of advice is best illustrated could be when an adviser is looking at the estate planning needs of a client in their 50's who may have parents that require age care planning and adult children who require debt management, cash flow and budgeting strategies. In this way the adviser begins to ‘engage’ with the other family members by addressing their immediate needs and in doing so starts to form the basis of an ongoing relationship.

The diagram below illustrates the concept of intergenerational transfer of advice. Put simply, the vertical axis represents family relationships and the horizontal axis represents interactions with friends and business acquaintances. The general rule of thumb for family relationships is one generation up and two generations down.

Diagram 1: Intergenerational transfer of advice

Where to from here...

There is no argument that engaged clients regard their advisers highly and value the services they receive.

We also know that consumers don’t ‘get us’, however they’d engage if they had a specific need and/or recognised that we could deliver on that need. Those are the barriers. Not cost and trust.

Steve Jobs, ex CEO of Apple, is often credited with creating a need where one didn’t previously exist. Only true, in fact, in part. In creating the next iteration of all products, Apple first of all met a pre-existing need. It then enhanced the overall ‘package’ to make it indispensable (e.g. every iteration of the phone was essentially still a phone).

The link here is that consumers are telling us that they want their immediate needs addressed before they would consider exploring broader, comprehensive financial planning solutions. They are also clearly not aware of the specific nature of services that are offered by a financial planner (and we’re not talking about listing the various services you offer in gold embossed lettering on your office door).

In light of all the responses collected throughout our research it’s a reasonable observation that the financial planning industry, and advisers themselves, aren’t giving consumers a compelling reason to deal with them. Otherwise why would the majority of people say that they are happy to deal with their financial affairs themselves?

The opportunity is encouraging and the prize (potential engagement with up to 80% of the adult Australian population) is well worth the effort to listen to consumers, re-imagine the possibilities and transform financial planning businesses in order to connect with consumers.

About the surveys

The data was collected via two online surveys conducted between December 2013 and February 2014. BusinessBlades’ first survey asked consumers why they’d never used the services of a financial planner. Once that data was collected we then commissioned a second survey to ask what it would take for consumers to consider using the services of a financial planner in the future.

In excess of 4,000 individual responses have been collected. The surveys were nationwide and responses were broken down between male and female by each state and territory. The findings were also grouped into age ranges. Females represented 63% of respondents and 37% were male. The following tables outline the details of the demographics.

Graph 1: Percentage of responses within each age group

Graph 2: Percentage of responses within each State