Measuring client perceptions of adviser value

Author

Julie Littlechild, Adviser Impact.

Executive summary

In 2013 Vanguard published the first Adviser Value Index, a measure of industry performance in delivering value to clients. Along with that Index was a hypothesis that the best advisers would continue to respond to regulatory change, increased competition and increasingly higher demands from clients by focusing on adding increased value. Just one year later we see clear indications that this is, in fact, happening.

Based on research conducted among 753 investors across the country[1], it is evident that clients perceive greater value from their advisory relationships, along with increased satisfaction, loyalty and trust. The changes are relatively small, but they are meaningful relative to the time period and are positive for clients, advisers and the industry as a whole. On the following pages we examine this change and propose an action plan to help advisers to continue to improve the level of value they deliver to clients.

The research was conducted by Adviser Impact.

1 See Appendix 1 for research methodology and participant profile

The difference a year makes

Since the Value Index was first published in November 2013, we have seen a moderate positive shift in clients' perception of value. The Value Index is designed to take a comprehensive view of perceived value, examined from three angles:

- value relative to fees paid,
- value relative to market performance, and
- value of advice in reaching long-term financial goals.

In 2013, the Value Index was pegged at 73 out of 100, increasing to 75 out of 100 in 2014. Clients also indicated higher levels of satisfaction, loyalty and trust.

The overall increase is driven by 17 percent of clients who indicate that the value they receive from their adviser, relative to fees paid, has increased during the last 12 months. A majority of clients (73 percent) say value is roughly the same and just 11 percent indicate that value has declined. Such diversity, while expected, means that any industry-wide measure of perceived value takes time to change.

The year-over-year change in the underlying value factors is shown in Figure 2.

The increase in perception of value is consistent with changes in other core relationship metrics.

- **Overall satisfaction is 4.3 out of 5.** In 2013, 39 percent of respondents provided a rating of 5 out of 5 on overall satisfaction, increasing to 50 percent in 2014. Satisfaction increases can be seen across most of the dimensions that were assessed[2].
- **Loyalty is 4.5 out of 5.** In 2013, 81 percent of clients said they were somewhat or extremely likely to continue working with their adviser, increasing to 87 percent in 2014.
- **Trust in adviser is 4.2 out 5.** In 2013, 77 percent of clients provided a high or very high trust rating for their adviser, increasing six percent to 83 percent in 2014. Trust in the industry, while still dramatically lower than trust in advisers, rose from 22 percent to 29 percent during the same time period.
- **Net Promoter Score[3].** In 2013, the industry Net Promoter Score was three percent, increasing to13 percent in 2014. This increases to 66 percent among the subset of clients who perceive the highest level of value.

Figure 1. The Value Index

Source: Adviser Impact

Figure 2. Underlying questions

	2013	2014	
	Mean (out of 5)		Difference
To what extent do you agree or disagree that your primary adviser adds value above and beyond investment returns/market performance? (1 is strongly disagree and 5 is strongly agree)	3.53	3.64	0.11
How would you describe the value that you receive from your primary adviser, relative to the fees paid? (1 is very low and 5 is very high.)	3.51	3.63	0.12
Thinking about your most important financial goal, how important do you consider the advice you receive from your adviser? (1 is not at all important and 5 is critical.)	3.98	4.00	0.02

2 See Appendix 3 for a full list of all service dimensions that were assessed.

3 The Net Promoter Score is calculated by asking clients how likely, on a scale of 0 to 10, they would be to recommend a service to a friend or colleague. Promoters are those clients answering 9 or 10; detractors are those scoring 0 to 6. The percentage of promoters minus the percentage of detractors gives the Net Promoter Score.

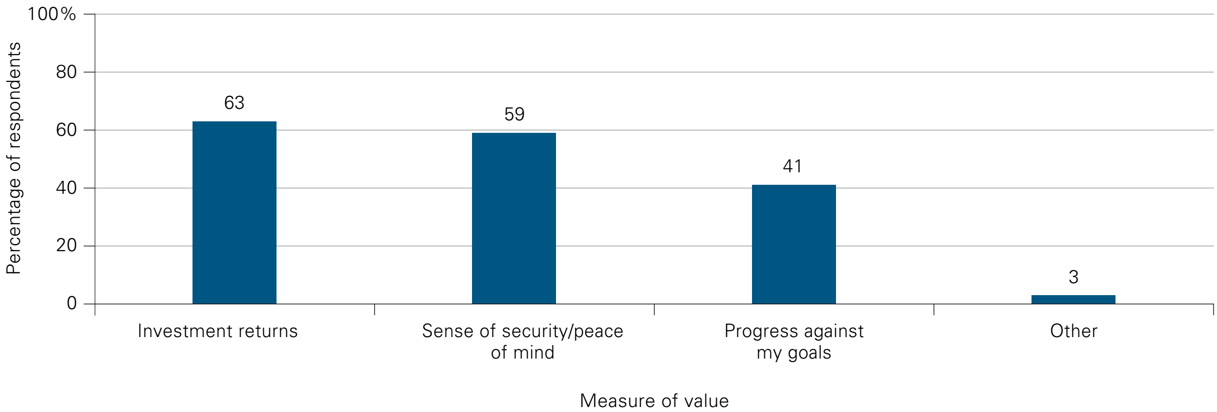
Understanding value

In order to understand the drivers of value, we categorised respondents into three, roughly equal segments based on their ratings on the three key value questions detailed in Figure 2. Throughout the report you will see references to clients perceiving a low, moderate or high level of value. By cutting the data in this way we are able to identify the adviser activities or attributes most closely aligned with high perceived value.

In order to understand value, this study focuses on the ideal outcome – high perceived value on the part of the client. Using that analysis we can identify activities that are correlated with high value. However, it is also important to ask clients how they measure value. It is interesting to note that while investment returns are, for obvious reasons, a critical input in measuring value, the extent to which the adviser helps create a sense of security or peace of mind is almost equally as important.

Figure 3. Sources of value

Q: How do you measure the value you receive from your adviser? Please select all that you actively measure.



Source: Adviser Impact

Regulatory environment as a backdrop to value

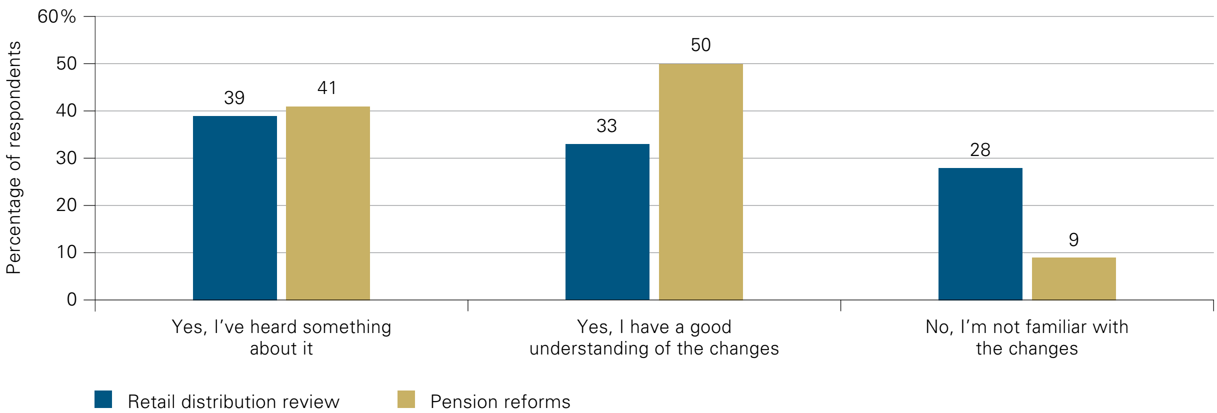
The two most significant regulatory developments for investors over the past two years are the Retail Distribution Review (RDR) and the pension reforms announced in the 2014 budget. This year's study assessed investors' awareness of both of these developments.

Regulatory reform: awareness

Awareness numbers have not changed significantly since 2013 for the Retail Distribution Review (RDR). In 2013, 70 percent of clients reported having some understanding of the changes associated with RDR, increasing to just 72 percent in 2014.

Figure 4. Familiarity with regulatory changes

Q: Are you familiar with either of these recent regulatory changes?



Source: Adviser Impact

Note that respondents were provided with the following definitions:

- *Retail Distribution Review: Rule changes on financial advice that eliminate commissions and clarify how advice is paid for*
- *Pension Reforms: UK Budget rule changes that allow retirees to choose how they spend their pension savings*

Clients perceiving high value are more likely to be familiar (at some level) with the changes associated with RDR (80 percent awareness) than those perceiving low value (69 percent awareness). This suggests a link between perceived value and the extent to which advisers are proactive and forthcoming in educating clients on key regulatory reforms. This assertion is supported when we consider that clients perceiving low value were much less likely to have heard about RDR through their adviser (40 percent) than those receiving moderate or high value (53 percent and 58 percent respectively). The media played as important a role in alerting clients to these regulatory changes as did advisers: 53 percent of clients said they heard about RDR through the media.

Awareness of pension reforms was generally higher than it was for RDR, with 91% of our respondents having some awareness of the increased options at retirement. Sixty-nine percent of clients cited the media as the main source of information on pension reforms, suggesting that advisers have not yet grasped the opportunity to demonstrate value by explaining the changes to the pension system. With precise details still being worked out, it is perhaps unsurprising that advisers haven't yet demonstrated value in this area. However, pension reforms have the potential to affect investor lifestyles significantly. As such, advisers and product providers alike need to apply themselves to providing lucid explanations and appropriate investment solutions.

Regulation and perception of value

Nearly a third of clients (29 percent) say their perception of value has changed as the result of RDR and 22 percent say their perception of value has changed as a result of pension reform. In some cases clients feel the change is positive, as evidenced by the two sample comments below:

- *"I am now aware of the amount of professional fees that would previously have been hidden in the overall annual financial statement."*
- *"The RDR has, in theory, imposed higher minimum standards of practice."*

Change is, however, more often associated with negative outcomes. Any negative comments typically reflected some concern that they were now paying more.

- *"We used to be able to consult our adviser whenever we wanted to without paying extra. Now we have to pay for anything other than an annual review."*
- *"Made me consider whether it is worth paying a fee for advice."*

The impact of a high value advisory relationship

While the benefits of a focus on enhancing value may be self-evident, the data supports the critical importance of measuring and driving value for both clients and for advisers.

Impact for advisers

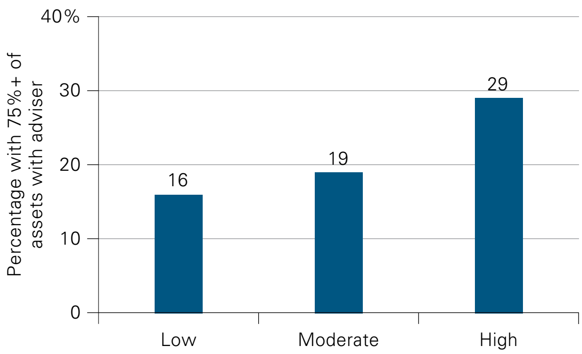
For advisers, there is a significant return on investment from driving increased value. High perceived value is associated with increased share of wallet, referral activity and the likelihood a client will choose to access a wider range of services.

High value = higher share of wallet

Across the industry 23 percent of clients say their adviser manages or influences 75 percent or more of their assets. That jumps to 29 percent among those who perceive the highest value.

Figure 5. Adviser influence over assets

Q: What percentage of your investable assets are managed or influenced by your financial adviser, including cash, bonds, insurance endowment savings plans, fixed interest, shares, pension funds, National Savings, alternative investments etc.)?



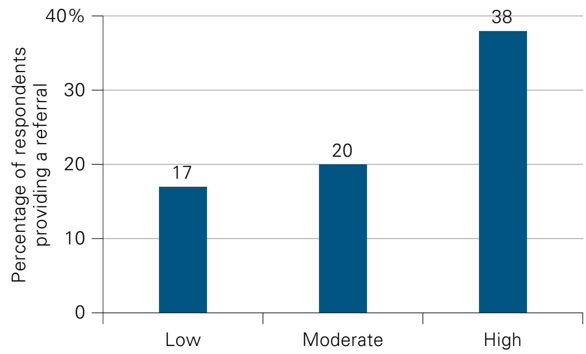
Source: Adviser Impact

High value = more referrals

Across the industry, just under a quarter of clients (24 percent) said they had provided a referral to their adviser. This increases to 38 percent among those who perceive high value.

Figure 6. Referral activity

Q: Have you provided a referral to your financial adviser in the last 12 months?



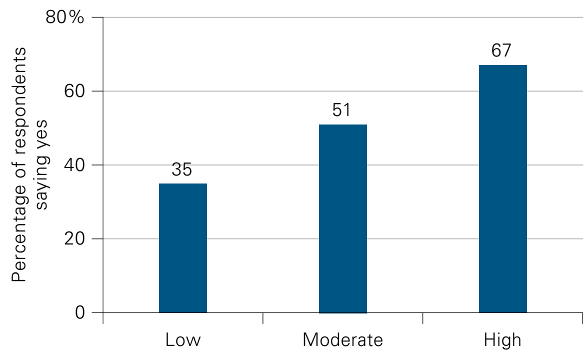
Source: Adviser Impact

High value = more services

Clients who perceive higher value are more likely to use their adviser to access a broader range of services. Perhaps the best reflection of this deeper level of commitment is the connection between high perceived value and having a comprehensive, written financial plan.

Figure 7. Written financial plan

Q: Do you have a written financial plan which may include insurance, tax planning, retirement planning, estate planning, or some combination of these items?

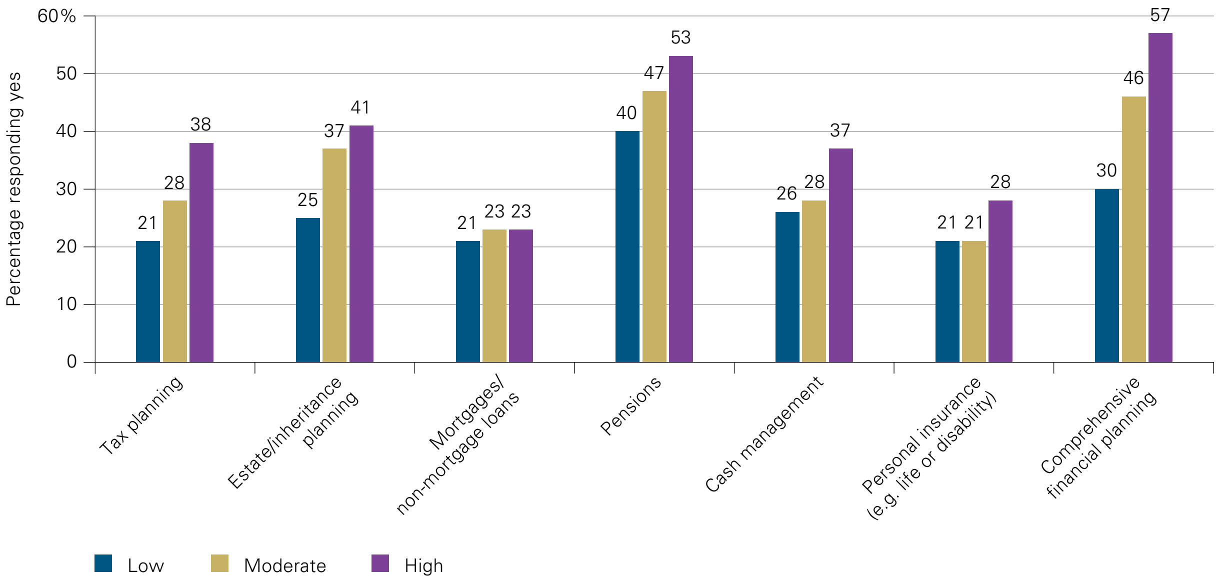


Source: Adviser Impact

Examined another way, we see a similar connection between value and the likelihood of a client using a wider range of services, which will have a positive impact on both engagement and the bottom line.

Figure 8. Services used

Q: Many advisers provide services beyond investment management. Which, if any, of the following services do you use your adviser to provide today? Please select all that apply.



Source: Adviser Impact

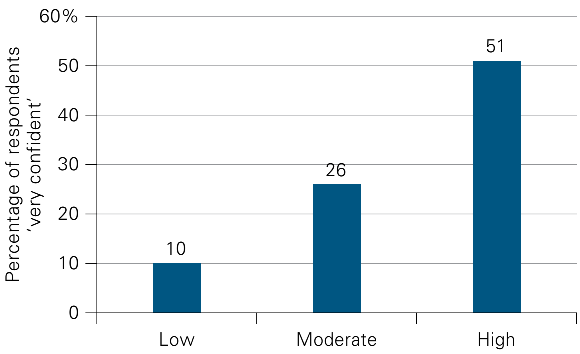
Impact for clients

For clients, value is connected to higher levels of both confidence and control. Those clients who perceive the highest value feel more confident in their financial future and more able to impact their financial futures.

High value = high confidence

Figure 9. Confidence in reaching goals

Q: How confident are you that you will reach your primary financial goals?

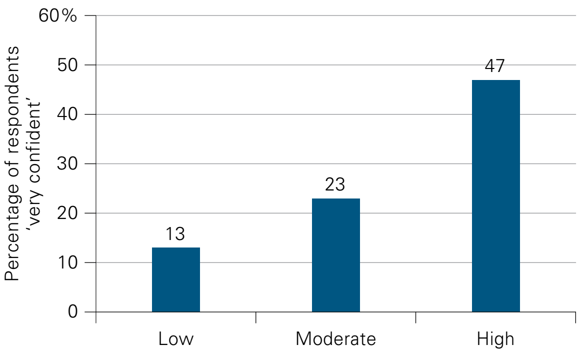


Source: Adviser Impact

High value = high control

Figure 10. Confidence in ability to impact financial future

Q: How confident do you feel that you can positively impact your own financial future?



Source: Adviser Impact

The drivers of value

In order for advisers to take action towards delivering higher value, we must understand the drivers of value. In this section we examine the drivers of value in three distinct ways, specifically as it relates to:

- The scope of advice
- The role of investment returns
- The role of the client/adviser relationship

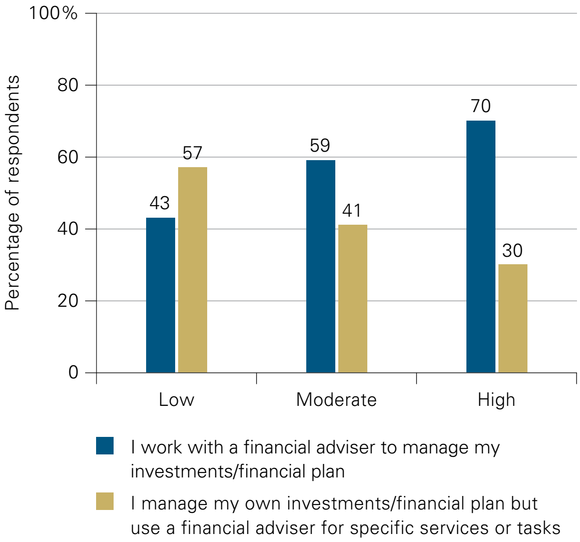
From there we'll shift gears and focus on the client and business management tactics that are aligned with high value in order to support advisers in taking action on the results.

The scope of advice

Clients who perceive high value are more likely to work with an independent adviser and work with that adviser on a fully advised basis.

Figure 11. How clients manage their wealth

Q: Which of the following best describes how you manage your wealth today?

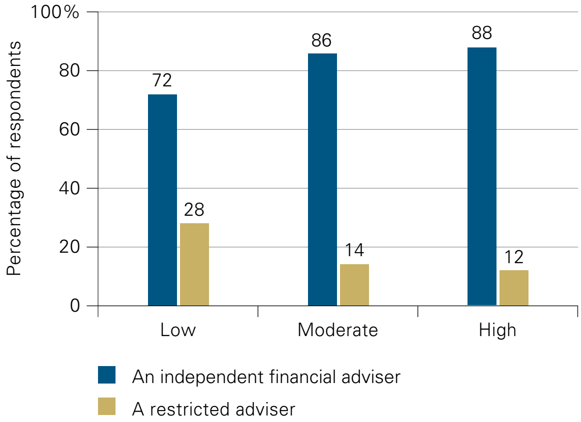


Source: Adviser Impact

While those clients perceiving moderate and high value were almost equally likely to work with an independent adviser (defined for respondents as an adviser who is able to consider and recommend all types of retail investment products that could meet their needs and objectives), low value clients were more likely to indicate they worked with a restricted adviser (defined for respondents as an adviser who can only recommend certain products, or product providers, or both).

Figure 12. Independent vs. restricted

Q: Which of the following best describes your adviser's practice?



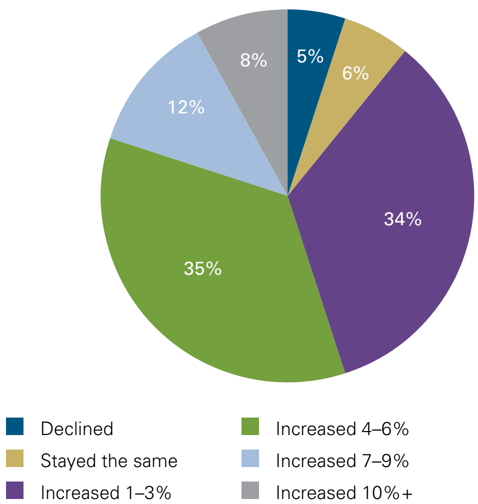
Source: Adviser Impact

The role of investment returns

Investment returns that meet or exceed expectations are 'table stakes' when it comes to defining value. For that reason, the clients that indicated that their portfolios had declined (6 percent) or stayed the same (12 percent) are somewhat more likely to perceive low value. However, investment returns are clearly not the only driver of value. While there is some connection, investment returns do not completely explain clients' perceptions of value. The chart below shows client perceptions of growth in the 12 months prior to the survey date, for those who perceive high value. This demonstrates that even among this group there is a significant range in investment performance.

Figure 13. Perceived investment growth

Q: Thinking about the growth you have seen in the value of your investments over the last 12 months, which of the following best reflects your experience?

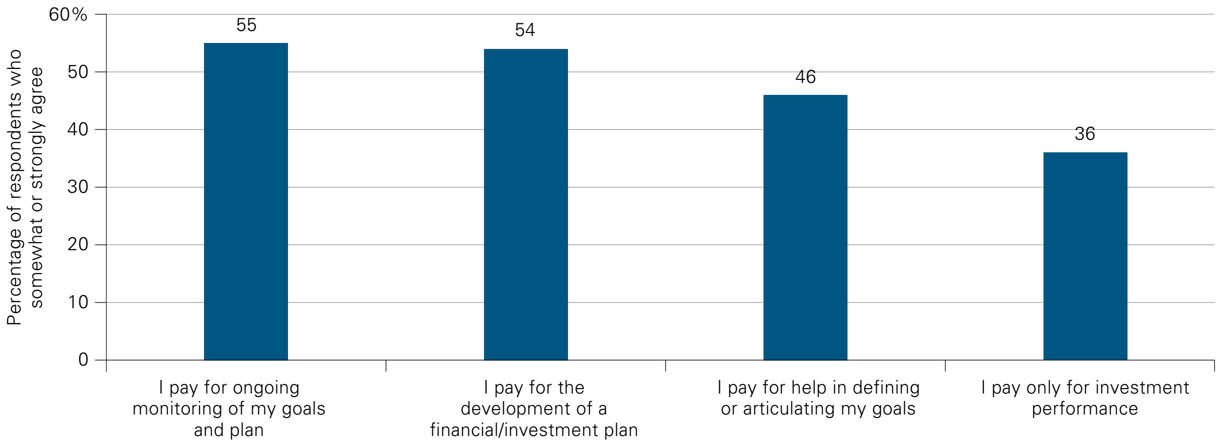


Source: Adviser Impact

On this point, just over a third of clients (36 percent) say they pay only for investment performance. The remaining 64 percent acknowledge that they are paying for help in defining and articulating goals, developing a financial/investment plan or monitoring goals over time. The chart below shows the percentage of respondents who somewhat or strongly agree with each statement.

Figure 14. What clients are paying for

Q: When you think about the fees you pay your adviser, to what extent do you agree or disagree with the following statements?



Source: Adviser Impact

The role of the client/adviser relationship

We asked clients to rate their level of satisfaction on 35 different dimensions[4]. In order to understand the core drivers of value, we identified the four relationship factors that were significantly correlated with high perceived value. Among these four drivers, investment performance was the lowest and the extent to which the adviser was proactive in managing the relationship was the highest. The four primary drivers, in order of impact on value, are:

1. My adviser is proactive in managing our relationship
2. Any problems I encounter are resolved quickly
3. My adviser helps me focus on the long term
4. My adviser helps select the investments with best chance of a high return

This does not mean, of course, that other aspects of the relationship are not critically important to clients, simply that they are not specifically correlated with driving high value; they are 'table stakes'. Figure 15 highlights the aspects of the advisory relationship that clients rate as most important.

Figure 15. Key aspects of the client/adviser relationship

	Percentage rating 'critical'
Working with an adviser who is trustworthy	60%
My adviser has good knowledge about investment products & services	54%
Working with an adviser who always follows through on his/her promises	49%
Knowing my adviser has my interests at heart	47%
Being comfortable with the level of risk in my plan/portfolio	44%
Knowing my adviser puts the needs of me and my family first, when making recommendations regarding our future goals	44%
My adviser fully understands my goals for the future	44%
Being treated with respect	42%

4 See Appendix 2

Taking action: client and business management

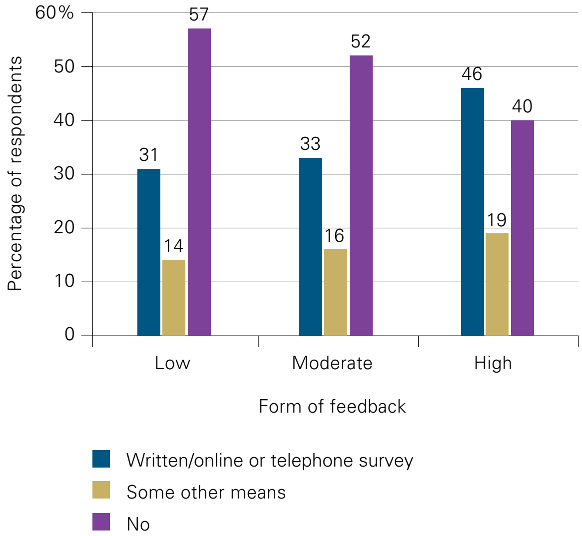
This year, in addition to continuing to track the performance of the Value Index, we focused our analysis on uncovering the activities that were closely correlated with higher value. These are presented as a six-part business and client management action plan for advisers.

1. Ask for feedback

There is a strong connection between asking for feedback and perception of value, particularly if the feedback is garnered using a formal method, such as a written or online survey.

Figure 16. Feedback sought

Q: Has your financial adviser ever asked you for feedback on the service that he or she provides? Please select all that apply.



Source: Adviser Impact

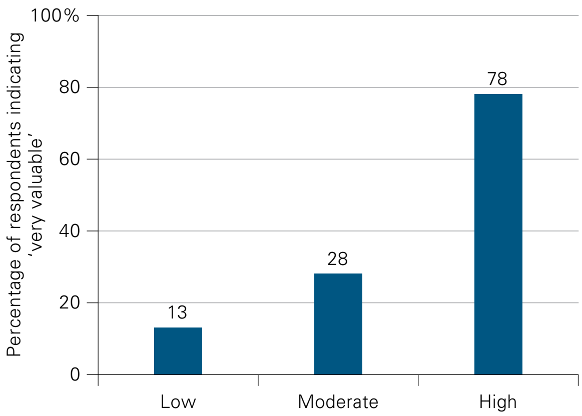
Seventy percent of clients that perceive high value said it was somewhat or very important to be asked for feedback. This is probably connected to the fact that they believe that providing feedback makes a real difference. Fifty-seven percent of clients that perceive high value said their feedback 'makes a great deal of difference', dropping to 28 percent for clients that perceive moderate value and 23 percent for clients that perceive low value.

2. Change the client conversation

One of the most substantial differences among clients who perceive high value and those who do not is their views on the value of the client review. The client review is considered the most important way in which the adviser and client communicate about the plan; however, perceptions of the value of that experience vary drastically.

Figure 17. Value from meetings

Q: How would you rate the value you receive from meetings with your financial adviser?



Source: Adviser Impact

Defining the client is key to delivering value. Is the client an individual, a couple or a family? The higher the perceived value, the more likely it is that the value is focused on supporting the couple or the family as a whole; and the more likely the client is to describe both him/herself as well as his/her spouse as actively engaged in the financial planning process.

- As it relates to couples, clients perceiving high value (and who are married or in a partnership) are more likely to say that their adviser encourages them to meet as a couple (78 percent) compared to those perceiving moderate value (67 percent) and low value (57 percent).
- As it relates to the family, 77 percent of clients perceiving high value say their adviser provides a service that helps the family manage or transfer wealth across generations, dropping to 47 percent among clients perceiving low value. Perhaps because they are used to working in this way, 46 percent of clients perceiving high value say they would find it helpful if their adviser could help their children create a sound financial plan – an important way to build bridges to the next generation.

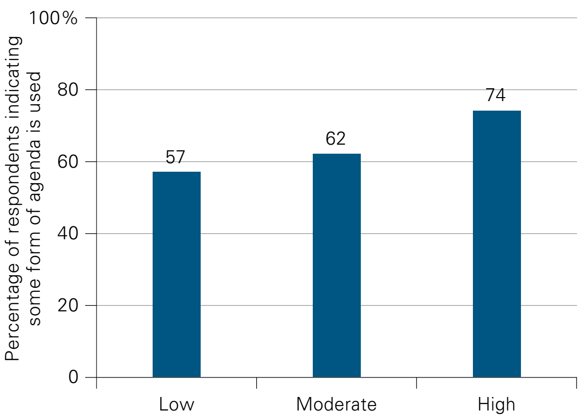
The reality is that only 30 percent of clients say they communicate about money 'very effectively' as a family. While that number is higher for clients that perceive high value (44 percent) there still appears to be a significant opportunity to add value and demonstrate leadership by focusing on the family.

On the assumption that value is often driven by subtle differences in the way that advisers work with their clients, the study also examined the extent to which clients were actively involved in setting the agendas for conversations with their adviser. Specifically, clients were asked about the use of a meeting agenda and the extent to which those agendas were built around changes in the clients' lives.

Clients that perceive high value are more likely to use some form of an agenda to structure the conversation in a client review meeting, although advisers approach the timing and content of that agenda differently.

Figure 18. Use of an agenda

Q: Which of the following best describes the way in which your adviser sets the agenda for your review meetings?



Source: Adviser Impact

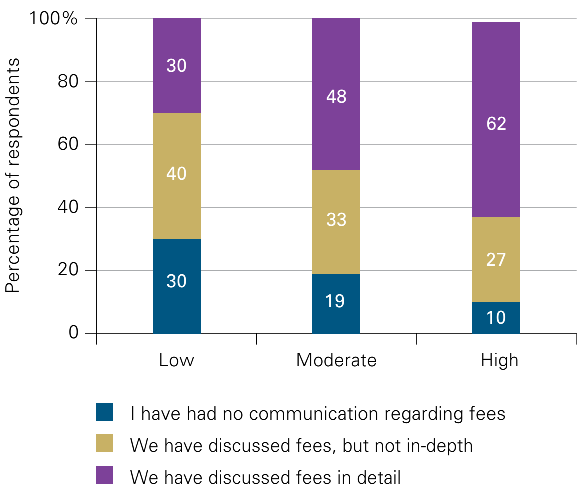
3. Proactively educate and communicate regarding fees

In the last 12 months more advisers talked to their clients about fees, although the increase is relatively small. About 20 percent of investors say they have had no communication regarding fees from their adviser. Worryingly, roughly a third of clients say that they don't know what they pay in fees – up slightly from last year.

We can see, however, that clients perceiving high value are considerably more likely to have discussed fees in-depth with their adviser. The two conclusions we draw from this mixed data are: (i) high quality advisers are more likely to have the confidence to discuss fees in detail; and (ii) clients value proactive communication on fees and are generally comfortable that they are receiving value for money.

Figure 19. Communication regarding fees

Q: Which of the following best describes how your financial adviser has communicated how he or she charges for the advice provided?



Source: Adviser Impact

4. Focus on 'high touch' client communications
There is a strong connection between high perceived value and providing personalised client communications that involve a human touch – specifically review meetings and educational activities.

Regarding frequency of contact, clients perceiving high value both expect to receive more review meetings and actually participate in more review meetings. For example, 35 percent of clients that perceive high value received four or more meetings per year compared to 13 percent of clients perceiving low value. While the form of meetings may change based on the preference of the client (e.g. face-to-face vs. telephone), the key is that they expect to meet and discuss their plans or portfolios more regularly. This may also be tied to the fact that their plans may be more complex, based on the number of products and services they use.

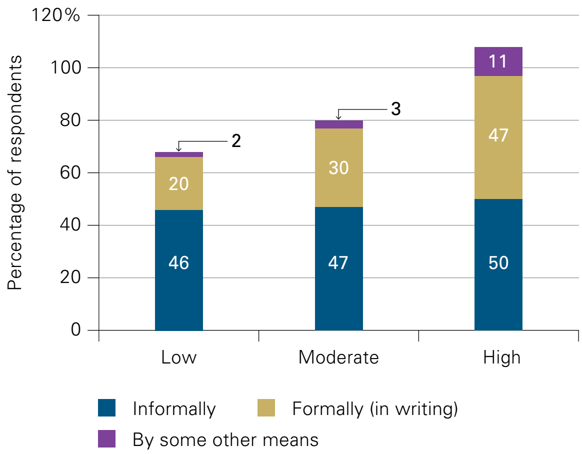
Beyond the review meeting, advisers do, of course, undertake other types of communications and events. The study analysed the frequency and impact of a variety of different types of communications and concluded that:

- There is a correlation between perceived value and being invited to educational events, more so than sending educational communications
- Value is tied to the extent to which the events are personalised to the needs/interests of the client

5. Manage client expectations
As noted earlier, clients who perceive high value appreciate the fact that their adviser proactively manages their relationship. Managing expectations is a key component of this proactive approach; advisers who clearly map out what a client can expect are seen to be more proactive. When the adviser formally outlines both the level of service a client can expect and the range of services the adviser has the ability to offer, accountability and perceived value are seen to rise.

Figure 20. Outlining service levels

Q: Has your adviser outlined the level of service you can expect in a 12-month period (e.g. the number of review meetings you can expect)? Please select all that apply.

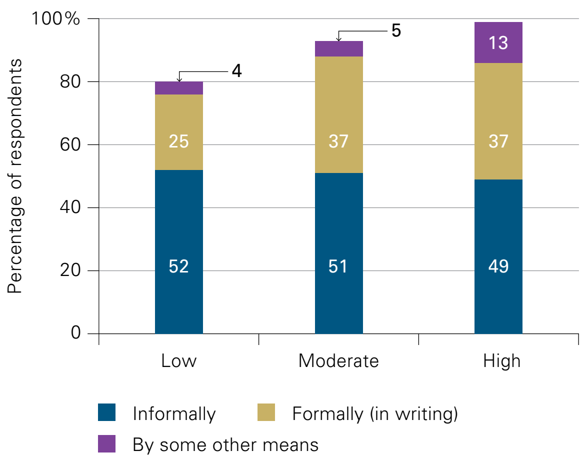


Source: Adviser Impact

Please note that there was no significant change on this factor since 2013.

Figure 21. Outlining range of services

Q: Has your adviser outlined the range/scope of products and services that he/she is able to offer (e.g. financial planning, insurance)? Please select all that apply.



Source: Adviser Impact

6. Take a team approach

Clients value a team approach. While many advisers have struggled with the idea that they might be seen to be delegating the relationship, clients that perceive high value are more likely to say their adviser takes a team approach to managing the relationship. Transparency is key; nearly twice as many clients perceiving high value (32 percent) said their adviser has talked to them about his/her succession plan than those perceiving moderate value (17 percent).

Conclusion

As in 2013, the research shows that advisers are making good progress in articulating their value, but that there is scope for further improvement. It is a significant accomplishment to increase the perceived value delivered by advisers in just 12 months. While awareness of some of the regulatory changes is still muted, advisers have clearly stepped up to focus on creating and delivering a quality client experience. On the basis of this analysis and looking forward, advisers may want to consider the fact that they do not control investment returns, the competitive landscape or the way in which the media might communicate with clients. However, they do control the client experience and, to that end, they may wish to consider the six points in the action plan:

- Ask for feedback
- Change the client conversation to focus on adding value during the client review
- Continue to educate clients proactively about regulatory change and fees
- Develop a communications plan that incorporates high touch educational activity
- Actively manage expectations
- Focus on building an infrastructure that can support the above and send a positive message about the longevity of the business

Appendix 1: Research methodology and participant profile

The research was carried out via an online survey between 23 October and 3 November 2014 using recognised investor panels. 753 participants completed the survey, all of whom work with an adviser in some capacity, make or contribute to the financial decisions within the household and meet specific household asset criteria. The margin of error is +\- 3.57 percent.

The Value Index is designed to capture a multi-dimensional view of perceived value and is based on the average responses to the following underlying questions:

To what extent do you agree or disagree that your primary adviser adds value above and beyond investment returns/market performance?

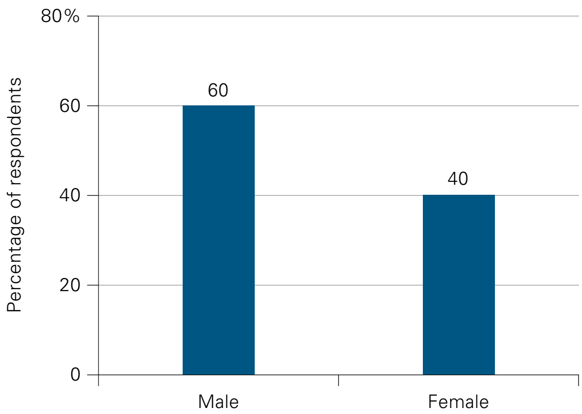
How would you describe the value that you receive from your primary adviser, relative to the fees paid?

Thinking about your most important financial goal, how important do you consider the advice you receive from your adviser?

Responses were then categorised in terms of low, moderate and high perceived value in order to understand the underlying drivers of perceived value.

Figure 22. Gender of respondents

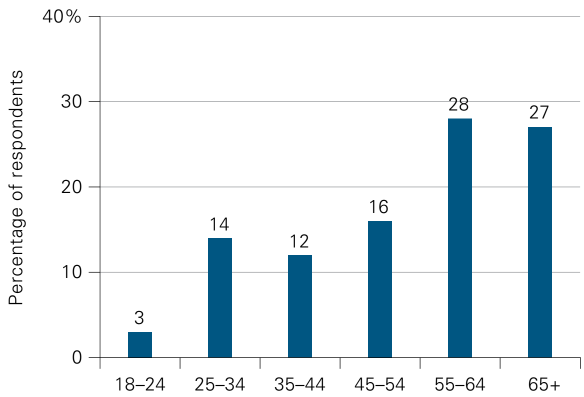
Q: Are you…



Source: Adviser Impact

Figure 23. Age of respondents

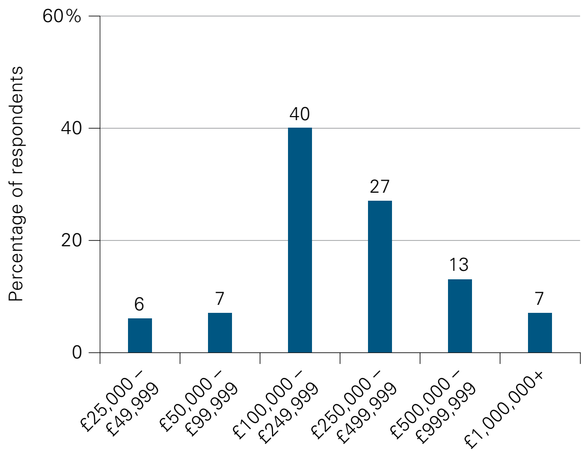
Q: What year were you born? Calculated to show age.



Source: Adviser Impact

Figure 24. Value of assets

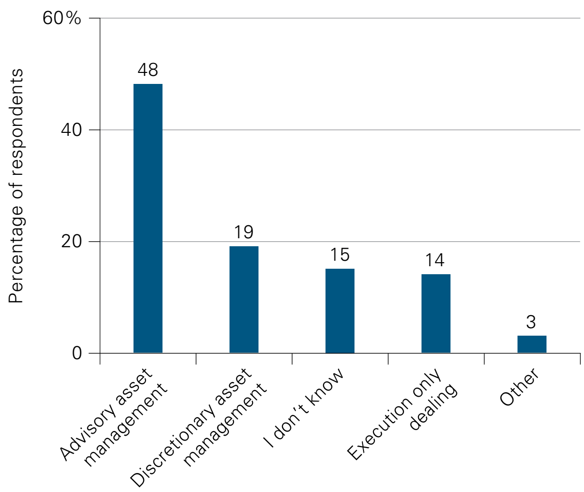
Q: What is the total value of your investable assets, excluding any property you own?



Source: Adviser Impact

Figure 25. Nature of adviser relationship

Q: Which of the following best describes how you work with your financial adviser today?



Source: Adviser Impact

Appendix 2: Service components assessed

- Achieving long-term performance (6+ years) that meets my expectations
- Acts as a sounding board/helps me make difficult decisions
- Being comfortable with the level of risk in my plan/portfolio
- Being treated with respect
- Creates a long-term plan to meet my financial goals
- Educates me about issues that may impact my financial future
- Engages me in difficult conversations about my financial future, if necessary
- Having a clear plan in place for retirement
- Having a strong personal relationship with my adviser
- Having access to a range of services that meets all of my financial needs, through my adviser
- Having access, through my adviser, to other professional advisers, such as accountants or lawyers
- Having confidence in my adviser's support team / assistant
- Having online access to my account information
- Helps me deal with the ups and downs of the market
- Helps me define my financial goals and objectives
- Helps me focus on long term
- Helps me make difficult decisions
- Helps select the investments with best chance of a high return
- Is proactive in managing our relationship
- Keeps me on track/focused on the long-term
- Knowing my adviser has my interests at heart
- Knowing my adviser puts the needs of me and my family first, when making recommendations regarding our finances
- My adviser can clearly explain difficult financial concepts
- My adviser finds ways (such as a client social event or gifts) to thank me for my business
- My adviser fully understands my goals for the future
- My adviser has good knowledge about investment products & services
- Provides guidance
- Provides reassurance
- Receiving statements that are clear and easy to understand
- The accuracy with which my account is handled
- The frequency with which my adviser contacts me
- The speed with which my adviser returns my calls and e-mails
- The speed with which problems I encounter are resolved
- Working with an adviser who always follows through on his/her promises
- Working with an adviser who is trustworthy

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