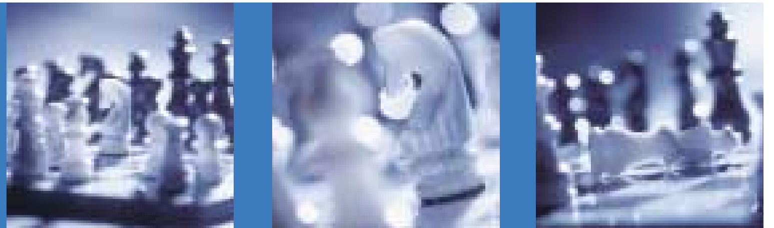
CREDIT SUISSE | ASSET MANAGEMENT

SURVIVOR

Hypercompetition Part II



Outwit..........Outlast..........Outplay......

Credit Suisse Asset Management

The reason to invest.®

© Credit Suisse Asset Management (Australia) Limited, ABN 57 007 305 384, May 2002

TABLE OF CONTENTS

INTRODUCTION - WHY HAS HYPERCOMPETITION PART II BEEN WRITTEN?

SUMMARY OF HYPERCOMPETITION PART I 6

THE FOUR INSIGHTS 7
SUMMARY OF THE AUSTRALIAN FINANCIAL PLANNING INDUSTRY 8
Capitalised Client Value Effect 8
Bandwagon Effect 8
The Big Picture 9
UNDERSTANDING THE AUSTRALIAN FINANCIAL PLANNING INDUSTRY 9
KEY TRENDS IN THE AUSTRALIAN INDUSTRY 10
HOW TO BUILD A SUCCESSFUL STRATEGY 10

THE BIG ISSUES THAT FACE THE FINANCIAL PLANNING INDUSTRY 15

HOW TO GET PAID - FEE OR COMMISSION? 15
COMPETITION AND FEE PRESSURE 16
SPECIALISING VERSUS GENERALISING 16
BALANCING TECHNOLOGY AND RELATIONSHIPS 17
So…What is Platform Plus? 17
The main elements of a successful business 18
Conclusion 19
THE NEW GENERATION OF INVESTMENT PRODUCTS 19
THE NEW PERFORMANCE BENCHMARKS 20

LOOKING FROM THE OUTSIDE IN 23

HOW MUCH PERMISSION HAS BEEN GRANTED? 23
WHAT DO THEY THINK ABOUT US? 24
Attitudes of Those Consumers Who Use a Financial Adviser 24
Frequency of Consulting a Financial Adviser 25
What Prompted Seeking Advice From a Financial Adviser? 25
Use of Multiple Advisers/Second Opinions 26
Do you have a relationship? 26
What is the frequency of contact with your financial adviser? 27
Overall – satisfaction with financial advisers 27
Attitudes of those consumers that do not use a financial adviser 28
Attitude to Fees and Charges 29
Trusting a financial adviser 30
Summary of findings 30

BUILD THE PERFECT PRACTICE 35

THE ILLUSION OF HISTORY 35
Myth #1: I need more clients to grow 35
Myth #2: My success is based upon the length of time spent in the industry 35
Myth #3: I will grow my financial planning business through providing advice to all those who are prepared to pay 36
Myth #4: My heart is no longer tied to the business, as I earn a good income and no longer need it to grow. Besides I'm out in the next few years 36
Myth #5: I am the distributor, and require a revenue share from product suppliers to compensate me for the client relationship 36
TAKING THE NEXT STEP 37

I'm the expert 37
Plug revenue leaks 37
Leveraged Segmentation 38
Strategic Alliances 38
Making the Hard Decisions 38
Use Technology 39
Work On the Business, Not In the Business 39
Marketing 39
Where are you Heading? 40
Good Staff 40
Client Services Staff 40
Exceeding Client Expectations 41
NO ONE SAID IT WOULD BE EASY 41
USING THE US EXPERIENCE 43

SUMMARY 47

ABOUT THE AUTHORS 51

APPENDIX 55

APPENDIX 1: WHAT PROMPTED SEEKING ADVICE FROM AN INVESTMENT ADVISER? 55
APPENDIX 2: WHAT PROMPTED USE OF MULTIPLE ADVISORS / SEEKING SECOND OPINIONS? . 56
APPENDIX 3: WHAT WAYS CAN YOUR FINANCIAL ADVISER IMPROVE? 58
APPENDIX 4: WHY HAVEN'T YOU USED A FINANCIAL ADVISER FOR 6 OR MORE YEARS? 61
APPENDIX 5: REASONS FOR NOT CONSULTING A FINANCIAL ADVISER. 62

This paper was compiled from information available as at the time of publication. This information is believed to be accurate at the time of writing. However, no representation or warranty, express or implied is made by Credit Suisse Asset Management (Australia) Limited (CSAMA) as to its completeness, and CSAMA is not responsible and does not undertake to correct any information later found to be inaccurate.

The information in this paper does not consist of investment or business advice of any nature whatsoever. This paper may contain material that represents in some instances the personal views, standards and opinions of the authors and other third party contributors. The inclusion of such material is not an endorsement by CSAMA of that material.

In all cases, persons reading this material should obtain appropriate professional advice relevant to their particular circumstances in evaluating its accuracy, currency, completeness and relevance for their purposes. CSAMA disclaims any direct or indirect liability for losses or costs arising from any reliance upon the information contained within this publication.

Unless otherwise stated, all graphs and charts are sourced from Credit Suisse Asset Management

Introduction - Why Has Hypercompetition Part II Been Written?

Hypercompetition Part I involved the contribution of many industry leaders and observers, all of which culminated in a 90-page report that was released to the Australia financial planning industry in November 2001. As the pieces of the jigsaw came together, we soon realised that the report was orientated from an industry perspective, and only briefly touched on another crucial element, the consumer. The intention of this second paper is to look at the financial planning industry from a consumer viewpoint – which can often produce a different outcome than a top down view. This latest contribution utilises the comments from key industry personnel, together with the talents of individuals within the Credit Suisse retail team and research by Business Owners Research to produce a "fresh" perspective of the industry.

It is recommended that readers acquaint themselves with Hypercompetition Part I – The Dynamic Future of Financial Planning in Australia (available on our Internet site www.csam.com) to gain a complete perspective of the findings and outcomes from this follow-up contribution.

We hope that you gain some valuable insights from Hypercompetition and this follow-up and encourage all participants in the industry to step outside your comfort zone and transition from simply being financial planning practitioners to successful business people that provide value add financial planning services.

Brian Thomas & Clayton Coplestone
May 2002

Summary of Hypercompetition Part I

Summary of Hypercompetition Part I

"It's good to be back, it's good to be back"…..Gary Glitter

The Four Insights

Hypercompetition Part I identified the Australia financial planning industry as having enjoyed a reasonably prosperous decade, however this has been in an environment where there has been a great demand for financial planning and not a great deal of competition – the so called "low hanging fruit scenario". Whilst most agree that a new "hypercompetitive" age is dawning, how many are improving their businesses to cope with a future of increased competition? It is this complacency, which will sneak up on many industry participants and envelop their business at a point where it is difficult, perhaps impossible for them to adapt. Those who have digested the original paper are asking themselves "how much value did I manage to add to my business over the past decade?" particularly when you strip away the organic growth of the industry (approximately 14.5%pa) and the high growth of investment markets. With most financial services businesses having achieved business growth in excess of 20%pa over the past decade, without the requirement of strong business management skills, there has been little necessity to concentrate on addressing this question. However the response can be somewhat different when the question is asked of the consumer – with many becoming more sensitive and discerning about the value that is being added to their wealth and risk management after fees are taken into consideration.

Hypercompetition Part I presented a number of insights for the future of the Australian financial planning industry including the issue of increased competition combined with older industry participants preparing their exiting strategies. In the 12 months since this paper was produced there have been numerous large financial institutions such as banks and insurance groups strengthening their brand awareness with consumers. Notably, there has been the launch of the "Sprouts" campaign by NRMA who are positioning themselves to play a wider role in the financial services space. Another significant development has been the announcement from the CPA's that they wish to provide an in-house financial planning facility to service their members. This is further evidence of everyone wanting to benefit from the growth in the industry.

The second insight introduced the concept of "Platform Plus" which can be simply defined as the new competitor who manages to find the profitable balance between technology and relationship. This can be likened to the 'Henry Ford' business model which revolutionised the automobile industry and is likely to be offered by a non-traditional industry participant who is not weighed down with any legacy structures or systems.

Perhaps the most important insight from Hypercompetition Part I was the simple observation that the Australia financial planning industry is a multi-dimensional industry without any single "correct" approach. This tends to contradict the popular concept of institutionalising the provision of financial advice into one of a few standard models. There are too many variables differentiating the myriad of participants and their clients in the industry.

The last insight related to the nature of the client relationship although this was not explored in great depth in the first paper. The danger that lies ahead for many in the industry will come through the misinterpretation of the true relationship between the financial adviser and their client. This is explored further throughout, relying heavily upon a consumer survey that was commissioned specifically for this paper and completed by Business Owner Research.

Summary of the Australian Financial Planning Industry

When you meet with other financial service professionals in other markets you begin to get a feeling for the high level of sophistication the Australian industry has reached. It is only natural that global financial services players will seek to import this level of expertise, ideas, service and technology in an effort to fast-track their own efforts. With the outlook for intermediary distribution continuing to play a significant role in the distribution of financial services globally, groups (particularly product manufacturers) will debate the 'buy' versus organic growth strategies and look closely at the acquisitions of distributors that have been made in the past.

Capitalised Client Value Effect

Large, well branded financial services businesses are continuing to be sold for high multiples of earnings (witness Rothschild's recent sale to Westpac) however the aggregators, consolidators and smaller players have not realised the market values envisaged a few years earlier. Despite these excessive valuations beginning to be questioned, there remain many organisations that are desperate to pay high premiums for distribution, thereby pushing up the valuations to unrealistic levels (and the expectations of the distributors that this euphoria will continue indefinitely). This raises a broader series of issues for the industry to consider, including how to develop a value-add program that retains existing clients, and how to develop succession plans that work for all stakeholders. Both of these concepts, together with corporatising a "cottage industry" have been discussed in the Hypercompetition II chapter entitled "Build the Perfect Practice".

Bandwagon Effect

A global phenomenon that has accelerated with the introduction of technology throughout the past decade has been the rapid consolidation of old and the birth of new industries. A notable recipient of this change has been the attraction of many new participants to the comparatively easy start-up industry of financial planning. Many of these new entrants have been able to easily adopt the standard business methods used by existing parties to derive a reasonably good income. This in turn has increased the attraction of the financial planning industry to even more new players – many of whom have contributed little by way of innovation or new techniques. This exposes the industry to a new dynamic (which we have dubbed "Platform Plus") which has the effect of finding the profitable blend between technology and relationship in the provision of financial planning. If these predictions are correct, then this raises some interesting questions; Which business models will survive the new environment of higher competition and in particular a "platform plus" type of model? How will the consumer respond to the increase media attention that is being focussed on after fees and after tax returns and the increased portability and choice in relocating their portfolios? The ultimate question that will need to be considered relates to whether consumer's expectations from the industry and existing business models are being met, as competition will accelerate the provision of available alternatives.

Since releasing the findings from Hypercompetition Part I, many participants have been made aware of the new revenue models appropriate in supporting financial advisory businesses in the future. Existing models suggest that consumers be charged a fee that relates directly to their funds under advice. This sounds logical until you look at this from a consumer viewpoint. Consumer sentiment surrounding this point is explored in further detail through the findings of Business Owner Research in Hypercompetition Part II.

In summary, the success of many financial advisers will depend upon their ability to develop a clearly defined value-add or unique selling proposition. The strategies and direction of larger organisations will adequately cater for the masses by providing a homogenous and relatively inexpensive approach to financial planning. Since Hypercompetition Part I AMP have released a free on-line planning approach

modelled on the US direct advice.com. This will necessitate a requirement for financial advisers to be more efficient in the parts of their business that don't add value, leaving the decision as to the most appropriate direction to pursue personality: financial planning or business management. Failure to consider these quandaries will cause failure in meeting the new consumer's expectations.

The Big Picture

Whilst the observations made thus far are sobering, the effects of globalisation and demographics will continue to be strong positive drivers of growth in the wealth management industry.

Consumers will be expecting a higher level of choice and personalised service, requiring customised solutions from niche-focussed advisers. The financial adviser of the next decade will become the human browser, anticipating questions and concerns and creating customised information and solutions. Gone are the days of financial advisers being re-sellers of products, with the new consumer expecting <u>their</u> interests to be represented and clients not tolerating conflicts of interest or financial relationships. With cheap, consolidated reports, rapidly becoming an expectation and available online clients will want more than the promise of a regular consolidated reports.

There are also repercussions for fund managers and product suppliers, as they also become caught up in this world of technology and commoditisation. Survival for this group will depend upon their size, customisation of financial solutions (such as Individually Managed Accounts), alternative investments and development of global products and services.

Overshadowing these trends identified within Hypercompetition Part I, is the prospect of reduced returns in a lower inflation environment. As returns revert to the historical mean of inflation (+ 3%), then consumers will become more discerning and price sensitive. This creates an interesting debate as to which part of the financial planning process will become most exposed to price elasticity. Many of these issues are explored further in "Looking from the Outside In".

Understanding the Australian Financial Planning Industry

The Australia financial planning industry has been blessed with suitable demographics, growing investment markets and a number of one-off events contributing to strong expansion over the past two decades. In the mid 1980's a number of entrepreneurs entered the industry with consolidated reporting systems providing the business efficiencies that many of the financial planning practices desperately desired. Today, life is beautiful for most advisers, as these systems have enabled them to increase revenues and decrease costs. Unfortunately these wraps and master trusts are now considered expensive, especially for listed securities and fixed interest investments, as they have become commodities themselves. They do not handle existing and non-unitised investments and lack portability, as they are predominately dealer-based systems.

Despite this, platforms are an appropriate business tool depending on what stage advisers are in their practice. These range from Activity Stage (the start-up position for most industry entrants) through to the Merger & Acquisition Stage. The latter is the penultimate point for most groups, where they are unable to meaningfully grow their business ratios organically, choosing to acquire other groups to achieve economies of scale. Once at this stage, businesses are confronted with new dimensions of inflated valuations, staff retention, culture and business efficiencies. Few groups are at this point of their business growth in the Australian industry, with only a handful of consolidators and aggregators advancing forward with mergers and acquisitions often built upon shaky foundations.

Key Trends in the Australian Industry

Most industry participants have quickly recognised that there is no longer a sustainable business in facilitating transactions. Consumers are only prepared to pay premiums for advice, with cheaper and easier alternatives available for placement of monies. Nevertheless there are other aspects of the financial planning process which are also becoming commoditised and yet are being promoted as key value-add components by financial advisers. It is now possible for the consumer to gain free asset allocation advice, produce a portfolio using similar tools to many financial advisers and place monies directly with product suppliers. Once these monies have been invested, the consumer also has access to user friendly information and technology which enables them to successfully produce their own consolidated report. Which part of that process are you still charging clients for? More importantly, what do clients think they are paying you for? If it's something they find free then this will erode the proposition.

Another trend identified in Hypercompetition Part I was the current low levels of advertising and marketing spent to both attract and retain financial planning clients. It was found that over three-quarters of the financial advisers surveyed spent less than 5% of their gross revenue on advertising and marketing, with 94% of respondents actively seeking new clients. This clearly supports the view that the industry remains overwhelmed with more potential clients than financial advisers. With numbers of financial advisers growing exponentially, this ratio and complacency may soon change.

Putting it together what do these trends mean for financial advisers and how should they respond in their business? All these trends add up to dramatically increased competition or Hypercompetition and an increase in the threshold to survive. The death of the transactor means not only increased competition from on-line providers, but also that advisers will increasingly have to add more value to the consumer's experience. This will however increase the cost of providing first class service, requiring the adviser to clearly explain the relationship and servicing expectations to their clients. The bandwagon effect means that the industry is about to embrace a large number of new participants, including the likelihood of a new player who chooses not to use traditional business models. The irony is that this environment will require all existing financial advisers to continue planning for their futures to be able to plan for their clients.

How to Build a Successful Strategy

Hypercompetition Part I identified a number of elements that are essential in building a business that will survive the Hypercompetition threat into the future.

These are

- Read and think about the issues that effect the industry
- Set goals and preferred business models that are sustainable for the next five and ten years
- Don't be afraid to change
- Ask your clients what their real relationship needs and service expectations are
- Stay in control of your pricing/revenue
- Clearly identify your value-add or unique selling proposition, remaining mindful of the components that are being commoditised
- Corporatise part of the business

- Remain passionate about client service
- Strive to continuously improve
- Work to live, don't live to work

From reading these thoughts, many industry participants will react with the obvious strategy – the "Do Nothing" strategy. Other approaches include developing a niche business, build a holistic practice, get together and form a co-operative or become a predator. All of these are great strategies that can be pursued on the foundations of a well-managed business which is based upon strong and profitable client relationships.

The Big Issues That Face the Financial Planning Industry

The Big Issues that Face the Financial Planning Industry

"You really learn a lot that way. It will change you in the middle of the day. Though your confidence may be shattered. It doesn't matter"…..Neil Young

Whilst many of the issues for the future for the financial planning industry have been discussed, there remains a number of key issues on which the jury is still out. These are worth touching on briefly before considering how customers view the Australian financial planning industry.

How to Get Paid - Fee or Commission?

The initial response to this debate is "who cares – as long as the clients are fully aware of what they are paying?". Nevertheless compensation still remains top of mind for the financial planning industry, particularly in an ever increasing fee sensitive environment. Consensus tends to prefer establishing a fee-based practice, with the justification being predominately towards doing the right thing for the client. Whilst this is enviable, in reality this improved transparency and billing mechanism is an ultimately better solution for financial planning businesses rather than the client. A purist definition of fee-only financial advisers describes those who collect no commissions or trailers and only receive direct compensation from the client. Unfortunately many who claim to be fee-only practitioners still derive a significant portion of their revenues from third party suppliers or platforms. The ensuing risk to their financial planning business is considerable going forward as all components of the financial planning journey will encounter margin squeeze. This true fee-based structure develops a sound revenue system permitting budgeting for expenses such as training and capital upgrades. This has the impact of improving the operation and delivery of services, thereby enhancing the service environment for the client.

With the increased demand for financial advice traditionally providing "low hanging fruit" for the financial planning industry, numerous advisers have increased their minimum fees to the point where many clients seeking services have been unable or unwilling to pay. This has left a void in the market, which has traditionally been adequately catered for by commission based financial advisers. The future for these commission-based advisers looks grim, with many of the larger financial services operators providing free homogenous financial planning advice or charging a competitive hourly rate. This acts as an inducement for those clients who are not yet prepared to enter into a lifetime relationship with the financial advice provider. One entrepreneurial financial adviser who offers "free financial plans fixed here" noted that he was pleasantly surprised to discover that much of the free advice that he was attempting to fix had been professionally compiled. In other words, there wasn't much room for improvement.

This raises larger questions about charging fees or receiving commissions relating to the size of the portfolio that is being advised on. Is the issue really about fee versus commissions, or providing financial advice that is considered to add value irrespective of the billing arrangements? The financial planning industry presently categorises fee-based planners as those who charge on the level of assets under management. This approach implies that clients with more money demand extra time and are more complicated. Successful financial advisers are not concerned with the amount of funds under advice or the method in which they are compensated for their advice. They are confident that the financial advice that they provide is of sufficient quality to command a payment, which is significantly below the additional long term value that has been provided to the client. The client is reminded of this at each opportunity and completely aware of the source and amount of compensation received by their financial adviser. Looming changes to third party margins and commissions have no impact upon these adviser's business revenue streams. The most profitable and successful practices in Australia

charge an average of over $10,000 per client per annum but provide a wide range of value added, personalised services in return.

Competition and Fee Pressure

Now that competition within the Australian financial planning industry is beginning to hot up, larger players are lowering the bar and competing on price. This ranges from free to nominal fee financial planning advice (already alive and kicking in Australia with AMP's My Plan providing an on-line plan for $55 pa) to fee only consolidated reporting, of which there is only one group quietly going about this business. As the industry matures and consumers become increasingly more sensitive to price, these fee programs will dramatically increase in popularity. Consumers will actively seek out the best returns or most specific advice for the lowest costs. Increased media attention combined with advancements in technology will visibly promote the alternatives that are available, permitting the consumer to disintermediate or unbundle the financial planning journey that presently exists.

Consumers will increasingly accept the consolidated reports as an expectation and will be mindful of the additional costs that they pay for this privilege. As attention increases in this area, many consumers will discover that the majority of costs associated with the provision of their consolidated reporting are in the provision of systems to improve the margins of their financial adviser's business. Over the past decade, many of the cost savings enjoyed by financial advisers through technology have not been passed onto the consumer, who still pays roughly the same amount as they did ten years ago.

Specialising versus Generalising

As the larger financial service organisations begin to ramp up their approaches to consumers, it will increase the homogeneity of the financial planning environment that currently exists. But will the consumers appreciation of generalist financial advisers diminish? As is discussed throughout the paper, the institutionalisation of the consumer relationship, whilst a good idea in theory, is difficult to put into practice. The key success factor for the "insitutionalisation" of the consumer relationship is a professional remuneration structure that rewards 'groups' versus 'individual' effort. Commoditisation will continue to occur for those clients who don't wish to pay a premium for relationship or quality advice. For those financial advisers concerned by this trend there are a number of suggestions to help secure their business. One method of providing a generalised version of expertise is to employ a variety of financial advisers within a financial planning practice who each concentrate their efforts in unique fields. This is often achieved throughout Australia with various advisers forming loose professional alliances under a cooperative arrangement and has proven to be a successful strategy in providing greater diversity of advice to clients.

An alternative approach to this collective is referred to as a "Multidisciplinary practice". This environment employing multiple experts working in-house ensures the client relationship centers around the one firm. With the increase in the speed of information, it is becoming increasingly difficult for financial advisers to stay in tune with current best practices. This collaborative approach is pushing the cutting edge of client-driven financial planning, as it provides them with a one-stop-shop benefiting clients and financial advisers alike. The resulting services may appear consistent and seamless to the client, but provide crucial support to the relationship managers of the financial planning process. The collaborative niche approach also has the benefit of lowering the cost of business development by leveraging existing client relationships, whilst remaining competitive in an increasingly competitive environment.

The most significant obstacle towards the adoption of a multi-disciplinary approach is the ego of many financial advisers operating small practices. Many of them posses the controlling 'A' type of

personality, which unearths excuses for not growing and delegating, externally or by employing internal resources. This reluctance to share their clients and desire to be perceived as “all things to all people”, will ultimately fail to meet the clients expectations, or worse still, result in a mistake or an oversight.

Balancing Technology and Relationships

Whilst we have seen dramatic improvements in technology and net based financial planning tools, consumers are even more confused and have flocked to “face-to-face” advice. Many have concluded that on-line advice is not viable however, we would argue that this is a dangerous assumption with the quality of on-line services improving all the time. Unfortunately, no on-line provider has managed to provide a cohesive, on-line offer, but this is an easily achievable goal. Looking from the industry perspective, the financial planning industry has become fixated with the consolidated report systems provided by Wrap Accounts, Master Trusts and other administration systems. The relatively quick adoption of these new technologies by financial advisers has been under the guise of making their back-office more efficient, thereby improving margins and lowering the costs to the client. In reality the overall cost to the consumer of participating in the financial planning journey is about the same as it was a decade ago. As mentioned earlier, much of this embracement of platforms has been in vain, with clients having little interest in the ancillary offerings by platform providers that make their financial adviser’s business more efficient. Many of these systems (particularly smaller platforms) actually disguise the operational inefficiencies contained within the Australian financial planning industry through having no true Straight Through Processing (STP) and relying on the hyper-margins that presently exist between retail and wholesale pricing. There remains potential for efficiency savings of between 75 to 100 basis points to be achieved from reviewing many of these outdated registry and consolidated reporting systems.

The offering of a consolidated report is quickly being regarded as obligatory for any financial adviser wanting to deal in the consumer’s financial affairs, with the true value being the “shoulder to lean on” rather than technology, products or performance[1]. Consumers are more interested in goal setting and readily available answers to specific queries that satisfy their family situation, rather than what has traditionally been the best strategy for their financial adviser. Nevertheless, financial advisers need to find the appropriate balance between technology and relationship, as those relying heavily on either component may find themselves in a false sense of security when it comes to retaining their clients. Success in the future will be measured both by the strength of the personal relationship and by performance, measured by peace of mind and the assurance that the client has someone who understands them and is sifting through and filtering all of the available information. Those financial advisers who are considering entering the world of “holistic financial adviser” should be wary of the gauges used to measure this touchy-feely direction. Without strong personal skills (and perhaps a psychiatric qualification) the judgmental comments associated with this holistic fad may work against the objectives of both the consumer and the financial planning business.

So…What is Platform Plus[2]?

If you accept that these conclusions made in Hypercompetition Part I are basically sound, then Platform Plus must address these. At the same time, it must be affordable and easy for both small and large financial advisory enterprises to implement. For the Platform Plus model to be successful, there are also some fundamental requirements that need to be addressed namely communication, collaboration and access to information.

---

[1] These comments are based on a report by Cambridge, Massachusetts-based firm Forrester Research, together with an article entitled “What Does the Future Hold for the Financial Planning Profession?” by Nancy Opeila

[2] These comments are based on the contribution made by Ron Hughes, CEO Adapt IT. Adapt IT is the operator of the Adviser Resource Center.

Communication
All parties in the financial planning journey must be able to communicate easily and effectively. For reasons of compliance and sound administrative practice, it is essential to maintain an accessible, reliable and auditable record of all relevant communication. Clients want 24-hour access to communication and therefore require online (Internet) services with access to information and secure discussion capability. Other parties with an interest can be invited to participate, including accountants and lawyers.

Collaboration
At some stage, each party in the planning and wealth management process must contribute to the effort. Financial advice is a collaborative effort between the financial adviser and the client and often includes the financial adviser's support staff and other third parties that provide specialist skills and information. Therefore, Platform Plus must provide two-way interaction between parties. Clients must be able to contribute by adding information that can be shared or by maintaining elements of their own profile. In general, each participant needs to have the ability to add their own information and share it as they choose on a case-by-case basis.

Access to information
A vast amount of information is available and often used in the wealth management process. This includes the developing of a financial plan and continuous access to research, information and services. It is increasingly important for compliance and reference purposes that this information is captured and made accessible to all parties in the planning process.

To assist dealers, financial advisers and their clients to achieve these fundamentals, Platform Plus must address each one. The trick is to find a way that suits all parties! The Internet is possibly the only effective method of supporting the needs outlined above, but there is an issue. While a large number of financial advisers and dealers are already using the Internet or planning to, not all investors are. To assure success, a key element of Platform Plus is the ability to address the needs of clients that are Internet enabled and those who have not made the transition. The dealers, financial advisers and their staff must not be forced to operate two separate systems and duplicate their efforts. The system must be easy to use, require no IT assistance and be accessible anytime, from any PC, anywhere. Each participant must have a unique login and password that gives secure access to personal and shared information and tools.

The main elements of a successful business

Inherently, if the elements of a successful financial advisery business are met, all parties in the financial planning journey win! So, how must Platform Plus address the main elements?

Client Loyalty
Better access to information and tools increases the comfort level of the client. If the resources are available and a communication and collaboration platform is in place, the Adviser has more time to spend on the development of the relationship with the client and on understanding their needs. This is obviously a key factor in earning client loyalty, with reduced client attrition being better value than new sales. The same principals apply to the relationship between the dealer and the financial adviser.

Effective Marketing
Platform Plus needs to facilitate an increase in revenue by providing a simple to implement and permission-based marketing approach that is consistent with Privacy Legislation. The financial adviser needs to be able to automatically distribute and gather information from clients based on their profile. It is essential that clients are able to contribute to their profile and elect to accept or reject certain types of marketing information. Again, the ability to automate this process for clients who are Internet

enabled leaves more time for selling products and for more personal contact with the client. It also significantly reduces the time and cost of marketing labour and materials. Once this is in place, all parties will benefit from targeted cross-selling and up-selling opportunities. Immediate dispatching of information means financial advisers and clients can immediately seize opportunities which otherwise may have passed.

Efficient Customer Service

The financial adviser must have access to a 'Resource Centre' containing tools, correspondence, historical and updated research, and information and reports. The financial adviser should be able to provide the client with access to the Resource Centre when and where they want it. The Resource Centre must facilitate the client taking a DIY approach with appropriate tasks and provide them with an effective and convenient way of getting answers 24 hours a day. The more of this that can be provided via the internet in a secure and specific fashion, the more time is available for face-to-face relationship building, up-selling and finding new clients.

Continuously reducing costs

Automation of as many business tasks as possible is essential to time and cost savings. Platform Plus must provide a simple but effective workflow that proactively notifies participants and pushes tasks through each step.

Platform Plus must address the needs of both Internet and non-Internet enabled clients, while allowing the Adviser to operate a very cost-effective practice. At the heart of this is the ability of Platform Plus to manage information for both types of clients and address the online and offline communication methods required.

Continuously increasing capital value

A structured dealer and financial adviser business with efficient marketing and communication, supporting easily transferable, loyal clients will continuously increase in capital value.

Conclusion

Platform Plus must facilitate an unbiased, single point of access to a wide variety of research, information, products, tools and services. This demands that the operator of Platform Plus is as independent as possible from individual products or brands and that dealers, financial advisers and clients have control over their own implementation.

The New Generation of Investment Products

The Australia financial planning industry will come under demand for more open architecture as it continues to become deluged with more products and information. This will be fueled through the rise in average account balances together with the increased reliance upon fund ranking agencies as consumers demand best-of-breed investment compared to market returns, not vendor menus. This will cause a backlash against perceived bias in proprietary products as consumers are able to discretely unbundle advice costs.

One beneficiary of this changing environment will be the growth in use of Individually Managed Accounts or Consultant Wrap-Fee Programs (as they are referred to in the US). These are separate accounts that enable the consumer to retain ownership of the underlying assets in their own name, thereby providing some tax-efficient strategies. With a minimum investment of $100,000 these structures appeal to affluent investors, as they can be offer a customised relationship with their financial adviser. The average fee for IMAs is approximately 1.8% per annum (following negotiation with the fund managers), although this is expected to reduce as margins come under pressure.

The New Performance Benchmarks

As scrutiny increases on both performance and price, new benchmarks will appear for consumers to measure their financial advisers and financial products against. Whilst the financial service industry has a fixation of measuring managed funds against relative benchmarks, such as growth and value indices, the consumer will increasingly adopt the use of simpler yardsticks. As performance reverts to the mean, consumers will increase their comparison of investment against the ultimate index – the "*after fees and tax absolute return index*". This is where products such as IMAs will prosper in this new environment.

As with performance, the benchmark for fees will become uncomplicated for the judicious investor, as they compare the variety of fees attached to all of their investments. For many this will mean that the process and on-going management of investing in a managed fund will need to compare favorably to the process and management of purchasing other investments, such as an investment property. For many financial advisers this may prove to be a difficult argument to win, as the on-going fees[3] for direct property ownership are significantly less than those that exist in the financial planning journey. The increase in interest in property investment will also challenge the methods in which a financial adviser receives their remuneration ie fund managers are great administrators for the collection and payment of trails etc, whereas this is not the case for direct property investment. In a recent quarterly ING Melbourne Institute savings report, it was shown that consumer's intention to purchase shares was down to the lowest level since December 1998 (when the survey began). Real estate investment has overtaken share investment as the preferred place to put all new savings with 22.3% of respondents nominating real estate as their preferred investment. This may challenge many practices to start including direct property services into their product/service array.

Whilst these many not be "correct and appropriate" benchmarks to use, the unbundling of the financial planning journey will ensure that they are progressively considered by consumers discontented by unrealistic performance expectations.

[3] This excludes maintenance and other costs associated in maintaining the property – which are often forgotten by the investor

Looking From the Outside In

Looking From the Outside In

"I'm standing on the outside looking in"…..Cold Chisel

The purpose of this section is to look at the Australia financial services industry from the outside in. That is to ask the consumer whether they believe that their expectations are being met and value being added. The days of the consumer stating to their financial adviser "I'll stay with you unless you give me a reason to go" have since become replaced with "I'll go unless you give me a reason to stay". The financial adviser has suddenly become the product!

How Much Permission Has Been Granted?

In today's financial services arena there are many competitive forces all vying for the attention of the consumer. As has been acknowledged, these competitive forces will grow in number and levels of sophistication, catering for all types of consumers. The improved ability of competitors and technology solutions will target both new business whilst appealing to existing consumers to shift their monies over. This conversion will be stimulated through

- Increasingly price sensitive consumers
- Consumers becoming more discerning about net returns
- Increased unrealistic expectations about future returns
- A new generation of consumers who are technology savvy and investment aware
- Expansion in the number and ease of free advice sites
- Increased competition from traditional relationships (banks, accountants, insurance agents) and new players such as "Platform Plus"; and
- Greater media attention towards the financial planning industry, not all of which will be flattering.

To retain and attract clients, the financial planning industry must improve upon the consumers experience. For those who are have a brand advantage, then effort must be directed towards developing tangible trust and demonstrating a dedication towards the consumer. Before achieving this, the first step will be to identify what the consumer's expectations are before offering a value-add proposition. The consumer of the next decade will expect under-promising, reduced sales pressure and no conflict of interest. This latter point will test the product suppliers who have opted to purchase distribution with a view to gaining increased support of their products.

The point to be taken from this dialogue is to identify how much permission the consumer has really granted to their financial adviser. For example, has the consumer merely used a financial adviser to establish their financial programme, with a view to paying a one-off fee and then maintaining their own financial affairs going forward? Or perhaps the consumer is a strong advocate for on-going financial planning advice and is prepared to pay an advice-premium for regular reviews and peace of mind management. Whichever their profile, it will become increasingly important for this to be identified up-front, as many of those in the first category will be early-adopters of alternative / technology solutions.

Authority on Permission Marketing, Tony Surtees identified the various scales of permission granted by a consumer to a financial adviser. These five levels are

1. Intravenous: You have generalised permission to inject advice and prescribe financial medicine.

2. Points and bonuses: such as frequent flyer type awards
3. Personal Relationship: doesn't scale well and requires years of golf and parties to develop.
4. Brand: "I generally know you but…"
5. Situation: "I'll trust you now depending on…"

With the intention being to move from step one to the number five position, financial advisers must look to build permission through developing trust over time. This is best achieved through increasing the investment in clients to improve their learning, interpretation and guidance whilst leveraging the permission to derive more business. It is important to understand that developing this increased level of consumer permission can't be replaced through technology alone. Face to face communication plus anticipation and understanding of client's needs are the most significant methods of making them feel important and remembered.

What Do They Think About Us?

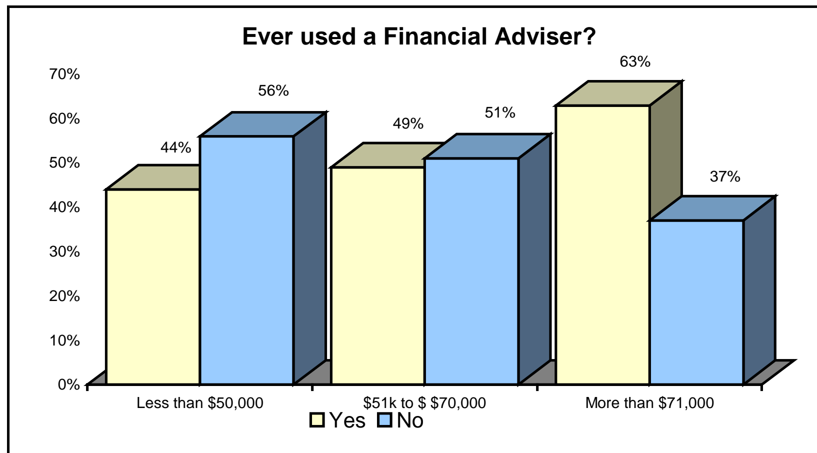
Business Owner Research was commissioned to conduct an independent survey with high-income households, to examine their use and perceptions of financial advisers. The survey was split into two, those that had used a financial adviser in the past 5 years and those that had not (or had used one 6+ years ago). This was timely as many of them have now endured two years of below average portfolio performance and would be well expected to re-evaluate their relationship with their financial adviser. The following is a summary of the findings from this research.

Attitudes of Those Consumers Who Use a Financial Adviser

There is little doubt that consumers surveyed are more satisfied with their financial adviser than what may have been expected. This may be a function of the lack of understanding of the customer, the fact that they do receive a high level of service (given that they are of reasonable net worth), or that the advisers are actually delivering favourable services to the market. Nonetheless, despite this 'top line' finding, there are a number of subtle, but important findings that emerge

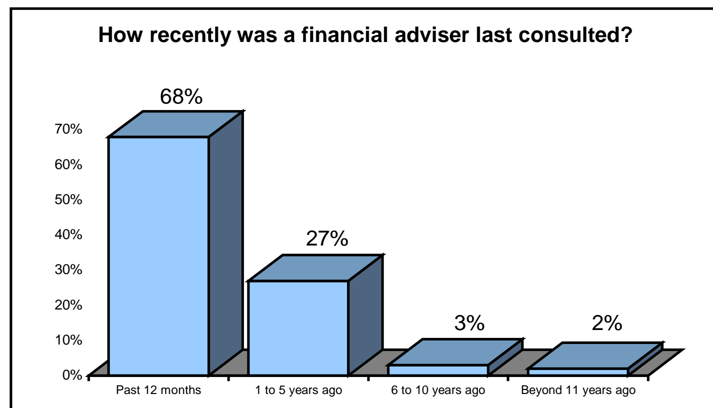
- Most consumers rely on word of mouth when establishing which financial adviser to use.
- Only half of those that use an adviser conduct an annual review with this person. It is plausible to consider whether such customers are happy with their financial adviser, or whether they 'don't know any better' or don't know what to expect.
- Although most believe their advisers are charging them an appropriate amount, around a quarter don't know if the adviser is receiving a trail, while a third believe (maybe incorrectly) that the adviser is **not** receiving a trail.
- It is clear that those that have not used a financial adviser do not perceive these professionals have any role to play in instances where they have no spare cash to invest. Very few seem to understand that they could gear up for investment purposes, for example, based on the equity that they have in their home. This simply has not occurred to them, and they therefore view financial advisers far too narrowly. A significant market opportunity exists to shift this perception.
- A relatively high proportion (53%) of the sample indicated that they have used a financial adviser. This is higher than what would have probably been expected and is due to the relatively high income earning status of respondents. Recalling that all respondents come from a household earning $70,000+ pa, this obviously biases findings toward those members of the population of

greater wealth. This is evidenced in the chart bar below which shows the relationship between income (in this case personal income, as distinct from household income) and use of a financial adviser.



Frequency of Consulting a Financial Adviser

Most of those surveyed that have used a financial adviser have done so in the past year. This is what would be 'hoped' for in such a survey, as it means that the feedback provided by these people is based on recent experiences. Only 5% of those that have used a financial adviser indicated that they did so over six years ago[4].



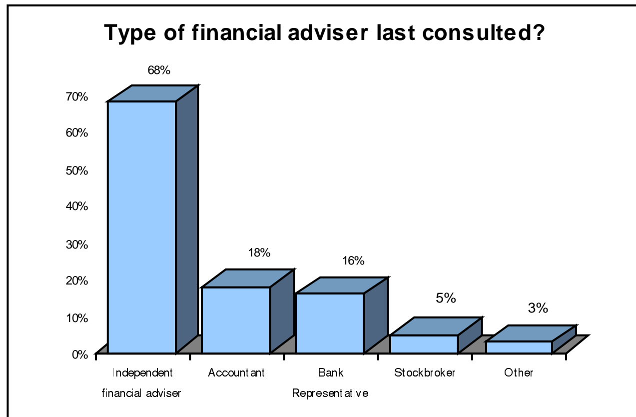
The vast majorities (68%) of consumers surveyed have consulted an 'independent' financial adviser, with a smaller proportion (18%) consulting their accountant. Indeed, this proportion is smaller than what may have been expected – it was anticipated that many people would think of conversations they have had with their accountant and interpret them as using a financial adviser. It is interesting – and encouraging – that this is not the case. Also of interest, was that only a small, but nonetheless solid proportion has consulted a bank representative, indicating that the banks have not yet achieved any meaningful penetration in providing financial services to this market segment.

What Prompted Seeking Advice From a Financial Adviser?

The key finding in relation to why respondents felt the need to seek advice from a financial adviser is that there is no major trigger that dominates or motivates them to do so. By way of illustration, the most commonly cited reason for seeking the advice of a financial adviser was 'retirement', but this was the case for less than 20% of those that had used a financial adviser. The key finding is that there were no common 'key triggers/events' that encouraged respondents to seek the services of a financial adviser. Many comments were made that suggested that respondents simply felt it was time to do so. Once the consumer had made the decision to seek financial advice, the next step was in the

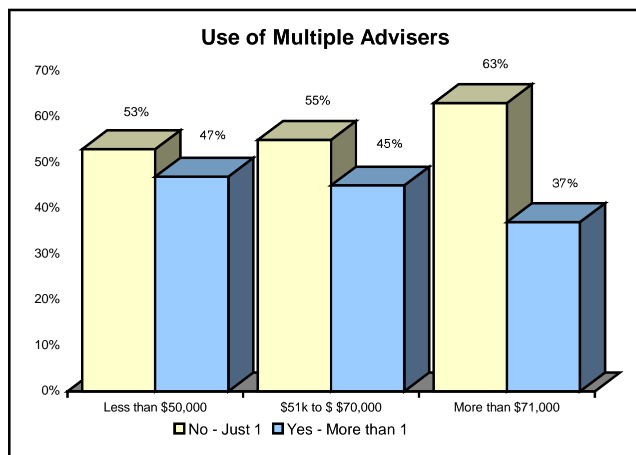
[4] For the purposes of this survey, these people were not asked to provide feedback on their financial adviser, as it was deemed to be too long ago to have a strong recollection. Instead, these persons were asked why they have not felt the need to seek advice more recently – which is explored in greater depth further.

selection of the financial adviser to use. As would be expected, word of mouth is critical in assisting consumers to identify which financial adviser to use. Half (50%) of those surveyed that have used a financial adviser indicated that they identified who to use by speaking with a friend/relative. It is interesting however to note the extent to which existing relationships are important – 28% stated that they already had an existing relationship with their adviser (eg their accountant/through their accountant/bank etc.). Examples of consumer feedback are detailed in Appendix One.



Use of Multiple Advisers/Second Opinions

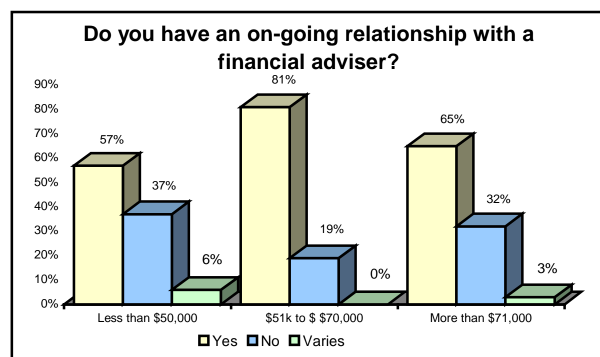
A surprisingly high proportion (44%) indicated that they sought advice or opinion from more than simply one financial adviser. Hence although most (56%) used only the one financial adviser, there is a segment of the market that feels the need to seek multiple sources of advice. Of interest is the fact that those with a higher personal annual income are **less** likely to seek advice from multiple suppliers. 63% of those earning $71K+ pa sought advice from only one adviser, compared with 55% of those with an income of $51K-$70K, and 53% of those with an income of less than $50K. Similarly, older respondents are more likely to seek multiple advisers. This correlation is particularly strong. These people were asked why they felt the desire to obtain insights from multiple advisers. The general trend is that customers are uncertain as to whether they can fully trust their adviser, and therefore many felt the need to obtain a second opinion. This is typified by comments such as … 'they usually bat for one team' … 'just to get a second opinion' … 'we checked out which ones we could trust most' … 'more interested in his own advancement than mine'…. 'peace of mind'. Additional information from those consumers surveyed about the use of multiple advisers is detailed in Appendix Two.



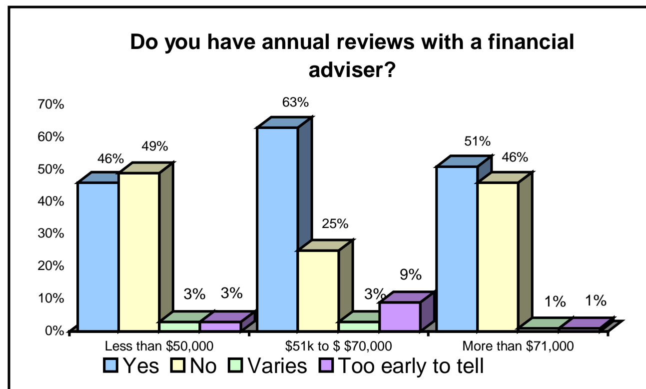
Use Multiple Advisers	Age			
	< 35	35 - 45	46 - 55	56+
No – Just 1	83%	55%	41%	39%
Yes – More than 1	17%	45%	59%	61%

Do you have a relationship?

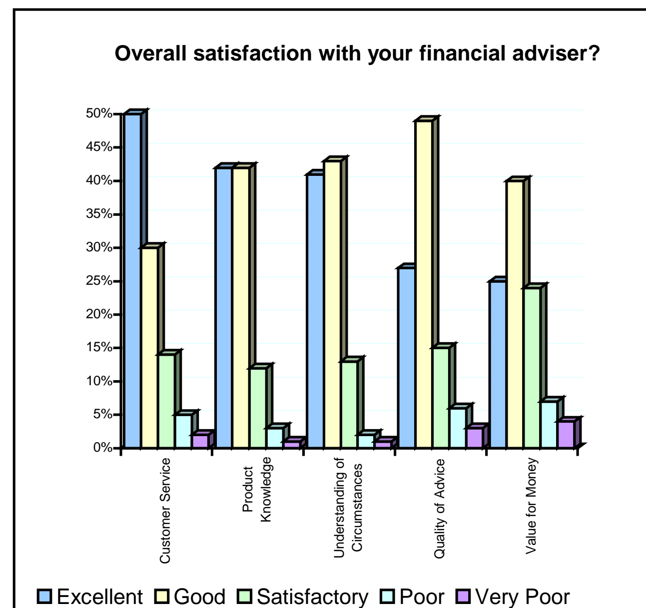
Two thirds of those that use a financial adviser indicated that they perceive they have an ongoing relationship with this person. A third believe they do not have an ongoing relationship. A small proportion stated that it varies (eg they have an ongoing relationship with some of their advisers). Those with greater income, or to a greater extent, older respondents are the most likely to argue that they have an ongoing relationship with their adviser. Further, those using an accountant (74%) or an Independent Financial Adviser (68%) are the most likely to indicate they have an ongoing relationship than those that deal with a bank representative (46%).



What is the frequency of contact with your financial adviser?

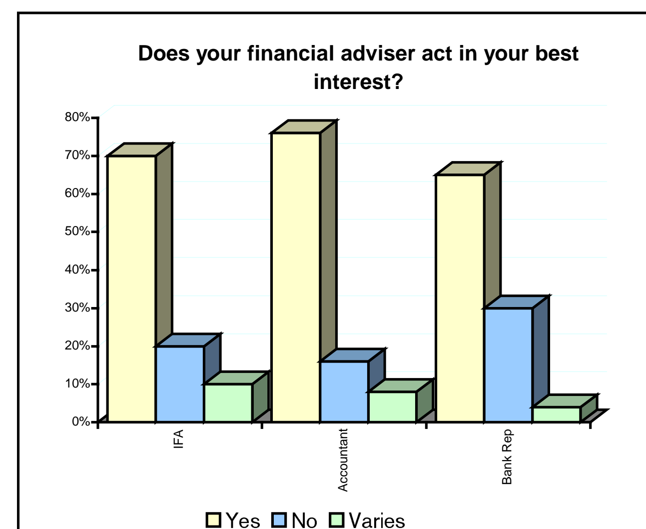


The frequency of contact with the financial adviser varies between respondents, although survey findings show a surprising proportion that deal quite frequently – eg monthly or quarterly. Indeed, this high proportion dealing with such frequency may suggest that they are not being serviced by a financial adviser, but a stockbroker / accountant etc (even though they had earlier stated that they are dealing with a financial adviser). Frequency of contact with the financial adviser does not vary by market segment of respondent. Around half (51%) of those that use a financial adviser indicated that they have an annual review with the person. Of course, this means that around half don't have an annual review. Those on higher incomes and to a greater extent, older respondents are most likely to have an annual review with their financial adviser.



Overall – satisfaction with financial advisers

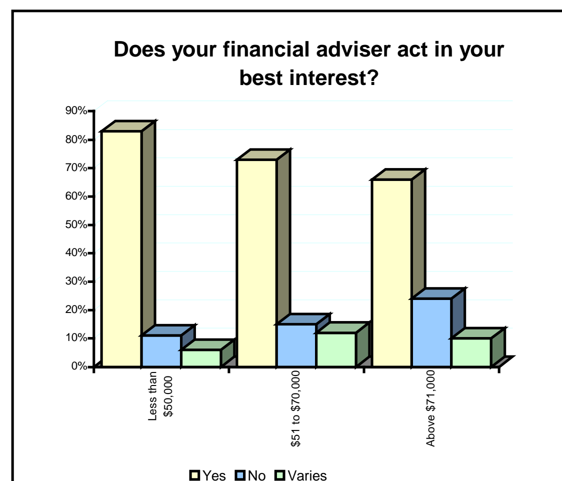
Respondents offered quite positive assessments of their financial advisers. They were particularly complimented for their product knowledge and their understanding of the customer's circumstances and requirements. General level of customer service was the other dimension on which they perform admirably. Ironically, given these facts, respondents offered only moderately positive views on the adviser's overall value for money.



A strong proportion (75%) of respondents indicated that they would recommend their financial adviser to family or friends. Only around a quarter stated that they wouldn't recommend them. Despite the apparent satisfaction with financial advisers/financial advisers, customers certainly see areas for improvement in their performance. This is clear from the range and type of verbatim comments that follow, which are intentionally detailed, to provide key insights.
Although many respondents stated that there are no areas for improvement, it is noteworthy that a relatively high proportion of other respondents highlighted unfavourable experiences they have had with a financial adviser. Examples of consumer feedback on how their financial adviser can improve are detailed in Appendix Three.

Attitudes of those consumers that do not use a financial adviser

Of the 117 consumers that were surveyed that have **not** consulted a financial adviser, a quarter (25%) indicated that, with hindsight, they have had the need to consult a financial adviser in the past 10 years. None of the demographic variables considered (eg age, income, gender, and location) have an impact on their perception of the need to consult an adviser.



Interestingly, there is not one major trigger cited by these persons as to why they required the services of a financial adviser. This is consistent with the key triggers for those that have used a financial adviser, which were mentioned in the previous section. Hence, many of the people that felt they probably should have consulted a financial adviser simply believed that it was 'about time' to do so.

Although only a small number of respondents indicated that they used a financial adviser 6+ years ago (but not since), these persons were consulted as to why they have not used a financial adviser since. These persons made a variety of comments, with no single reason dominating as to why they haven't used a financial adviser more recently. These are detailed in further in Appendix 4.

One of the key objectives of this research was to establish the motivations of those that have not consulted a financial adviser. The major reason is that these people believe that they do not have the need to consult a financial adviser. This is a key finding of this survey. Recall that to qualify for interviewing, the household has to earn $70,000 pa pre-tax. There is surely a discrepancy between how much a financial adviser believes a person/household must earn before such skills are necessary, and how much a consumer believes must be earned. Related to this, many comments highlight the fact that financial advisers are viewed very narrowly by potential customers. That is, many indicated that they are using their cash for a purpose other than investment. Paying off the mortgage is a classic example of this. It is clear that virtually none of these people perceive that a financial adviser has a role to play in advising in such a situation. (Indeed, it is arguable that many consumers are evidently not thinking about using the equity they do have as security for additional, negatively geared borrowing).

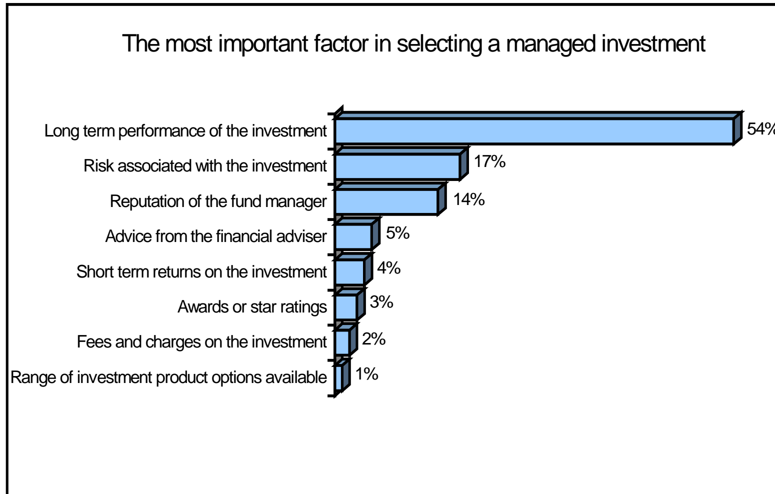
Further, numerous comments were made by consumers to indicate that they simply could not trust a financial adviser. Strong 'DIY' behavior dominates the decision of some consumers to not use financial advisers or financial advisers. In other cases, the consumers are simply 'blissfully unaware' of their need to avail themselves of financial advice. These findings are detailed in Appendix 5.

Those that had not used a financial adviser indicated that if they were to use one, they would rely on word of mouth – that is they would speak to their friends and family – to identify which financial adviser to use. 60% of non-users stated this to be the case. Consistent with findings discussed in the previous section, the second highest proportion (29%) stated that they would go to someone with whom they already have a relationship – eg their accountant, bank etc.

Attitude to Fees and Charges[5]

The way consumers' view managed investments has a critical bearing on their attitude to fees and charges. Today, consumers talk about how the financial landscape is ever charging. It is one characterised by volatility, complexity and a proliferating array of choices. This is occurring in an era when many of the target market simply do not have the time to evaluate all of the options open to them or keep up to date with all thee changes.

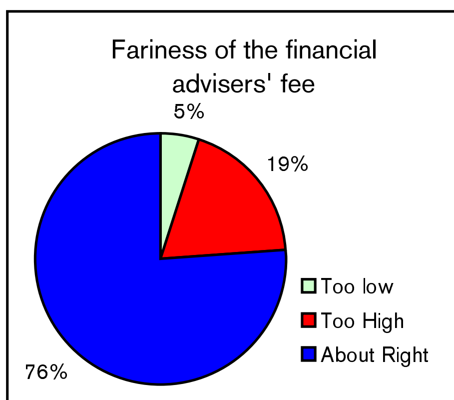
Based upon discussions with consumers, it was apparent that fees and charges ranked well below other criteria when selecting a managed investment. This was due to the notion and acceptance of fee for advice, knowledge and professionalism – in other words you don't get anything for free. There was also recognition of the historically sizeable gap between returns and fees, although it would be easy to predict that fee sensitivity will increase as returns decline to mid to higher single digit returns.



The main sources of information on fees and charges considered the most reliable by consumers were obtained from their financial adviser (42%) and the prospectus (35%). All managed investment consumers were asked the extent to which they were comfortable with the amount of information they had on the fees and charges at the time they selected the managed investment. Three quarters of consumers said that they were either "very" or "somewhat" comfortable with the information at hand.

Following on from this, consumers who had used a financial adviser were presented with two options for paying them. Two thirds (63%) prefer to pay for a fee for the service with 32% preferring a commission-based approach. The findings from this report concluded that consumer's had a high predisposition towards managed investments, although fees and charges are not uppermost in their minds. This is predominately because about a third of those who have managed investments had, at the best, an extremely hazy knowledge of fees and charges.

In the research by Business Owner Research, it was found that a strikingly high proportion (76%) of respondents stated that the fee charged by their financial adviser was 'about right'. Only 19% stated that the fee charged was too high. Whilst the findings did not vary by segment of respondent, it is worth noting – and surely potentially a source of some humour to financial advisers – that 41% of respondents that use an accountant as a financial adviser suggested that the person charged too much. This compared with 18% of those using a bank representative, and 16% of those using financial adviser.



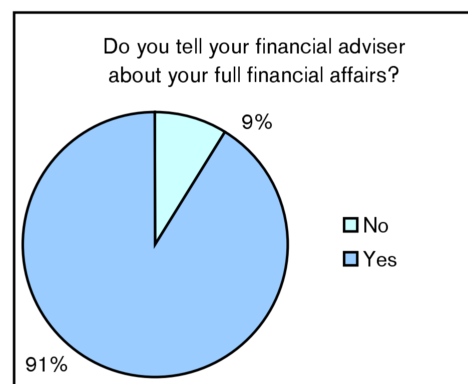
[5] These comments are based on the IFSA Fees and Charges Consumer Perception Study, conducted by Sweeney Research and published July 2001

Awareness of Trail	Personal Income			
	Total	<$50K	$51K-$70K	$71K+
YES – adviser receives trail	37%	33%	33%	44%
No – adviser doesn't receive trail	30%	19%	27%	37%
Mixed – trail on some investments	1%	3%	0%	0%
Don't know	27%	36%	33%	18%

As noted in the table above, an interesting picture emerges in relation to the customer's awareness of the investment trail commission income. Although 37% stated that they realise their financial adviser gains a trailing commission, 30% stated that the adviser does not receive such a commission, while a further 27% simply don't know. It is this last piece of information that is surely most interesting. Higher income earners are most likely to be aware of the existence of a trail.

Trusting a financial adviser

The vast majority (91%) of respondents stated that they tell their financial adviser about their full financial affairs – which are about all their investments, mortgage etc. Whilst that findings do not vary significantly by market segment, it is interesting to note the impact of type of adviser. 93% of those that use an accountant stated that they tell them 'everything', compared with 90% of those that use an Independent Financial Adviser, and only 83% of those that use a bank representative.



A high proportion (72%) of those that currently use a financial adviser indicated that they believe that the adviser is acting solely in their best interests. This is higher than what could possibly be expected, although in context, 19% explicitly stated that they believe that their adviser is not acting solely in their best interests. As is illustrated previously, those on higher levels of income are less likely to believe that the adviser is acting solely in their best interests. Further, those that use bank representatives are also unconvinced that person is acting in their best interests.

Summary of findings

53% of the persons surveyed have used a financial adviser. This is higher than would be expected for the population at large, driven by the fact that this survey was restricted to households earning $70,000+ per annum. Higher income earners are more likely to have used such an adviser.

For those that have used a financial adviser in the past 5 years, the feedback was

- 68% of those that have used a financial adviser in the past 5 years have used an Independent Financial Adviser. 18% have used an accountant, 16% a bank representative, and 5% a stockbroker.
- There is no major trigger that is commonly cited by respondents as to why they sought opinion from a financial adviser. That is, most suggested that it was 'about time' to do so.
- 50% stated that they relied on word of mouth in establishing which adviser to use. 28% had an existing relationship with the adviser (particularly relevant when the accountant or bank representative is used).

- 44% indicated that they sought advice/opinion from more than simply one financial adviser. This is particularly the case for older respondents. The major reason for seeking multiple quotes is simply because consumers are uncertain as to whether they can trust their adviser(s) and require a second opinion before they are comfortable in doing so.

- 66% stated that they believe they have an ongoing relationship with their financial adviser. Older and wealthier consumers are most likely to believe this is the case. Those that use an accountant or an Independent Financial Adviser are more likely to believe they have an ongoing relationship with their adviser than those that use a bank representative.

- The survey unearthed many persons that deal frequently with their adviser – 52% deal with their adviser quarterly or monthly.

- 51% have an annual review with their adviser. Those with a greater income and older respondents are most likely to have an annual review.

- The vast majority (86%) of those that use a financial adviser stated that their adviser has explained the risk/return trade-off of their investments.

- Satisfaction assessments of advisers are quite high. By way of example only around 5% of customers suggested that their adviser is 'poor' or 'very poor' in relation to their level of customer service, product knowledge, or understanding of the client's circumstances. 9% stated that their adviser offers poor/very poor quality of advice/solution, while 11% believe they receive poor/very poor value for money.

- 75% of those that have used a financial adviser in the past 5 years stated that they would recommend their adviser to their family/friends.

Although many respondents stated that there are no areas for improvement, it is noteworthy that a relatively high proportion of other respondents highlighted unfavourable experiences they have had with a financial adviser.

- Over three-quarters (76%) of respondents believe that the fee charged by their financial adviser is 'about right'. Only 19% stated it is too high. (41% of those that use an accountant as their financial adviser stated that the person charges too much, compared with 18% of those that use a representative or 16% of those that use an Independent Financial Adviser).

Major areas for improvement with advisers:

- Reducing fees
- Being more accessible to customers
- Improving the level of customer service
- Being more understanding of the 'middle market'

- 37% stated that they are aware their adviser earns a trail on their investments. 30% stated that the adviser does not earn a trail, while over a quarter (27%) are unsure.

- The vast majorities (91%) tell their financial adviser about their full financial affairs – that is, about all their investments, mortgage etc. Those dealing with a bank representative are least likely to tell them about their full financial affairs.

- 72% of respondents stated that they believe their adviser is acting solely in their (the customer's) best interests. Those earning more and those using a bank representative are the most likely to suggest that their adviser is **not** acting solely in the customer's best interests.

The feedback from those that have **not** used a financial adviser in the past 5 years was

- Of the 117 consumers that have not consulted a financial adviser, 25% suggested that, in hindsight, they **have** had the need to seek such advice in the past 10 years.

- The major reason why these people have not consulted a financial adviser is that they believe they simply have not had the need to do so. It is interesting that many of these respondents talk about paying off a mortgage/having no spare cash for investment etc. Many comments were also concerning the fact that many consumers found financial advisers to be untrustworthy.

Build the Perfect Practice

Build the Perfect Practice

"I want to be……..perfect"…..Fairground Attraction

There is no precise approach to running the perfect practice. Those who have succeeded have tended to be those financial advisers who have seized the opportunities that have been presented over the past decade and have been proactive to enhance their business. This has meant developing a financial planning practice that is centered on ensuring a high quality experience for all clients that the practice wants to maintain. With the Business Research Owner survey providing an insight into the thoughts of the consumer, the final component is to provide ingredients on meeting their expectations. This section addresses how to build or maintain a financial planning business that adequately rewards financial advisers who are looking to attract and retain clients.

The illusion of history

The looming pressures against fees combined with increased competition will mean that without being proactive, your business will decline. Gone are the days of being complacent and taking the consumer for granted, with many financial advisers still more concerned about events in the financial markets than events in their client's lives. As the consumer becomes more discerning, it will be those financial advisers who have invested into understanding the emotional needs of their clients that will have highest retention levels. A case study that expands on this point came from Hypercompetition Part I in the section "Do my clients love me". This focussed on the anxiety felt by consumers following the tragic events of September 11 2001 and the low levels of contact that many of them received from their financial adviser. High proportions of clients received no direct contact from their financial adviser and were left to anticipate the impact upon their portfolios from the media and other low quality information sources. In reality, all that clients required to maintain trust in their financial adviser was a simple phone call saying that everything was being monitored.

The first step towards building the perfect practice will require an emotional commitment to break some of the outdated conventional wisdom. Some of these myths which the financial planning industry currently adheres to include:

Myth #1: I need more clients to grow

The number of clients does not boost the bottom line, however the right type of clients will. Whilst there is no magic number of clients with whom a single adviser should have, a lesser number will lead to achieving a consistent high quality experience for those clients. The increased number of referrals that flows from greater retention will reduce the business investment required in marketing for growth. The first step in achieving this solution is to identify the profile of the 'ideal client' for the business, and then develop a process for transferring inappropriate clients elsewhere. This doesn't necessarily mean that non-suitable clients should be transferred to junior staff within, as this will not achieve the long-term ambitions of the business. Traditionally the suitability of clients have been profiled on funds under management, without giving thought to their expectations from the adviser relationship. A more appropriate measure will be the net revenue per client to the business, when accounting for matters such as cost, level of contact, and whether they are individuals with whom the business wishes to deal with. Time and time again we have heard advisers say "the best thing about changing dealers was that I could get rid of all my 'C" class clients" – perhaps the old dealer was not the real issue after all.

Myth #2: My success is based upon the length of time spent in the industry

Whilst length of tenure may have contributed to the growth in a financial planning practice over the previous boom-decade, there is no correlation to demonstrate that it will continue in the future. For those advisers who are 'hanging in there' relying on non-productive business practices, now is the

time to begin re-engineering their business for the imminent times ahead. Business growth will only be derived from separating the non-productive activities from those that contribute to the profitability and growth of the business. This requires greater levels of strategic planning than has been adopted in the past.

Myth #3: I will grow my financial planning business through providing advice to all those who are prepared to pay

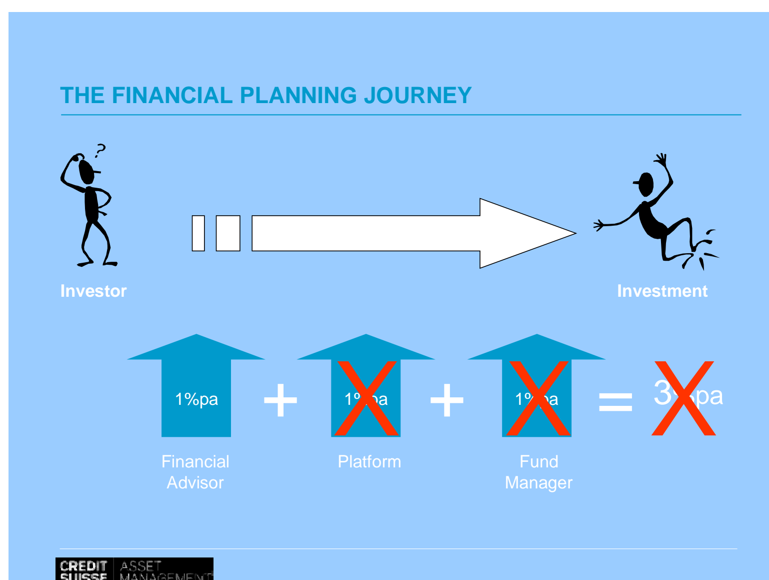
This unfortunately should be reworded as "…grow my financial planning enterprise…", as it is not conducive to building a business. In reading Michael Gerber's "The E Myth", you soon realise that a business is an entity that individuals spend time on, not in. Aspiring to become a good technician catering for the needs of all clients will not be a possibility in the future, as they begin demanding more for less. Planners must build repeatable "systems" that meet the clients expectations. The big money going forward will come from assets under management and insurance, not from the act of financial planning. Many of the larger industry players are beginning to commoditise this service through providing free financial planning as an inducement to grow funds under management. These groups also use their leverage to cross-sell into other high margin products and services.

Myth #4: My heart is no longer tied to the business, as I earn a good income and no longer need it to grow. Besides I'm out in the next few years

This is the most common statement that is being recited throughout the Australia financial planning industry, where the average age of industry participants is mid fifties. You only have to look at the number of delegates attending succession planning seminars and conferences to gain an insight into this. These statements have come predominately from the generation of financial advisers and entrepreneurs who have participated in the establishment and explosive growth of the financial services industry over the past decade (or more). With many of these advisers now receiving substantial revenues from their client bases, there are a number of them who lack true passion in attending to the client's needs and experiences, and have become blasé about the prospects of growing and retaining their business. Unfortunately this is the single most important ingredient required in advancing forward and surviving the new competitive forces that lie ahead.

Myth #5: I am the distributor, and require a revenue share from product suppliers to compensate me for the client relationship

With the financial services industry encountering increasing pressure on margins (despite the widening back office efficiencies that have occurred over the past decade) there has been a trend towards distributors approaching platforms and product suppliers for revenue sharing. The end result to consumers is that they are paying as much as they were a decade ago, to participate in a portfolio of investments. With the overall cost of the financial journey being unsustainable in a lower return environment, all financial industry participants will need to demonstrate their value-add. Consumers will be provided with the tools enabling them to easily unbundle the variety of relationships that they encounter in advising, placing and monitoring their portfolio of investments. This will permit them to become



increasingly more discerning about which services and products they use to assist in the financial planning journey. When combined with increasing transparency of fees, all industry participants will need to maintain a self-sustaining business, which relies upon their revenue generation – not third party sponsorships.

Taking the next step

To break away from tradition, those advisers wanting to convert their financial planning *practice* into a financial planning *business* must be prepared for some radical changes. These include

I'm the expert

Positioning as the problem-solving expert in a certain field to attract qualified prospects and differentiating in the increasingly homogeneous financial service environment. This is best achieved by developing a target market through discovering niche opportunities (such as an industry that is experiencing transition). Once a long-term narrow strategy has been developed into a business plan, the next step is to communicate the positioning of the financial planning practice to other advisers and key opinion formers. This will contribute towards standing out in an increasingly crowded marketplace, through conveying the perception that you are the industry authority in the chosen field. Consumers are increasingly more concerned about the appropriate advice being supplied by 'experts' as opposed to the traditional method of receiving homogenous advice based on an ability to recite 'technical stuff'. The better advisers are not positioning themselves as technical experts by client experts. The prediction is that the best advisers in the near future won't be CFP. Rather they will be client relationship geniuses ensuring the technical experts are doing their bit for the client whilst ensuring the clients experience is consistent with the firms culture. A tip for those getting started is to be aligned with markets where you have a comparative advantage in the skills and interests you offer. This will ensure that you have an intimate knowledge and take an active interest in seeking solutions to unique problems before they arise. This approach is often referred to as becoming a 'consultative' financial adviser.

In recent times there has been an increased attention to the topic of "Holistic Financial Planning" providing lifestyle advice that is beyond financial advice. Whilst interesting, this role tends to become closer to that of a psychiatrist and can sidetrack the financial adviser away from their core competencies. It can also be plagued with potential liability as financial advisers begin meddling in affairs where they have little comparative advantage, and is not regarded as meaningful to the profitability and efficiency of their business. It reality there are only a handful of financial advisers in the Australian industry who have demonstrated an ability to provide anything closely resembling "Holistic Financial Planning" advice. In all cases, their success can be attributed to their unique personalities or life-skills and experiences.

Plug revenue leaks

Many financial planning practices have basked in the extraordinarily high margins of the previous decade, and are not prepared for the new environment that the industry is heading towards. Within other industries, many companies have run aground on expensive pricing once covered by the high tide of a sound industry and buoyant financial markets. Whilst aspects of pricing and revenue generation have been discussed elsewhere (such as fees versus commissions) one common oversight is for financial planning practices not recovering all of the costs involved in the delivery of the service. The best method of avoiding this without undermining customer value is to establish a price menu or service agreement, which clearly identifies "free" services[6]. Another area to improve revenue to the financial planning firm is by assisting in the delivery (or referral for a fee) of all of the client's financial

[6] "Price is your story when you don't have one" by Reg Edwards

affairs. The past decade has provided an environment which has permitted the financial planning industry to “cherry-pick” those services which provide the most interest / up-front revenue, whilst allowing the client to seek advice from other financial services providers on areas such as insurance. These other financial service suppliers can now provide an all-encompassing financial planning service, thereby acting as a one-stop shop.

Leveraged Segmentation

Leverage your segmentation strategy through using pricing to generate incremental revenue from your segmented client base. Segmenting your client base should be based upon those clients who match your target audience and are prepared to pay a suitable advice premium. The reality is that low-end consumers, who are unprofitable for fee based advisers will be adequately catered for through online services, and those financial advisers who are attempting to establish their business. The trap will come in servicing the needs of the middle market that are seeking financial advice, but becoming more price-sensitive particularly when employing old pricing methodologies discussed earlier. This group has insignificant assets to justify many fee-based arrangements. The ultimate target market that values financial advice and are willing to pay will continue to be the high net worth consumer. This group are generally more difficult to attain and will continue to employ the use of traditional advice givers, such as accountants and solicitors to assist in the complete financial plan. Therefore it is of even greater importance to differentiate yourself as the expert in your chosen field to attract and retain this market segment.

As mentioned elsewhere in this paper, financial advisers will face increasing pressure to distinguish themselves from their competitors – including the larger financial services groups who are well equipped to excel in this environment. The obvious method of differentiation is for financial advisers to target a particular market of consumers, such as small business operators or younger generations. One target group steadily growing in statue are those baby boomers who have significant wealth tied up in a concentrated stock positions or stock option positions. Those consumers who fall into this category will require specialist advice designed more as Corporate Services, which will include services such as hedging strategies, restricted stock lending and exchange funds. The alternative to specialising in wealth management services will be advisers being characterised through price, which is an environment that will prove increasingly difficult for small operators to survive in.

Strategic Alliances

Establishing formal strategic alliances and referral systems with Key Opinion Formers and other professionals who are able to match up suitable clients with your business ambitions. Successful financial advisers have also established a formal process for asking existing clients for referrals. This is often requested at the point in the relationship where the client is feeling the best – such as after a positive review. The simple question of “Is there anyone who you think I can assist?” can often produce a powerful outcome. For those who are apprehensive about being this direct, regular surveys provide a further opportunity to request referrals, whilst conveying a message of “we care” to clients. Surveys can also save the business from misdirecting expenditure as demonstrated in a meeting that Clayton Coplestone had with a prominent financial adviser in the United States. This individual had traditionally forwarded a company polo shirt to his key clients each year to say thanks. Following the initiative to conduct a survey, it was soon discovered that many recipients of the gift simply used it as a rag, and preferred to see the money being retained in the business or received as lower fees.

Making the Hard Decisions

Expect existing clients will be expected to make the transition from transactional or convenient clients to those who are prepared to pay for on-going advice. Those who are not should be removed from the practice (easier said than done, although it will reduce the amount of non-productive time spent

catering for the needs of a few). The aim is to have a collection of clients who regard you as their trusted adviser, rather than those who refer to you as a facilitator of products.

Use Technology

Employ technology to provide clients with mass-individualised information. This enables customised and personalised interaction to leverage the client relationship and introduce greater efficiencies to the business. Whilst many in the financial services industry appear intimated by technology, it is worth remembering that others are striving to deliver this to your clients in an effort to provide an efficient distribution platform ("Platform Plus"). Often the best investment for a small proprietorship that is transitioning into a financial planning business is to develop a unique and functional website for prospective and existing clients. Whilst most clients are unlikely to use the web access on a regular basis, it has become an expectation for many to have their information accessible on-line. At the other end of the spectrum, everyone in the business must have computerised access to all relevant information about the client.

Work On the Business, Not In the Business

"Work on the business not in the business". This quote was made famous by Michael Gerber in his book "The E-Myth". The message behind the statement is to step outside the financial planning business regularly and reacquaint yourself with those aspects of the business which add value, or which you enjoy the most. In most cases this will come back to maintaining a client focus, necessitating the outsourcing of the less-value-add duties. The tough decision arrives when facing the reality of which parts of the business the client feels you add value in, versus those which are being commoditised through technology or larger competitors.

Marketing

Never stop marketing – many comments and suggestions pertaining to this point were made in Hypercompetition Part I. It is imperative that the correct message is identified for the market that is being targeted. This message should be delivered using the appropriate medium, choosing from: one-to-one interactions such as referrals, or developing creditability via appropriate public relations. Mass marketing efforts have traditionally provided poor responses for financial advisers promoting professionalism to the semi and affluent target markets. Many consumers in this audience prefer referrals via satisfied clients or their other advisers before making a commitment. The difficulty for many financial advisers is with this target market requiring a higher level of satisfaction before they begin to submit their financial adviser details to others.

One often over-looked method of marketing has been through credibility seminars targeting a narrow audience of potential clients. Whilst these are time consuming and often yield little by way of short-term results, they are a good method for establishing a presence and foundation to promote niche services with regularity. With any group presentation, the planning and preparation that goes into it determines its success. This starts by identifying the key targets whom you wish to attend, and the appropriate number of attendees (often bigger is not better, with significant results coming from an audience of 25 or less). As with most activities, a formalised follow-up process, and 'call to action' provides the highest probability of achievement.

An obvious method of discrete marketing is to develop a Client Advisory Board made up of a small number of clients. This group meets periodically to provide feedback to the business owners about their strategies and the implications for clients such as themselves. Often the client-base will comprise a number of successful business people who are delighted to contribute towards the mutual success of their financial adviser's business. Once established, this forum can develop into the ultimate litmus test for existing business practices and proposed strategies.

Where are you Heading?

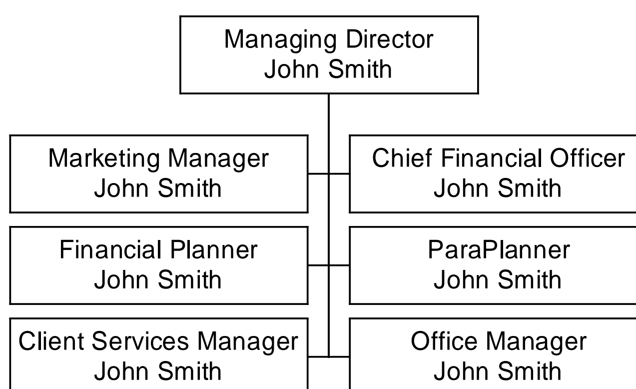
Understand the end before starting at the beginning, by completing and maintaining a company business plan. In many ways, it is worth employing a 'business coach' to assisting in preparing this – and more importantly – making sure that you are achieving the pre-determined objectives. This will flow through into a unique positioning statement, which can ensure that the business is continually and consistently promoting the benefits of the offering to an appropriate target market. The majority of financial advisers prefer to produce a business plan that sees them becoming a 'jack of all trades'. Whilst this may be a suitable strategy in the establishment phase of a financial planning practice, it ultimately finds financial advisers wasting precious time on all aspects of their proprietorship – including aspects which are quickly becoming commoditised away (for further explanation on these elements, and the opportunities for outsourcing refer to Hypercompetition I).

Good Staff

- Employ and retain good support staff. This requires attention to the hiring process, through not overselling the business to ensure that they don't join for the wrong reason. It also requires good remuneration – particularly in the future environment of increased competition from larger financial services groups such as banks. Once good staff are in place, the next issue is to let go of the client (although not the process) enabling for scaleable advice.

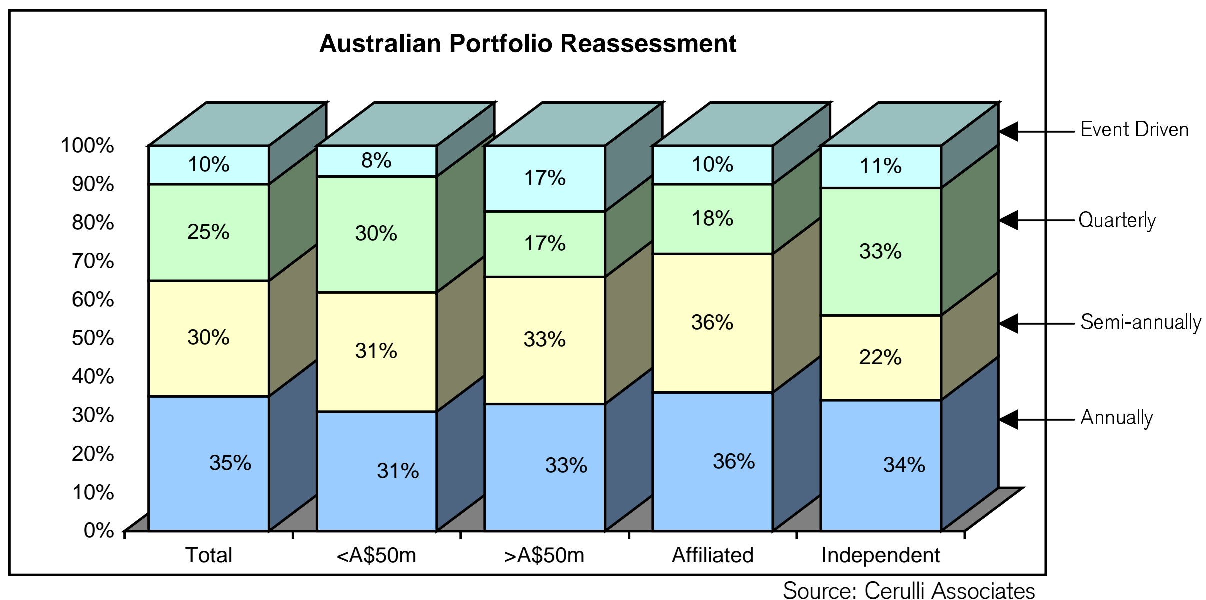
Client Services Staff

If the organisational diagram for your practice looks something like the one below, then you need to consider employing some help. The starting point is to employ a client service person to assist in achieving scaleable advice. The client must be introduced to this individual at the initial fact finding meeting and encouraged to make them their first point of contact. This essentially follows on from the previous point, and permits financial advisers to focus on their core competencies through outsourcing ancillary or non-productive tasks. A rough rule of thumb should be "if your staff can achieve 70% of the duty assigned, then that duty should be delegated to them". In other words, focus on those duties that will ensure that you are spending all of your time on revenue generating activities, thereby enhancing the value of the business.



Exceeding Client Expectations

Exceed the client's expectations through delivering great experiences at each point of contact. This requires systematic processes and structures to ensure that the client is delivered a consistent experience at each step. A successful Australian based adviser, requests that his client signs an annual Service Standard Agreement, mapping out the levels of service that the client can expect, and the appropriate fee. This has the positive spin-off enabling segmentation of the client base, control of business revenue and transparency of fees. Whilst most services are explained in this document, the financial adviser deliberately provides extra benefits throughout the year to exceed the client's expectations. Highly satisfied clients can be cross-sold into additional financial services and will provide a greater level of referrals, providing a much higher capitalised revenue stream for the business. Successful financial advisers are those who continually focus on providing great service to their clients, not pursuing their own compensation models or fads.



Source: Cerulli Associates

One question that continually arises is how frequently a financial adviser should have contact with their clients. In a recent Cerulli Associates review of the Australia financial services industry, it was found that the review frequency varied slightly, depending on the financial adviser's total funds under management. 25% of Australia financial advisers reassessed their client's portfolios quarterly (which was up from 20% last year), with 33% of independent Australia financial advisers assessing quarterly. The interesting question that arises was whether this met the client's expectations, or whether it was an act of justifying the on-going fees charged by advisers. More discerning consumers will expect value to be added at every juncture, including a clear value-justification for regular updates. In other words, financial advisers will no longer to be able to hide behind regular "everything is ok" style of meetings, as easier access to information through technology replaces the requirement for these.

No one said it would be easy

How many times have you attended a briefing, or heard an industry observer make obvious statements about 're-designing' your business, and thought "easy in practice, difficulty in reality?" The single largest obstacle in converting a financial planning *enterprise* into a financial planning *business* is actually doing something. The majority of delegates who attend a conference rarely review their notes after the event, and fail to employ any of the recommendations made. The reality is that there are significant cashflow implications to consider when implementing any change to the business strategy. The conversion from an existing to a proposed business strategy requires a clear understanding and acceptance of all participants (staff and clients alike), before it will be successful. This acceptance

must also consider the potential stalling in revenue, and mercenary tactics to ensure that it has been appropriately implemented. In many cases, once the decision to make change has occurred, often there is a lack of knowledge or support to assist in the transformation.

Unfortunately there is no quick-fix solution in making the conversion (if indeed you want to at all). However for those financial advisers who are accepting of the inevitable change in the current buoyant financial environment, some necessary steps to get started include:

- As has been continually repeated, the first step is to focus on enhancing the variables that add-value in the client process. From this point the objectives of the financial planning business can be clearly defined, with those aspects that are not recognised as core-competencies, being outsourced. This also provides a suitable platform for the practice to begin the journey to becoming a financial planning business.
- Once all participants in the practice have agreed on the desired commitment required, then plans can be devised to achieve the stated objectives. Those may include strategies for growth, revenue, service or succession planning. Whatever this vision is, it is imperative that it is understood by all in the team, together with the implications to them personally.
- As with a typical financial planning process, the next step is to embark on the journey by developing a business plan which breaks each component down into manageable and clearly defined portions. The only method to assess whether you are on the right track is to make each portion fully accountable through assigning an outcome, a date for attainment and making someone accountable for its completion. As an analogy; how is it possible to achieve a journey to an unknown destination without having an appropriate roadmap? This requires good financial records to be kept, making the proprietor dispensable, monitoring of key business ratios, learning and applying business management techniques and employing consistent procedures. From here the business will produce a ‘worth’ which can be benchmarked when acquiring other less-structured businesses, or easily presented for sale.
- In most businesses, plans and strategies are established from the outset, and then regularly reviewed. At this review period, all those who are involved are updated on progress to ensure that all actions taken are in pursuit of the ultimate objective. At Credit Suisse Asset Management, the Retail Sales Strategy is reviewed formally each year, with all those who are involved in the sales process brought together quarterly to discuss progress and assess what is working (or not). At these meetings failure to meet the designated steps in the processes are discussed with frankness and openness. All participants have a clear understanding of what the deficiencies are, and actively seek to improve the overall situation before the next quarterly reunion.
- No strategy should be engraved in stone. With a rapidly changing environment, all strategies should be regularly reviewed and amended where appropriate to reflect changing conditions – not to compromise the overall direction of the business.

Using the US experience

In February 2001, US Based research group Tiburon Strategic Advisers produced a report entitled "A comprehensive study of the product use, technology use and other best practices of independent fee-only financial advisers". Key findings from this report follow identified the common attributes shared by those who are successful in the US financial planning industry, under the following headings:

Business Background and Industry Position

- Had been in business for over 15 years
- Functioned as a fee-only financial adviser
- Manage money as a strategic asset allocator
- Are a member of the FPA
- Were formerly a banker or trust officer
- Read the relevant industry journals and papers
- Attend leading industry conferences

Marketing Practices

- Have a high minimum account size (exceeding $500,000 per account)
- Focused on high net worth and moderate net worth households (as opposed to sub-moderate high net worth or even institutional clients
- Target and capture retirement plan rollovers as well as other sources of funds like movements from brokers, and inheritances
- Earn passive referrals from clients whilst deploying other marketing methods such as accountant and solicitor referrals
- Utilise a full compliment of marketing materials such as brochures, toll free telephone numbers, newsletters and a web site
- Recognise that prospect clients meet with other advisers in the shopping process and sell accordingly
- Build on the common traits that clients seek in advisers, including trustworthiness, personal rapport, and the ability to understand client needs

Profitability

- Serve between 500 and 1,500 clients
- Manage in excess of $200 million under management
- Manage client accounts that average near $500,000
- Collect revenues of $750,000
- Collect 83% or more of fees as asset management fees
- Charge fees that range from about 150 basis points (for the smallest account) to about 80 basis points (for the largest accounts). Also have negotiable fees for accounts above some predetermined amount. Charging fees that average 56 basis points or higher (lower fees indicate larger average accounts so lower is not necessarily worse)
- Charge an hourly fee of $150 or more

- Keep expenses to no more than 70% of revenues
- Manage expenses to be about one-third owners' compensation, one-third non-owners' compensation, and one-third everything else
- Build a firm of three or more partners and sixteen or more employees, hiring about two new employees each year
- Pay competitive salaries for both financial advisers and para-planners
- Manage to keep margins at 30% or higher
- Collect fees of $2,200 or more per client while containing expenses to $1,600 or less
- Manage 340 or more clients per partner and 70 or more clients per employee. Manage $183 million or more assets per partner and $38 million or more assets per employee. Collect $740,000 or more in revenues per partner and $150,000 or more revenues per employee
- Manage growth of 10% per annum or more in clients, and 14% per annum or more in assets under management. Revenues continue to outgrow expenses.

Business Policies and Directions

- Have a business plan, succession plan, executive policies and procedures manual, and employee handbook and compliance manual
- Are in business to one's own boss (and hopefully satisfy customer needs)
- Spend nearly 40% of their time with clients
- Focus on growth in assets, revenues and profits

Summary

Summary

As acknowledged throughout this and the previous paper, there is no simple strategy in surviving the changing environment ahead for the Australian financial planning industry. Nevertheless, being mindful of the consumer's expectations and adapting a financial planning business to recognise and cater for those is a good place to start. Going forward, all industry participants will need to outwit, outplay and outlast those other contestants who choose to take part in the lucrative financial planning industry.

Key findings throughout this paper include those that were identified in Hypercompetition Part I – namely:

- Read and think about the issues that effect the industry
- Set goals and preferred business models that are sustainable for the next 5 and 10 years
- Don't be afraid to change
- Ask your clients what their real relationship needs and service expectations are
- Stay in control of your pricing / revenue
- Clearly identify your value-add or unique selling proposition, remaining mindful of the components that are being commoditised
- Corporatise part of the business
- Remain passionate about client service
- Strive to continuously improve
- Work to live, don't live to work

There have also been a number of other conclusions, which have arisen throughout this paper. These are

- The debate surrounding charging of a fee versus receiving commissions for a role in the financial planning journey is largely an irrelevant discussion. Whilst compensation is top of mind for the financial services industry, the consumer is more interested in the value that they are receiving. It is this point which will be scrutinised further as the environment becomes increasingly more competitive.

- Competition will begin to place pressures on price. This is a natural stage for an industry that is nearing maturity, and will challenge financial service industry participants to think carefully about those components of their offering which will be competed upon by price. It is these services which will ultimately become commoditised.

- One remedy for financial advisers, who currently exist by providing a homogeneous service, is to differentiate through targeting a unique market. This will permit a price-premium to be charged, whilst protecting their business from the scale advantages of larger industry participants such as banks.

- Technology is an expectation of all those participating in the financial planning journey. The pressures on keeping up with technological advancements will become immense, and will differentiate those who can against those who can't afford to. Nevertheless, consumers are prepared to pay a premium for the relationship that exists between them and their trusted adviser, which is a key element that will never be replaced by technology. The challenge will be in finding the right balance between technology and relationships.

- As technology improves the communication of information, consumers will become more discerning about price and performance – at all levels. This will challenge industry participants to provide absolute performance measures, whilst be cogniscent of the costs associated with traditional / alternative forms of investments.

- With all of these challenges around, financial services industry survivors will need to confirm the level of permission that has been granted to them by their client. The findings from Business Owner Research survey illustrate that consumers were generally quite content with the relationship that they have with their financial adviser. Once delved into further, the survey indicated that a high proportion of respondents appeared blissfully unaware of the true cost of dealing with their financial adviser. All those who responded had comments to make about how their financial adviser could improve going forward. The four main areas of improvement were:

  - Reducing fees
  - Being more accessible to customers
  - Improving the level of customer service
  - Being more understanding of the middle market

- Despite growing angst towards financial service participants, many are living under the illusion of history – believing that the good times enjoyed over the past 10 years will continue. This complacency will soon be contested as consumers become increasingly more discerning (although there will remain a cushion for incompetence for the next few years through demographics)

Taking the next step to cope with these challenges will be difficult. The predominant reason for the difficulty is not in understanding the tasks that are required, but more in having the strength in implementing them. Many industry participants will choose to ignore the suggestions made in this paper and others before it, at their own peril. Complacency will be the thief of time.

About the Authors

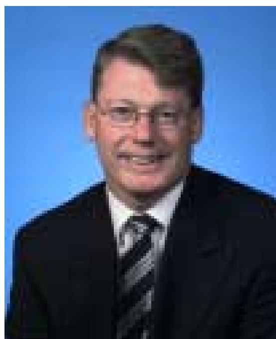
About the Authors

Brian Thomas

Head of Retail,
Credit Suisse Asset Management

Brian Thomas is Managing Director and Head of Retail Funds for Credit Suisse Asset Management in Australia.

Brian has over 25 years experience in the pension and mutual fund industry covering asset consulting, product development, marketing and research. Brian joined Credit Suisse Asset Management in May 1998 to launch a retail business. In a short time, he started a successful retail business in Australia by establishing strong relationships with many key financial advisors and distributors in the Australian market. Prior to joining Credit Suisse, Brian worked as Financial Products Manager at NRMA and as a Division Director of Macquarie Bank. Brian has been an active participant in a number of industry bodies and Government committees and is a regular industry commentator on personal investment issues.



Clayton Coplestone

National Sales Manager,
Credit Suisse Asset Management

Clayton is a Director and the National Sales Manager for Credit Suisse Asset Management.

Based in Sydney Clayton is a founding member of the Credit Suisse retail team, assisting in the design and implementation of one of Australia's most successful retail funds management business, which was launched in March 1999. Prior to this Clayton spent 18 years in the financial services industry with a background in stockbroking, money markets, financial planning and the past decade in funds management. Originally from New Zealand, Clayton came to Australia as Australasian Marketing Manager with a prominent funds management organisation in 1995. Since his arrival, he has built a strong reputation as a popular and sought-after commentator on the Australian financial services industry, and its future direction. He has also spoken on this topic to other financial services industries elsewhere in the world.

Appendix

Appendix

Appendix 1: What prompted seeking advice from an investment adviser?

“I paid the house off and wanted to do other investing.”

“We got a phone call from the bank offering a free service.”

“We wanted to map out a plan for our future goals.”

“To make the money work harder.”

“We got a phone call and followed up on it.”

“We’re getting on track with finances in general.”

“Future planning for retirement.”

“We wanted to check up on investments to see how they were progressing.”

“We weren’t saving much, so we wanted to start saving for retirement.”

“A door-to-door salesman came to door, and so I sought his advice.”

“I wanted to become smart about my money.”

“We just got back from overseas and thought we would tidy up all our finances.”

“Just to find out our financial status.”

Appendix 2: What prompted use of multiple advisors / seeking second opinions?

“Advice was offered, and we wanted to see what others had to say at financial planning seminars.”

“To source funds for building and mortgages. Getting a broad spectrum – looking at advisers and getting an overview.”

“The first adviser we spoke to was because my husband was interested in the stock market.”

“Really just to get a second opinion.”

“It’s the prudent thing to do - to weigh up the options when you get advice from more than one person.”

“To get a second opinion.”

“To get a cross section of opinions.”

“We checked out which ones we could trust most.”

“So you know you’re getting the right advice. We wanted to know if they are all giving the same advice.”

“The first and second options didn’t offer products other than their own. The third one offered a range of products to choose from.”

“Because they don’t always ask the same questions, sometimes they have a vested interest in terms of commission.”

“Peace of mind, to throw around ideas.”

“Because they usually bat for one team and you get different opinions if you speak to more than one.”

“I deal with different stockbrokers.”

“I wanted to have both self-managed funds through a stockbroker, and a managed fund by a planner.”

“We needed more specialised people and have accounts with all three people.”

“The first person we saw we were not happy with, they just wanted to sell us a fund. He did not ask enough personal questions on our goals etc.”

“Change of location and we were not very confident in the adviser in the first place.”

“We seek advice from the accountant because he has a longer history of our accounts.”

“You don’t know if don’t try – we’re looking for someone to come up with the right deal – we looked around for variety.”

“I think you get more options and more information when you consult more than one person. It’s also a personal thing, in that you might prefer one to the other.”

“Frankly I wasn’t totally happy with either of them! Just the impression we got was unless you had a lot of money to invest they weren’t interested in you.”

“I wanted to make sure that the information he was offering was the best offered at the time, and also that the information was accurate. If the interest rates he quoted were accurate and that sort of thing.”

“You always want to make sure you are getting good advice. I have now chosen not to use an adviser, because they charge a fortune and do so little for you.”

“We weren’t happy with the original one.”

“I just wanted to hear different opinions. The adviser we normally use didn’t have experience in that area, and so we wanted to confirm the advice he gave us.”

“For peace of mind.”

“To get more ideas.”

“When you start out, you are not quite sure who they are. I first chose one who had a good reputation locally, but turned out not to be satisfactory. He was more interested in his own advancement than mine.”

“Because they all have different ideas and none of them are infallible.”

“The first one wasn’t really comprehensive enough for me, so we use him for some things and I use the other for other things.”

Appendix 3: What ways can your financial adviser improve?

Too expensive

"He didn't go through all of the expenses. What he said we would get was nothing near what we got, it just didn't tally up."

"The only improvement could be his fees. They are too high, that is why I have recently gone and registered to buy and sell shares on-line. Because his fees are too high. Advice is good."

"Make their fees based on performance."

Difficult to get through to/make appointment

"I am very happy with him, but it is now hard to get an appointment to see him."

"Just to return calls and be more available."

"He needs to be more approachable. This guy came from Sydney so he was too far away to be accessible."

"Providing more investment options. And being more accessible, mine was hard to get in contact with."

"More availability – he's difficult to get hold of … some of his correspondence has been average in presentation."

"By being more in touch with us. We don't see him as much as we'd like to, we felt were paying him to do what he's supposed to do, which is keep in touch regularly. But he isn't doing this regularly enough."

"Probably more timely customer service. Otherwise you miss the boat. We've got no problems with the advice just the following-up, they always seem to be too busy."

"He needs to get more staff to relieve his work load."

General customer service improvements

"They could provide a bit more service - I don't hear from him very much."

"I think more contact would be better. Contact about what's happening with the investments, and giving more advice."

"He needs to improve his product knowledge and improve his customer service given the annual fee. He needs to contact us more, give us hot-tips on shares and just keep us up-to-date with options."

"He could be a little bit more efficient in getting back to us regarding information we have requested."

"Having a bit more personal contact with us."

Be more understanding of the 'middle' market/use less jargon

"If you are a small fish in a big sea they don't worry about you like they worry about their big accounts."

"Be interested in the middle income earner and not just the high income earner."

"He needs to use less jargon."

"Use less jargon."

"Have a better understanding of the circumstances. We wanted to invest a little but he wanted to invest a lot. He hurt us financially."

No areas for improvement – investment adviser/financial planner is very good

"He doesn't need to improve."

"They are fine at the moment."

"He is pretty good – but he could do more research on products and available investments."

"I could not really think of any way he could improve but that does not mean he is the best."

"No areas for improvement. You can always get appointments. They do an excellent job for what I want."

"We are quite happy with the way things are. There is no waiting time to see him, he explains everything to us, and there's always ongoing contact with him. If there are any changes he contacts us straight away. I can't think of anything that he could do to improve his service."

"I don't think so really. They give seminars and that sort of thing and they keep me up to date. They don't need to improve really."

Unfavourable experiences

"He gave incorrect advice on how to minimise tax and maximise returns. Therefore (are for improvement) understand individual requirements and not what the general market is doing."

"Basically telling the truth, than trying to make things seam better than they really are."

"Honesty and giving correct advice quickly."

"They were uneducated and clearly not interested in anything other than their own objectives. They were less than honest about the fund performance levels. And misleading about fees involved and commissions paid to them."

"I don't have faith in then. They don't tell me anything new I don't already know. They should be able to give us more."

"Not be so pushy and aggressive to make a sale."

"They have given poor advice/they haven't researched things properly."

"He could have explained the risks a bit more. He basically offered a fund to me and guaranteed money and high returns, which did not eventuate. I ended up losing a lot of money."

Other comments

"He could move to the same state, he could expand his knowledge in certain areas, he could be a bit more friendly with the tax man."

"Broader or more specific knowledge of our industry. We can't expect them to know everyone's business. We are in Printing and Sign Writing. We are in a small country town and the only Printer and Sign Writer on the books."

"Being a bit more sensitive to women's needs. Should consider their circumstances, such as - changing family circumstances, changes in relationships, changing careers - the risks associated with that."

"The annual reviews could be a good thing. A prompt proof read. Prompt an annual review to determine an updated needs and match services with our needs."

"Being a little more pro-active in providing more updates on risk issues or opportunities specific to me."

"It would help if they stuck to the time-lines with communicating to the client."

"He is a bit conservative perhaps because he's older. I would prefer more high-risk investment making it a bit more competitive. He could be a bit more modern in his outlook. We need to be looking at another way of doing things. We will get returns that are good but we could be working smarter with our money. He only considers one managed fund at the moment even though he's considered others in the past."

"He could be a little more aggressive in his risk-taking. We asked him to be conservative, however he could still take more risks."

"(Could have improved by …) Giving me different options written down on paper and go through them with me, and let me take it home and think about it. He didn't do that."

"They need to really listen to what you ask them to do for you."

"He wanted to talk about shares all the time, never about property or other types of investment. Shares were his speciality which was fair enough but he didn't know much about investment properties and such."

"I think he has too much tunnel vision on a particular issue. He doesn't think of other alternatives."

"He could be less honest to minimise ways of paying tax."

"Just possibly be more pro-active in the investments and not wait for us to approach him."

"Be a better listener and understand the goal that their client is striving for even if they are not dollars driven. Assist people to achieve those goals and to not just think of the money."

Appendix 4: Why haven't you used a financial adviser for six or more years?

"I have more knowledge than them anyhow and I like to run my own investments."

"I am locked in on my retirement package."

"What we got off the adviser is in the courts at the moment - it was a dud deal. It was one of the ones that were disallowed after a couple of years. It has cost us packet in losing money in our investment. After we invested with them for 3- 4 years we had to pay it all back.

"I just returned from interstate. I am now married to an accountant so he has his finger on the pulse and advises me now."

"I haven't got any money, and I've had a broken marriage."

"I have no money."

"I didn't like the information I got at the time, and I haven't had a need to since."

"The bloke we got advice from was charged with fraud and so we don't trust them anymore. We also don't have the money to do it."

Appendix 5: Reasons for not consulting a financial adviser.

No spare money/paying off mortgage

“Because we have been focusing on paying our mortgage and we have no free cash to put into anything else. That’s all.”

“Because I haven’t had the time, and didn’t think it was appropriate because I didn’t have spare money.”

“There’s no surplus money to be invested, there was one lump sum invested on retirement which was one appointment and that’s it. We are retired.”

“I’ve never had enough money to.”

“You need money to do that. If you haven’t got it you can’t invest it.”

“I haven’t had any money to invest.”

“I’ve never had any spare money.”

“I haven’t had any disposable income with paying a mortgage and raising an family.”

“I got divorced and don’t have a lot of spare bucks anyway.”

“I have never really had the spare money to, and when I do have the money, I know where it needs to be allocated.”

“We’ve been busy paying off the mortgage and getting a child through child-care and so we’ve been investing in that instead of other things. That was our first priority. We also don’t know how to find one.”

“I have never thought about it. I have a mortgage.”

Investment advisers and financial planners are untrustworthy

“Because I have been a bit wary of them, they do a lot advertising to get business. I think they generate income for themselves using your money for advertising.”

“Partly because I have never got around to it. And partly because of the worry on who to choose. I’ve heard bad things from people in the past.”

“Basically, from word-of-mouth from other people, they’ve wasted their time. I knew one fellow who had an adviser who advised him to invest in property and he went bankrupt.”

“Fear and mistrust.”
“Because they (investment advisers) don’t have any risk in what they do - they play with other peoples money and nothing happens to them if they fail.”

“I don’t think they know what they are talking about. When you ask an investment adviser they have a vested interest. They are not independent, they get commissions … I would only go to an independent person but they cost a couple thousand, if they are any good, and I don’t have a couple thousand.”

"Because I don't think their advice is any good, they're too trendy with their advice."

"Because it's too hard to find a good one, you see too many dodgy people out there."

"I don't trust their views I think they are like bookies. They are influenced by their greed."

"I don't trust them. They often are doing it because they want the commission. They give advice that isn't always necessarily in the client's interest."

"We have seen too many mistakes with our friends. I think they are all pretty hopeless and they are just making money with some one else's money."

Prefer/able to do it myself

"I think I can do it myself. I read a lot of magazines and trade my own shares. I prefer to do it myself, a hobby really. Sometimes I make a mistake but other times I have a win, which is really rewarding. I think that the advisers should be able to do it better. They should be able to have more at their fingertips. They mostly tend to balanced funds, which I can do myself anyway."

"I know something about it myself."

"I do my own service, so I don't lose too much money. I've been rolled in the past so now I steer clear of it."

"I've seen so much publicity, and we know what we are doing. We use our common-sense and since the stock-market crash we've lost a lot of money, so we like to look after our own money."

"I'm confident with what I do himself."

"Because I don't think they know a lot. They have never given me any advice that I thought would benefit me. I do all my own investments."

"I'm an accountant, so I've got good knowledge of these areas."

"Combination of laziness and my wife looks after the money because she is an accountant."
"I prefer to save by myself."

"I have had enough people around me in my family with expertise to advise me."

"We read up ourselves and we make our own choices that way. At the moment we can do that without an adviser."

"We manage our own financial affairs without any assistance okay."

"Because I have studied a lot of it, I could make the decisions myself."

"Because I do a lot of reading and make the best choices myself. I read the financial paper and financial statements in the paper. I also know a few people who have had financial advisers and it's been a disaster. A guy I know went to a financial planner with $40,000 and in a month it went down to $20,000 … If he had left it there, there would be nothing left."

"I enjoy doing it myself."

"We can do it ourselves."

"We haven't needed their advice because we know what we're doing."

"I think I manage my own money well, and there's not much to spare on top of the mortgage."

"Because I am in real estate and doing okay."

"I've always had a fairly good handle on that sort of thing myself."

Ignorance/the blissfully unaware

"I've never had the time."

"I have not had time, I'm young and 22 years old and I keep saying I will but I've just never had time."

"Did not know much of them at the time. Did not know there was such a thing 30 years ago when I was doing my investing."

"I live by myself and I'm not interested in that sort of stuff."

"I'm a teacher and the superannuation provided for the teachers has provided well. I don't need any other. It was expensive for the time, and it no longer exists."

"I'm an economist and know these things anyway. I'm 25. I don't really need it yet and I think it's just an age thing."

"I've never thought of the future."
"We don't have big plans to make millions of dollars or stash away heaps money. We're happy with what we are."

"It was not something that was widely spoken about a few years ago and we have never really invested. We do not have a large amount of spare cash too."

"I've never ever thought about it. Never thought I needed it."

Do access advice, but not from a financial adviser

"We use the advice from the bank, and that's fine for us."

"I work through my accountant so I do get some advice."

"We have an accountant who occasionally gives us investment advice, he is not our adviser as such though. He provides us with the information we need."

"I organise myself pretty well. Is there any other reason? No. But I do talk to a friend who is an accountant."