Written by Simon Olive, edited by Clive Ford

"In the factory we make cosmetics, in the store we sell hope".
Charles Revson (founder of Revlon)

"What have the Romans ever done for us?" – People's Front of Judea (Life of Brian)

This chapter focuses on the value clients can derive from engaging the services of a financial adviser. It emphasises the vital task of ensuring advisers and clients share a common view of the value available in return for the fees the client will be expected to pay initially and on an on-going basis. It also serves as a prequel to the next chapter dealing with how elements of the value available can be targeted at one or more consumer "segments".

RDR – Market Research vs. Market Reality

In the period prior to RDR implementation, several pieces of research regarding consumers' appetite to pay fees were commissioned. Results published reflected a range of conclusions drawn:

- Deloitte's research amongst 2,000 respondents indicated that:
    - 54% would not be prepared to pay a fee
    - 47% would reduce the times they use financial advisers if charged a fee over £600.
- Legal & General (L & G) Savings research suggested:
    - consumers value advice at an average fee rate of £67 per hour
    - advisers say their time is worth £170 per hour.
- J P Morgan's research that said clients would pay around £370 for a financial planning review but the market rate would be well over double that.

Evidence exists to contradict these conclusions.

Many advisers with whom I and my colleagues have dealt advise significant numbers of clients willing to pay over £750 for an initial financial review and in excess of £1,000 per year for on-going advice.

In early 2013, I caught up with 20 adviser firm principals who had attended one of a series of 4 day Business Transition Programmes I delivered during the previous 18

months. Each one said their clients were happy paying the level of fees they proposed for the on-going service offered. In addition, over 90% of them would be paying more by way of an explicit, transparent fee than was hitherto being paid to the advisers by way of trail commission.

Why does the research not match the reality?

Respondents were not answering questions based on a full description of the range of work carried out by a professional adviser and the value which can be derived from this work.

If their understanding of what an adviser can do for them is based around selection of a product that "fits the bill" at a reasonable cost, it is not surprising they did not perceive the need to pay more than £370 for an advice report.

As Alan Dick of 42 Wealth Management once said "People won't pay to be sold a product"

Price becomes an issue when value either doesn't exist or hasn't been established in the client's mind. It is vital to develop an awareness of what will clients pay for and the ability to turn that awareness into delivering something meaningful and tangible for them.

Awareness of the kind of value only an adviser can deliver

In 2011, research commissioned by Standard Life and carried out by NMG indicated more than 70% of affluent consumers view RDR changes positively, once properly explained.

Understanding what clients will value and pay for is the fundamental issue for any business in any market place. It is often one which is overlooked or misunderstood when promoting messages about what a financial adviser can deliver. There are still many adviser websites which focus on the range of technical knowledge and product selection capability they possess rather than highlight the benefits of working with a trusted adviser. Most adviser websites are not designed to create new enquiries, but to inform existing clients and provide information for referred clients. However, they do indicate what the firm thinks is important to promote as its differentiating selling point.

Our business consultancy team regularly asks advisers to imagine themselves as the kind of client they would love to work with on a regular basis. Then, we ask 6 questions we originally used when carrying out some research with existing clients of IFA businesses several years ago.

1. What are looking for from a quality financial advisory firm?
2. Why is that important to you?
3. What would it mean to you get what you expect?
4. What did they like about working with previous advisers?
5. What didn't they like / why aren't they still working with them?
6. What do they think the cause of that was?

(These questions are ones I suggest should be asked at the start of any first meeting with a prospective client)

We have been running this exercise for the best part of a decade at the time of going to print.

In addition, we hear from advisers who have used these questions as part of their client engagement meetings.

Without fail, hundreds of times over one or more of the following words or phrases comes up in the answers to the first three questions:

- Peace of mind
- Family security
- Control
- Reliability
- Trust
- Time saving
- Relationship
- Pro-active service
- Accessible
- Save / make money
- Deliver on promises
- Clear explanation

What emerges is a picture of a desire for a

- trusted on-going relationship
- accessibility to advice
- responsive service based on a true understanding of, and interest in, the client's objectives
- overall value for money.

The number one answer, Peace of Mind, is probably the cumulative effect of taking steps towards family security and a sense of control, helped by someone reliable and trustworthy.

Rarely do the answers include a desire for technical expertise or independent status. Neither does the subject of price arise for that matter, although the assumption would be that price is fair and transparent. These are seen as hygiene factors, a bit like taking it for granted that your GP has a medical degree. Websites and brochures prioritising these aspects don't appeal to what the client is looking for.

Products or other financial solutions, highly sophisticated or specialist though they may be, are the by-product of the advice and coaching process along which an adviser guides the client. These solutions are a means to an end and form part of a planning framework.

As Charles Revson would have it, most clients are not buying a Pension, an Investment or a Life Policy but peace of mind, financial security or freedom. A Pension, an ISA an OEIC can be purchased on-line or on an execution-only basis. However, they won't deliver the peace of mind that comes from knowing the product purchased has been selected to help clients achieve a defined objective in the context of a properly integrated financial strategy underpinned with on-going service and support.

Questions 4, 5 and 6

Answers to these three questions usually fall into one of two camps. Clients either felt under pressure to buy, or the service promised wasn't delivered or waned over time. This confirms clients feel that adviser proactivity tended to cease once initial remuneration had been earned and when on-going trail commission was too low to merit on-going service. It may well have been the case that no further service was promised in such a situation.

However, the commission system was really a “bounty” on the sale of product. The amount paid was not designed to reflect the true price of the adviser’s delivery at outset or on an on-going basis.

Answers to these questions consistently indicate that most clients value on-going financial planning services from an adviser they can trust to understand them and their needs and be impartial.

They either didn’t value or were highly sceptical about advice which could only be remunerated if a product was purchased to enable payment of commission.

Advisers who use these 6 key questions find prospective clients:

- express a desire to work with someone they trust who has a meaningful proposition for advice, investment and service, delivered at a price fair to all parties.
- see the sense in operating on a fee basis to ensure they get the impartial service for which they are looking.

A key success factor is an adviser’s own habits and confidence around positioning the skills they apply to the process of helping clients achieve clarity and purpose regarding their financial arrangements.

Quantifying Financial Planning Needs

Many advisers “brought up” on commission as a reward system for transacting financial products rather than delivering a wider advice proposition, may have a vague notion of the real value they can bring. Examining a couple of typical scenarios is a great reminder of the real sums involved.

Sample Case Study - Household “A”

<table>
<tr><td>Married couple, both age 40, 2 children</td><td>Breadwinner earns £50,000 per annum</td></tr>
<tr><td>looking to retire at age 65
Desired pension £25,000p/a plus State Benefits.</td><td>At 3%p/a inflation and a 5%p/a return on capital in retirement, requires a fund of > £1,000,000</td></tr>
<tr><td>Mortgage of £120,000.</td><td>At 5%p/a interest means paying £210,000 in interest and repayments, assuming they never re-mortgaged or moved house.</td></tr>
<tr><td>Want to provide for income on death of breadwinner of £30,000 p/a with their mortgage repaid.</td><td>Assuming 5% p/a return on capital, ignoring inflation, £720,000 death benefit is required.</td></tr>
<tr><td colspan="2">If breadwinner cannot work due to illness, then ignoring c.£5,000 p/a incapacity benefit and inflation a figure of up to £1,250,000 would be the total shortfall if no arrangements are made.</td></tr>
</table>

These needs alone equate to the creation or protection of c£3,180,000 wealth.

Chapter 5 - The value is in the eye of the beholder

Sample Case Study - Household "B"

Married couple, both age 40, 2 children	Household income £80,000 per annum
looking to retire at age 65 Desired pension £45,000p/a plus State Benefits.	At 3%p/a inflation and a 5%p/a return on capital in retirement, requires a fund of > £1,800,000
Mortgage of £250,000.	At 5%p/a interest means paying £440,000 in interest and repayments, assuming they never re-mortgaged or moved house.
Want to provide for income on death of breadwinner of £60,000 p/a with mortgage repaid.	Assuming 5% p/a return on capital, ignoring inflation, £2,400,000 death benefit is required.
If breadwinner cannot work due to illness, then ignoring c.£5,000 p/a incapacity benefit and inflation a figure of up to £2,000,000 would be the total shortfall if no arrangements are made.	

In this scenario this amounts to c£6,640,000 of wealth to be created or protected.

The Risk of a DIY Approach to Financial Planning

Access to financial products and limited advice or guidance is readily available on-line and in local supermarkets. For the clued up investor or consumer with a known, specific and basic need, some of these solutions may adequately fit the bill.

But, how many individuals or households possess sufficient expertise, insight and skill to assemble a fully integrated and effectively implemented financial planning strategy? How can a consumer really be sure they have picked not only the right financial product, but more importantly that it fits within a relevant and "up-datable" plan or framework?

Red Adair was famous for leading a team who would cap and extinguish fires in oil wells. It might be a tortured analogy to compare his work with what financial advisers do. However, his legendary quotation applies as much to the importance of avoiding a DIY financial plan as it did to a properly fought oil well conflagration!

"If you think it's expensive to hire a professional just wait until you hire an amateur!"

For instance, would DIY enthusiasts think about the following issues in sufficient depth?

- What are my long term goals?
- What are the various routes towards a tax efficient, flexible package of solutions?
- Will my family be adequately protected in the event of my premature death or disablement?
- How do I balance my budget for the here and now and set aside savings for the future?
- Can I be sure that the mortgage deals I see advertised are really the best ones available for me?

- How do I achieve the right balance between investing towards a retirement plan and in vesting for other goals such as university fees or a holiday home etc?
- How do I find investment vehicles and funds suited to my investment temperament?
- How do I go about altering my plan?
- How often will I review progress?
- If I don't review and amend my plan on a regular basis, what are the consequences of drifting – missing tax reliefs / allowances, funds running out of kilter with asset allocation and attitude to risk, missing some cheaper insurance / assurance / mortgage rates?
- Who will give me an objective assessment of what to do in times of stock market turbulence?
- Who can I turn to for an informed, trusted second opinion?
- Who can help me maintain my investing and saving discipline when it might be tempting to spend cash on a bigger car than I really need?

The Value of Professional Advice

Clearly, clients left to their own devices risk suffering a heavy opportunity cost as a consequence of failing to implement and maintain a properly integrated financial plan.

A trusted adviser will help clients harness their financial resources in the most effective way towards achievement of their long term goals and avoid the compound cost of delay. As a result, clients have the best chance of staying focussed on the objective and adapting the plan in the light of changing circumstances. This creates the peace of mind and value for money clients tell us they seek.

Long Term Benefits of Engaging an Adviser

In addition, over a 25 year period, an adviser is also likely to consult with their client on other factors such as:

- School / University fees planning
- Wedding costs
- Divorce discussions
- Regular income tax & CGT savings
- IHT discussions and savings
- Second opinion on a flavour of the month investment opportunity
- Emotions w/ref the stock market
- Overseas property
- Associated business discussions
- Saving money on insurance premiums, household bills
- Interest rates deposits/mortgages

Adviser as the hub at the centre of the Financial Wheel

Furthermore, during their working relationship a financial planner is likely to liaise with a series of other organisations with a role to play in a client's financial well-being.

These others could include:

- Accountants
- Solicitors/Powers of Attorney
- Trustees
- Beneficiaries
- Bank manager
- Building society/lender
- Estate agents
- Fund managers
- Insurance providers
- Platform providers
- Will writers
- Family members

This liaison work means the adviser acts as the "glue" holding the client's affairs together. It saves clients valued time and cost and creates beneficial synergy across all parties. Time saving was a key driver identified from our research into what a client values from work done by their advisers. The more affluent a client the more likely they are to value the time you save them so they can either enjoy the fruits of their success or make more money.

Keeping the Wheel Turning – Regular Review and Maintenance

Don't underestimate the value of a review service – top sports people and business gurus recognise that periodic review helps them stay on track, avoid bad habits and maintain focus on the "prize". Financial planning reviews serve the same purpose for our consumers.

On the basis of all these factors, adviser reward in the region of £1,000 per annum for work done with Household A or £2,000 per annum for Household B would, I suggest be a very reasonable proposition. Without professional insight, clients risk incurring the compound cost of delay in planning or risk making poor decisions based on emotions more than logic. The cumulative cost of these risks could be an impact of around 10% or more on the wealth they need to protect or create.

Creating a Context for Recommended Solutions and Your Fees

Financial advisers who simply point a client's money towards an investment solution and reviews performance from time to time will not justify the level of fee merited by advisers who may recommend the same solution, but within the framework of an overall well designed plan and service.

Therefore, when market researchers ask what would a client pay for financial advice and financial reviews, what kind of adviser might the interviewee have in mind when responding – a product seller or a financial architect and chief engineer?

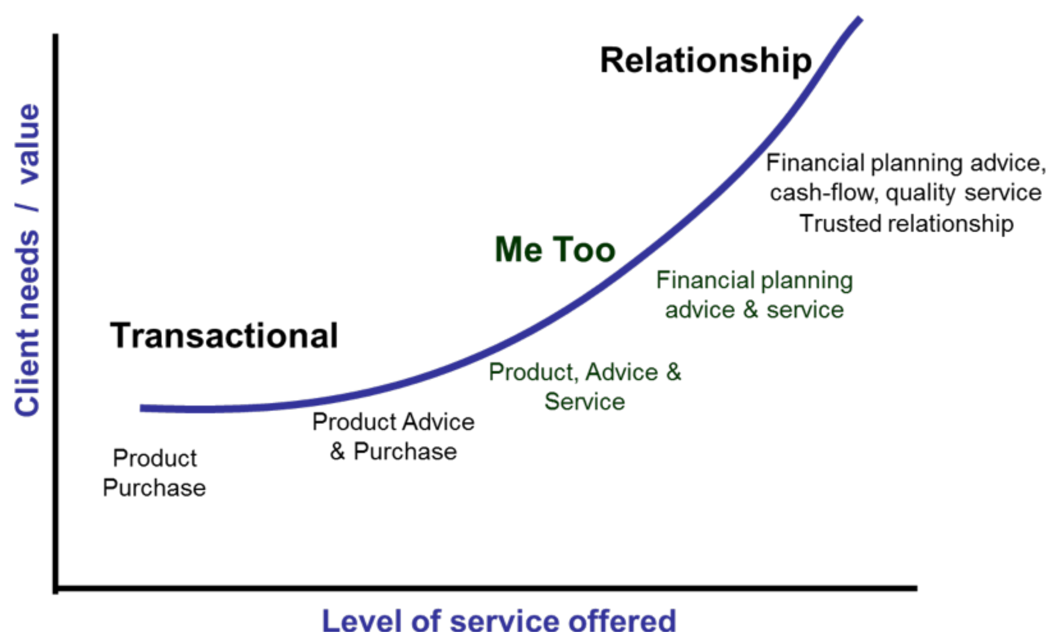
My challenge to financial planners is this – how much of what you offer and what it means to your clients do you articulate when initially presenting what you do? Often, advisers feel the need to list the range of technical areas they can deal with and the investment solutions they offer.

The financial advisory market could do better at articulating the value of what it does.

The media, regulator and politicians could be more positive about it, but advisers and the industry need to take control of their own message. How this might look will be covered in a later chapter.

Preferred solutions

Different advisers and firms have different strengths, skills and motivations which may determine what they want to deliver, the needs in the market they want to satisfy, the value they can offer and ultimately the markets they need to target.



This graph re-visits the market model referred to in Chapter 3.

As proposition complexity moves to the right, the value perceived by clients increases and so too the price professional advisers are able to command.

The model illustrates the level of services consumers demand according to their:

- awareness of what level is actually available from the financial advisory market place
- appreciation of what value they can derive from service available
- view of how much help and support they need from the market
- appetite to pay for services

Transactional Offering

Transactional services are suitable for clients who

- may want to buy products / funds directly from providers with no advice
- know they have a need for a product but want advice on which to buy and assistance in buying it, but nothing else.

Me-Too Service

The Me-Too section encompasses a spectrum of delivery, catering for a range of clients including those who want:

- advice on which product to buy and a periodic review of the product / funds they have purchased but not in the context of an overall financial plan
  or
- a broader financial planning service, where goals are discussed, a strategy set with a programme to build a range of product and investment solutions and they are reviewed at a pre-agreed frequency
  or
- financial planning that embraces cash-flow planning and a lifestyle questioning approach. Beyond this clients may look to trust their advisory firm to act as an agent for them, liaising with and co-ordinating their financial affairs with the Accountant, Solicitor, Bank etc.

Now not all clients in the "Me-Too" space warrant or can afford an annual review. However, many firms set this as a minimum standard for a face to service. Subsequently, realising it is not a viable offer for all clients, they either "demote" unprofitable clients or continue to see them and suffer the loss as a consequence.

Many firms effectively undervalue the role they play through the way they promote servicing programmes for wealthier clients. With fees based on an ad valorem (% x FUM) basis, firms will increase the frequency of review meetings as the level of FUM they administer rises.
This may be a relevant mechanism to help keep clients' plans on track. But, it also underplays the value wealthier clients derive from the many aspects of work undertaken by the adviser:

- highlighting and resolving complexity
- monitoring factors affecting the plan
- monitoring and responding to risk
- co-ordination of affairs,
- tax planning
- being available

Me-Too Rationalisation

The needs of mid-range clients are probably less sophisticated than a more affluent client who may have more varied investments, objectives and regular supplies of new money to consider. Therefore, the level of and frequency of activity required with their financial plans is lower.

A good financial planner and investment adviser tends to keep their client focused on their longer term strategy and avoid short term reactions to circumstances. On that basis, less sophisticated clients may only need a face to face review every 2 or 3 years. They can always have access to their adviser in the interim if something important arises. In which case, they will probably seek some fresh advice and possibly pay a project fee accordingly.

Other clients who understand the value of planning and reviews may pay more than the adviser is currently charging them if that is what is required to ensure the adviser can deliver this profitably.

Relationship End of the Spectrum

Here, we are looking at a high quality service to a smaller number of clients who are prepared and able to pay a premium rate for this special attention and level of service. This is often referred to as the “High Net Worth” market. However, the level of net worth that is perceived as “high” is very much down to local or regional interpretation.

At this level, a firm’s overall game needs to be at its best. Some would say the wealthier clients are more demanding and expect more for less. I would say they just want value like anyone else and if they are paying more, they expect more. “More” isn’t necessarily more frequent meetings as is often the market’s perception of what to offer.

Time is important to many of these clients and so they may not want more meetings. They do expect:

- fast and efficient response times,
- accuracy
- a right first time approach
- advisers competent at the more technical end of the financial planning market
- advisers with competence to analyse and filter esoteric tax planning products and options available.

Equally the affluent end of the market is not the only sector where Lifestyle Financial Planning and Cash-flow modelling are useful and valued tools. Often this is being seen as something that needs to be offered in order to “justify” a high fee with wealthy clients rather than whether it is relevant or desired. It can also be thought of as too complex and / or expensive to supply to the majority.

Lifestyle Planning and Cash-flow Modelling with Me Too Clients

A skilled adviser will use these tools with different clients to varying degrees in the Me-Too segment as well as the Relationship segment. Extremely affluent clients may have levels of wealth which render a detailed cash-flow model superfluous. Their money is never going to run out.

However, they may be unsure what money really means to them, what they should be doing with it for the “greater good” or their heirs. So, lifestyle planning may be highly relevant.

In the Me-Too sphere, some clients may find it hard to visualise the future in any aspirational way and so not see Lifestyle Financial Planning as relevant. On the other hand, cash-flow modelling may help them see how they could make their money stretch or reach retirement goals quicker etc.

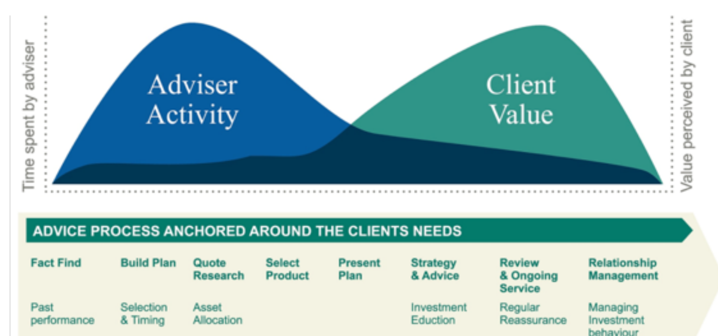
Some may be really surprised with the flexibility they have and realise they can take less risk than hitherto have done to achieve their goals or could be doing more of the things they really enjoy and be less stressed about money.

Do You Spend Your Time doing What Clients Say They Value Most From Their Adviser?

Clients perceive value lies in the time their adviser spends with them on financial planning, tax and investment management and providing a service. This doesn't mean the behind the scenes work can be abandoned, for without it, there would be no plan, no review and no means of delivering expertise and service in a sustainable and relevant fashion.

You may be familiar with research illustrating a disproportionate amount of adviser time spent on:

- product research and selection
- documenting reasons why
- paperwork pre & post implementation.
- gathering valuations
- reviewing the asset allocation,
- re-balancing,
- testing continued suitability with a cost benefit analysis against other newer products etc.



Source: Investment Trends Pty Ltd. December 2005 Planner Technology Report

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Has the time you spend on the "hygiene" factors increased at the expense of time spent on what your clients value most? Or, have you made the time available for both ends of the graph above by sacrificing your own work/life/family balance?

Product Research is Diminishing as a Differentiating Factor of Value

Many mergers and acquisitions have reduced the number of providers and products. The advent of Stakeholder led to "vanilla" style, homogenous tax wrappers / products, narrowing differentials between many offerings. RDR has continued this trend through the removal of enhanced allocations.

In many cases, the basis of comparison between tax wrappers and products has become price driven. However, in most cases, prices differ very little between competing products. The table below illustrates a typical reduction in yield figures from 9 different providers for a £100,000 investment over 10 years.

Provider	A	B	C	D	E	F	G	H	I
10 year RIY (£100k)	1.2%	0.9%	1.1%	1.2%	1.1%	0.9%	0.9%	1.0%	1.0%

Compliance regimes typically focus on Reduction in yield figures (RIY) which can drive advisors down the path of paralysis through analysis. It wouldn't be unusual for the differential in the reduction of yield from the cheapest to the most expensive being 0.03% - i.e. less than half a penny in the pound. However projected forward to a planned retirement date, this can lead to a differential in fund values of several thousands of pounds.

In reality, the composition of the portfolio analysed at outset is going to change as fund values within it vary according to different rates of growth. The RIY will change as a result. At a review some funds may get sold and others bought, there will be different costs in effecting those switches within different products. The funds sold and bought may impact on the RIY.

Maybe more money is added or some withdrawn periodically which will also affect the RIY.
Given the tight margins how easy is it for product B, F, G to no longer be the cheaper option and even A or D to become the cheapest let alone any of the others?

So, if RIY is the key driver of advice decisions at outset, why isn't the adviser expected to monitor the cost of every product at a prescribed frequency and transfer client monies to this week's lowest RIY offering? (in other words, work along the same lines as a utility switching website for gas and electricity supplies). Clearly, the cost of doing so would destroy the intended benefits of the exercise.

However, focusing on the illustrated RIY at the outset of a plan as a key driver of recommendations has flaws. For some clients it might be a good long term deal, for others it might not. But, who actually knows as no-one is monitoring the effect retrospectively year on year to say which actually was the cheapest given all the variances that did happen in reality?

Given the close proximity of the RIY of these 9 wrappers it is just as likely that the selection of the cheapest projection today turns out to have been one of the most expensive over the ten years and the decision has cost the clients tens of thousands of pounds not saved them it.

The Impact When Price Over-rules Value

Clients who seek the "cheapest" option pay a much greater price with their overall finances than if they spend more to get the right advice and receive regular guidance during their financial journey.

The hidden cost to clients of this approach can be frighteningly expensive. Using influenced by "cheapest is best" as a primary criteria for solution design means a firm will have to select myriad products, wrappers and associated portfolios. This leads to significant complexity & variability. We saw the impact of this in Chapter 2!

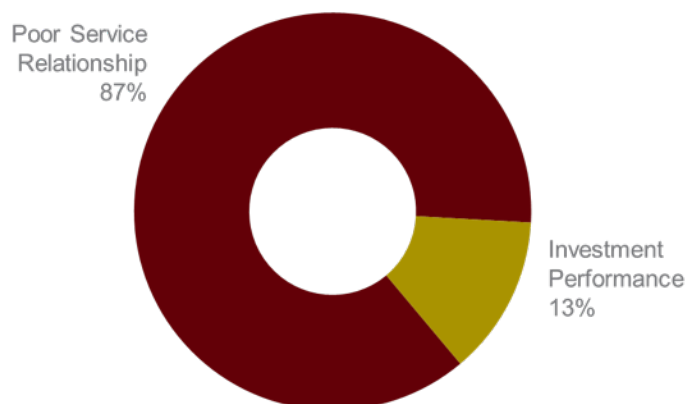
If paralysis through overdone cost analysis and the ensuing complex administrative

burden distracts the market from providing true financial planning and service the real cost to clients is likely to be much higher than the cost saving of one product over another.

Taking a Step Back to See the Bigger Picture

Our regulator, various compliance regimes and many advisers need to perhaps review the classic focus on cost & benefit of "Product A" versus "Product B" and pay more attention to the value of the proposed client proposition versus the value of the current proposition. There will be times when a product stands out from the crowd as a lot more expensive or a lot less expensive, but that will be for a clear cut reason to offer a specific benefit or forego a particular feature to meet a specific market need. It is the feature therefore that is the differentiator not the price.

Research by Russ Alan Prince highlights reasons why clients leave an adviser is more heavily weighted towards failure to deliver a service and a relationship than investment performance. It may also be that those that do leave because of investment performance do so because their adviser emphasised how much positive influence they would have over the client's investment returns – ignoring the fact that their main task is to design and maintain the financial plan and relationship, not run the funds.



Summary

John Ruskin (1819-1900) wrote:

"There is hardly anything in this world which some man cannot make a little worse and sell a little cheaper and the people who consider price alone are this man's lawful prey, as it is unwise to pay too much as it is to pay too little.

When you pay too much you lose a little money that is all.

When you pay too little you sometimes lose everything, because the thing you bought was incapable of doing the job it was supposed to do."

Chapter 5 - The value is in the eye of the beholder

I would urge advisers to think about the inordinate amount of time spent on analysing product and wrapper costs for the sake of it. What is the actual benefit and opportunity cost of that time to the client, compared with being able to have time to focus on other things that add value.

If you are in Compliance or the Regulator reading this, please think about the impact of a cost driven focus to the exclusion of other value drivers and its impact on advisers' capacity to deliver value at a reasonable price to enough consumers in the market.

Any advisers who continue to promote emphasis on simply selecting a product will need to accept that fee earning potential will be limited. Higher fee potential lies in delivering a more highly valued, meaningful and comprehensive financial planning service.

We are seeing a growing trend for advisers looking to refresh or develop their financial planning and relationship skills and utilise cash-flow planning tools and lifestyle type questioning approaches. The perceived value of traditional product advice and selling is falling. Unless a firm wants to engage in high volume product trading through a large database, it should consider how it develops a stronger value add proposition.

Forthcoming chapters will illustrate a model of how this can be achieved in a way which I envisage will be regarded by our regulator as a demonstration of good practice.

Given what we know about reducing variability within a business, firms should try to limit the range of options they deliver to the market and how they deliver them, so it is as well to discount certain propositions from your offer.

The next chapter on segmentation will help advisory firms identify the range of propositions they need to deliver, and just as importantly, help them decide the kind of propositions they should not spend time creating and offering.

If you could do with help in devising and properly promoting the value of your client proposition, drop us a line at support@12man.co.uk and we can establish the best way we can add value to you, what you offer and how you articulate it.