

# InvestorDaily

## Spinning a new tune on advice

### **IFA Cover Story**

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Mon, 16 Aug 2010

A new type of client is in the market.

They are wary of investments and the investment process and yet want professional help. They have low confidence in markets and in the ability of managed funds to deliver sustainable returns. Capital preservation is at the forefront of their minds.

Some of these people have financial planners, most do not. They are all potential clients because they need help but are not sure where to find it.

Of those who use a financial planner, they are highly satisfied with the experience. They are aware there is an underbelly to the industry, but regard their financial planner as one of the good ones.

For the would-be clients, they share the same concerns as those who use a financial planner, but have a heightened level of distrust of them. In the absence of a relationship with a financial planner, they focus on the negative and on the image the media presents to them.

Marketing to and servicing the needs of both these clients is at crisis point. Both need to be communicated to in a way that reflects their changing needs and tastes.

"A lot of shots have been fired at consumers by the market, by the industry and by the regulators and the risk is that one day consumers say it's all too hard," Snowball Financial Services managing director Tony McDonald says.

The majority of Australians are in the would-be client category, representing 70 per cent of the population.

For them particularly, the cataclysmic events of the past two years - the global financial crisis and corporate failures, such as Storm Financial, Timbercorp and Opes Prime - have done little to answer, abate or satisfy their need for a different planning message and solution.

Traditionally, there are three main ways financial planners market their services: through referrals, creating centres of influence and direct marketing.

But finding a new and effective marketing message that speaks to both groups of people is of

high urgency and requires a rethink of the old ways and old practices.

"It is absolutely critical," AMP director of financial planning Steve Helmich says. "We can't afford to take a back step these days because we are on a journey and if we take a step back, we've got to get back to where we were.

"The great challenge is to get more advice to more Australians."

Professional Investment Services (PIS) group managing director Grahame Evans agrees: "The urgency is quite strong because people start making silly decisions on their own behalf."

### **Satisfying? Yes. Ground-swelling? No.**

The financial planning industry is very good at satisfying the needs of its existing clients.

Investment Trends principal Mark Johnston says while people say they currently distrust financial planners more than normal, this feedback tends to come from people who don't use financial planners.

"Most people who use a financial planner rate them highly," Johnston says.

According to Financial Services Council (FSC) chief executive John Brogden, people's attitude to financial planners is similar to their attitude to their state member in politics - they don't like their state member but do like their local member.

"Many people would have a poor opinion of financial advisers, but ironically not those that use them," Brogden says.

FPA chief executive Mark Rantall says with satisfaction levels at 85 per cent, people who use financial planners are very happy with the service they are getting.

However, Rantall says unfortunately in the wider population, people do unfairly associate negative investment performance with financial planners.

"Financial planners at the end of the value chain are seeing the client and unfortunately they are not in command of how assets perform. I'm sure investors feel performance is attributable to the financial planning community. Spectacular product failures have exacerbated this."

Johnston's research certainly confirms this negative association. "Investment satisfaction with financial planners has recovered a lot over the course of the last year. Satisfaction has rebounded with the market. It is inextricably linked with performance," he says.

While negative investment performance comes and goes with market cycles, the GFC has certainly left many investors reeling from the experience.

Yet as Rantall says, unfortunately it is a number of events that have come together to heighten people's concerns about the industry and this is now what the industry must try and

address. It makes for a more challenging proposition.

Evans agrees: "It is more difficult [to market] than what it was in 2006/07. It's a combination of fear post the GFC and also concerns raised in the media about a small minority."

### **Living the industry's nightmare**

In the industry it is hard to ignore the seemingly high-profile trials and tribulations of the financial planning industry. Corporate failures, product failures, contraventions by authorised representative and licence holders seem to occur alarmingly often.

So how much do people in the street really register the machinations of the financial planning industry?

According to Johnston, many people actually thought the GFC was caused by the financial services industry. Yet within the industry most people believe clients do not live and breathe the trials and tribulations of the financial planning industry as much as newspapers may like to think.

"I don't think the average client cares too much about new mergers and acquisitions," NAB Wealth advice and marketing executive general manager Richard Nunn says.

"It's not the highlight of their day."

For a group that has currently been in the media over its potential merger with Axa Asia Pacific, AMP says the nature of its broad client base means such developments would actually be of little interest to many of its clients.

"But some of our clients would be [interested]. Long-term customers love AMP and want it to do well in the future," Helmich says.

What is perhaps most damaging to the industry are the generalisations and the associations people make after actual incidents occur.

"They don't draw that many distinctions between the different players in the industry," McDonald says.

"But what the public does is say where there's smoke there is fire."

### **Getting people to value advice**

One of the main factors influencing client satisfaction levels is the relationship they have with their financial planner. The past couple of years have been testament to this fact.

"We have seen strong relationships survive extremely difficult circumstances," Evans says.

In challenging times, strong relationships mean clients' concerns can be addressed before

they become big issues.

"Clients don't understand a global financial meltdown and the knock-on effects, so relationships become extremely important," Evans says.

Valuing advice also helps clients to manage their expectations and to understand what a financial planner can and cannot control.

"It really helps to quantify the value of financial advice. Planners who do well are great at demonstrating the value of advice," Johnston says.

Getting people to understand the value of financial advice is the first step in establishing and building lasting and satisfying relationships with clients.

Unfortunately, according to Helmich, the lack of understanding around the value of financial advice is a global phenomenon.

"The challenges are to get greater education out there about what financial planners do," he says.

He says AMP is doing its bit to try and be a leader in this space. As an example, in July it launched a consumer-targeted financial planning centre in Parramatta, Sydney, where investors can get an accessible experience of financial planning.

"People can walk in and get a clear idea of what the cost is before they are paying," Helmich says.

AMP has also launched a low-cost and commission-free superannuation product known as AMP Flexible Super. It is designed to be a step ahead of the industry reforms heralded in the Ripoll and Cooper reviews as well as the Future of Financial Advice reforms announced in April by Financial Services, Superannuation and Corporate Law Minister Chris Bowen.

However, according to McDonald, the value people associate with financial advice really comes back to the type of financial advice given.

"Proper advice is not just transactional and not just one-off. People value it where advice is about them and not just about money or advisers' efficiencies in their business," he says.

## **Tasting the cooking**

How does the financial planning industry get more people to 'taste the cooking'?

"Financial planning is one of those industries that always has to market itself," Rantall says.

McDonald agrees and says getting the right balance between achieving scale benefits while offering the right advice for an individual is a huge task because there is "a bit of a trade-off there".

This is particularly the case, he says, with non-users of financial planning - how do you

demonstrate the service is for them and is not about the money? He says the answer comes back to transparency and business segmentation.

The good news is that for those clients who have been properly advised, the marketing challenge is not as big a challenge.

"It's a more difficult thing to market to those who have not tasted the cooking. More needs to be done to get them over the line," McDonald says.

The industry seems to believe that theoretically it shouldn't be difficult to market financial advice. After all, Nunn says, "if anyone needs financial advice it should be now".

Further, it considers it is doing its best to educate people and to help them get involved.

McDonald's 'taste the cooking' is a good analogy of the industry's marketing challenge because it communicates well the need to just get people to try what the financial planning industry has to offer. And it relates back to the good satisfaction levels the industry has proven it can achieve - once someone has experienced financial planning they are generally very satisfied.

Making advice more approachable through initiatives such as AMP's financial planning centre, where people can come in and have a look at what's on offer without costing anything, is a good step, Helmich says.

Rantall says while some of its members are concerned about marketing issues, they are not coming to the association looking for it to address these issues.

"We are a professional association. There is a big difference between a marketing or lobbying group," he says.

That said, the FPA has initiated a number of programs to help members communicate with their market. It has established a website designed to help members in transition from commissions to fees and it also provides members with tools around their value proposition.

Local information campaigns as well as radio campaigns, where the FPA has provided the content and businesses can top and tail it, have also proven successful. But achieving a media profile on the national networks requires a whole new level of funding. Ultimately the best marketing is not to get negative press and to have more positive stories out there in the public domain.

Rantall says the FPA is also currently spending a lot of its time fighting for some of the Future of Financial Advice reforms it believes make sense.

### **A Gruen transfer challenge: new marketing message required**

The urgency in getting the financial planning industry's marketing message right is at an apex.

This opinion seems to be unanimous and it comes back to a belief that good financial planning can make a real difference to people's financial wellbeing.

"From a consumer perspective, people will be better off. We saw this in spades post the GFC," McDonald says.

Evans says the new marketing message needs to find a way to address both the fear people are feeling as well as getting their strategy back on track so they can build wealth and realise their lifestyle and financial goals.

And perhaps surprisingly, he says fixing the marketing message is actually not so much about broadening the appeal of financial advice. He disagrees with the premise that there is in fact a new breed of client in the marketplace, arguing what is actually needed is a different message but delivered to the same market.

"Broadening of financial advice to the lower end of the spectrum, we've still got to work on the message," he says.

"It needs to be simple, crisp and clear. But I don't think they have suffered as much because their funds were in industry or corporate superannuation funds and I don't think they recognise the reductions in value."

The message he is conveying to PIS financial planners is that there needs to be less emphasis on the technical information and more emphasis on the comfort message because this is what clients want to hear.

"Fear will be here for a degree of time and people will prefer to make less money [and for it to be safe] rather than more money. We will see that for some time," he says.

Nunn says certainly events such as Storm Financial, Westpoint and Opus Prime have not helped the development of a sound marketing message for the industry over the past few years.

"There's no doubt there is an overhang from the blow-ups and we have to work hard so they don't occur. Every time it happens it is a disaster," he says.

"But it's [the industry] not in a terrible position."

Rather he highlights the need to implement the reforms introduced by Bowen both quickly and effectively.

"If the industry chooses to embrace the recommendations and not pass up as new and different and truly embrace it, they will deal with a lot of these issues," he says.

## **Branding impacts on marketing message**

The branding message of institutional and non-institutional groups does differ and this is something that is unlikely to change while both groups believe it serves as a differentiator in

the market.

According to Helmich, AMP's marketing always focuses on the fact all of its advice has the backing of AMP because it believes its brand gives consumers comfort.

For a large player such as AMP, which incidentally in June celebrated its 150th year in the provision of financial advice, brand can be one of its biggest trump cards.

And as Helmich points out, AMP has not been a participant in product failures and this is no fluke. For example, it did not offer investors access to hedge funds provided by Basis Capital.

Further, Helmich says the independence message as marketed by non-institutional financial planning groups must be kept in context.

"It can often mean small backing with not the resources we've got," he says.

He argues people can have the best of both worlds with AMP because it offers them so much choice in terms of planners, products, managers, investment styles and platforms.

But non-institutional groups such as PIS argue they actually give people real choice because the advice they will receive is independent minded.

"Advisers are not being told what to do," Evans says.

He questions if AMP truly offers choice, how many different platforms does it then allow advisers to write business for?

He says the planned merger of PIS with Centrepoint Alliance has much to do with keeping the business as a listed entity while still owned fully by its parent company, PIH.

"Part of the decision to merge with Centrepoint is to be independent of thought. The value is a fully tailored solution," Evans says.

But McDonald says not mixing messages on what institutionally-owned versus non-institutionally-owned businesses offer is important for the industry's progression because neither model is right or wrong.

He says while most institutions do offer a one-size-fits-all and transaction-based model, this is fine as long as this is what investors are looking for.

Meanwhile, non-institutional groups tailor advice around the individual while delivering efficiency dividends. They also offer a range of bespoke solutions, which will cost more.

### **Market segmentation on the back of reform**

It is widely anticipated (and hoped) that industry reform will do much to address people's concerns about the financial planning industry as well as to facilitate a change in the marketing message.

Reforms, such as the proposed MySuper and SuperStream measures and the abolition of commissions, will certainly have a huge impact on the transparency and efficiency of the industry. These changes will alter the way financial planners operate, manage and market their businesses.

"The way financial advisers market themselves is about to change because the way they operate their businesses is about to change," Brogden says.

"Presently we are entering an enormous period of change in Australia with the transformation of financial advice. That industry will change from selling products to selling services and many businesses are ahead of the curve."

In this way McDonald predicts greater segmentation of client bases - on both a financial and emotional level - to ensure the business offering matches particular market segments.

"That segmentation and creation of modules is going to be critical going forward," he says.

He says businesses will be segmented not only by type of financial planner, but also holistic versus simpler financial planning down to what kind of holistic and simpler financial planning service.

In practice, it means self-managed super fund investors characterised as high-touch and high-involvement clients will be at one end of the spectrum, while at the other end clients will select from a basket of services.

Of course, how financial planning businesses cost these advice services and packages will be instrumental to their own viability as well impact on the appeal of advice.

According to Brogden, the pricing issue is a critical one for the industry and he says given the reform changes coming through, compliance will make the provision of advice more expensive in the short term.

If costs increase, there is the risk fewer people will be able to access financial advice.

"It is critical in the reform process that advice is not priced out of the reach of average Australians. We want Australians to get more financial advice rather than less financial advice," he says.

"It is a conundrum with fewer financial planners offering a better service to fewer people."