LIFEPLAN ICFS FINANCIAL ADVICE SATISFACTION INDEX – OCTOBER 2011

Lifeplan
FUNDS MANAGEMENT

About the Lifeplan ICFS Financial Advice Satisfaction Index

The Lifeplan ICFS Financial Advice Satisfaction Index (FASI) is a tool for financial advisers that want to improve their levels of client service. It is based on academic research that models the factors that explain a clients willingness to recommend their financial adviser to a friend or acquaintance.

The three attributes that have the greatest impact on advocacy include:

1. The trustworthiness of the financial planner
2. The clients perception of how their investments have performed
3. The financial adviser's technical ability

The research also analyses how investors' age, levels of investment and length of their relationship with their adviser impacts these attributes.

The research is sponsored by Lifeplan Funds Management a part of the Australian Unity Group.

It is conducted every six months by the University of Adelaide's International Centre for Financial Services.

THE UNIVERSITY OF ADELAIDE AUSTRALIA

INTERNATIONAL CENTRE FOR FINANCIAL SERVICES

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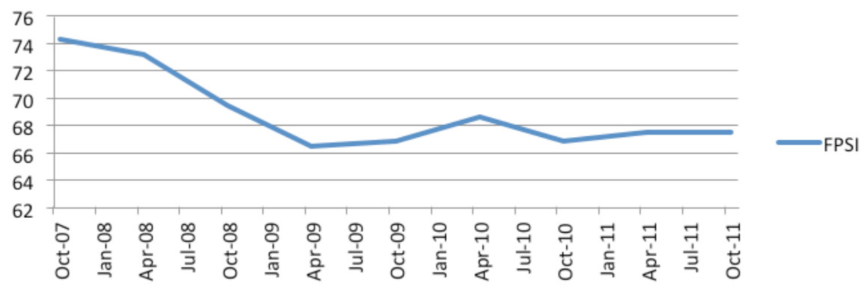
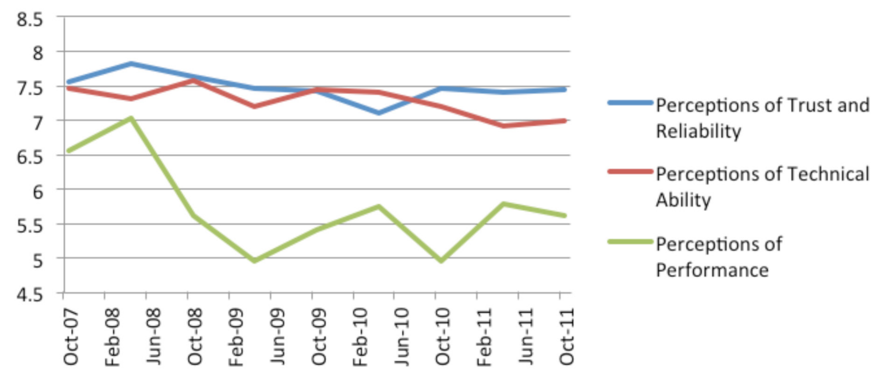
This survey of 410 respondents, conducted during the month of October, showed a reversal in the satisfaction compared with the October, 2010 survey. The index marginally decreased by 0.01% (though it was slightly higher to the survey conducted 1 year ago by 0.9%), while the three drivers of the index, perception of Trust and Reliability in respondents' advisors, perceptions of Technical Abilities of their advisors, and the perception of how their investments have performed have changed by 0.53%, 1.08% and -3% respectively in this survey. The April survey saw changes in the three drivers of -0.2%, -2.9% and 13.5% over October, 2010 survey results. These results show continued influence of global uncertainty. The perception of performance seems to be highly correlated to the domestic equity market movements and volatility, while this survey sees almost no change in the trust and reliability perceptions of investors. The perception of technical abilities of the financial advisors seems to have improved slightly.

Graph 1: Financial Planning Satisfaction Index



Graph 2: Drivers of Financial Planning Satisfaction Index



The next section details an overview of the attributes of the respondents (see Appendix 1 for a one-dimensional and Appendix 2 for a two-dimensional) in this survey.

Attribute Details of the Respondents

This survey polled 410 respondents across Australia. Each individual was required to have had at least 6 months of financial advice. Below are cross-sectional statistics:

Gender and Age (see chart 1a)
The cross-sectional statistics show that females matched males in numbers across all age groups except the over 60s where the number of female respondents were under-represented, but over-represented in the under 30s.

Gender and Investment Levels (see chart 1b)
Males and Female respondents were matched in all investment levels except the highest investment levels which showed more male respondents.

Age and Investment Levels (see chart 1c)
Older investors would likely be higher net-worth investors, while younger investors will have lower amounts invested. This distribution is representative of the Australian population and our sample is similarly distributed.

Duration of Advice and Investment Levels (see chart 1d)
Duration of taking advice is associated with higher investment amounts. However, this survey shows that 10% of the investors with the highest investment had only been taking professional advice for less than 2 years. This group of investors seem to be those who have previously managed their wealth by themselves and/or the invested amounts represent new wealth. Approximately the same number (10%) of the individuals with the lowest investment amounts had been taking advice for more than 10 years. This group of investors seem to be the very careful and cautious investor group and/or self-manage the remaining part of their investment However, the remaining sample seem to be appropriate in terms of wealth and duration of advice.

Duration of Advice, and Duration of Advice with Current Advisor, and Investment Levels (see chart 1e)
Longer duration with the same advisor would be influenced by the quality of advice and satisfaction with the advisor. This relationship is more evident when the invested amounts increase. Several aspects need to be noted. First, there is fair proportion of investors who seem to have changed their advisors recently. This is most evident for investors in the lowest investment group as well as investors with the largest investments. Second, a small proportion of investors with the largest investments, and had been taking advice for more than 10 years, seem to have changed their advisors recently. Change of advisor is not an easy process (administratively) and signals a higher level of competence by the clients.

The next section details each of the drivers of the index in more detail by understanding the changes that have taken place across the various investors attributes over the last survey.

Perception of Trust and Reliability

As mentioned earlier, investors' perception of trust and reliability in their advisor decreased by a marginal 0.53% in this survey but marginally below (by 0.2%) since October 2010 survey results. Female respondents have shown an increase in their perceptions of trust and reliability of their financial advisors against the last survey. Compared to the previous survey, male respondents hold a slight unfavourable perception for this driver of advocacy.

Older, and higher net-worth investors and those who have taking advice for a longer period also hold a favourable perception of trust for their advisors. It is also interesting to note that investors with the lowest wealth have that largest decrease in their perceptions of Trust for their advisor and their perceptions of whether they are able to rely on their advisor for quality advice. This sharp decline of perception may be due to the new regulations regarding fees.

Perceptions of Technical Ability

This survey saw a continued downward trend in investor's perception of technical abilities of their advisors. This survey showed an increase of 1.08% but the measure has dropped by 2.9% since the October 2010 survey. The markets have been extremely volatile and the housing market has not been performing too well either, the two of the most common assets in portfolios. Older investors with higher levels of investments and longer duration of advice hold a more favourable perception of technical abilities of their advisors.

To appreciate the technical abilities of an advisor, the investor would need complex and sophisticated investment techniques (such as special investment vehicles, IPOs, access to international market, risk management techniques, estate planning, tax minimisation etc.), and these skills usually come at a high price. With a larger invested amount, the high cost of advice can be spread across a broader base. This does pose a challenge for the advisory industry to improve the perceptions of young and small investor cohort.

Perceptions of Performance

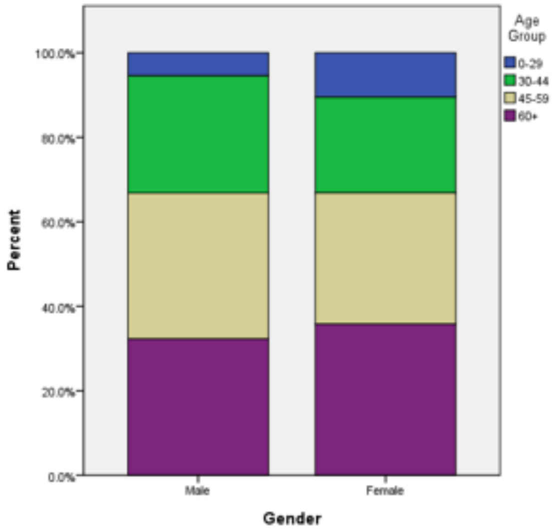
The perception of performance has been most volatile over the last several surveys. This survey showed a drop of 3% over the last survey but an increase of 13% a year ago. The largest increases were shown by those who have been taking advice the longest and those with mid-level investments. Those with high level investments, also the oldest investor group, are still unsure as to if their retirement will be fully funded without any cuts to their living standards. The lowest investment group, also the youngest, hold negative perceptions regarding the performance of their investments. Financial literacy education is needed at this level to overcome the void that used to be filled by advisors under the previous fee structure model.

Conclusion

This survey has highlighted the need for an advisory model that satisfies investor across the investment levels and age groups. Under the previous compensation structure, investors would pay advisory fee through trail and commission. As the industry adopts a negotiated fee structure, upfront cost reduction has seen investors leave the higher-end, more sophisticated advisors who also charge higher fees. This in turn has led to lower satisfaction levels amongst the investors.

A regulatory change is needed to enhance the financial literacy of the investor group through formal and informal programmes, enhanced product choice, and a targeted selection of advisors for every segment of the investment community. The advisory industry will need to go through the pain of restructuring. However, it is unfortunate that this pain comes at time when the capital markets seem to be uncertain as well – a double whammy for investors.

Chart 1a: Demographic Details of Respondents in terms of their Gender and Age Groups



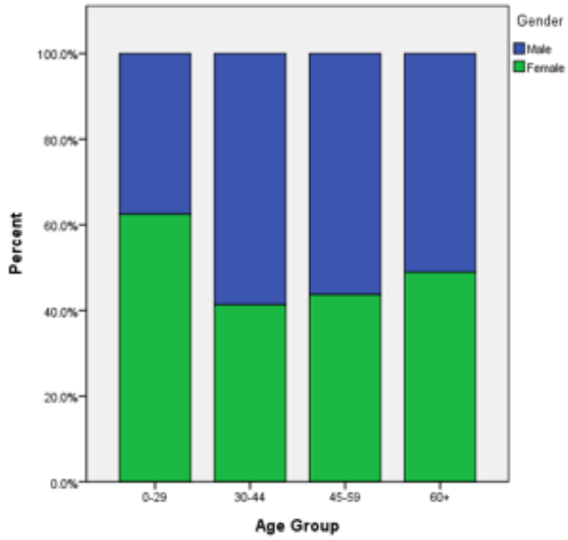
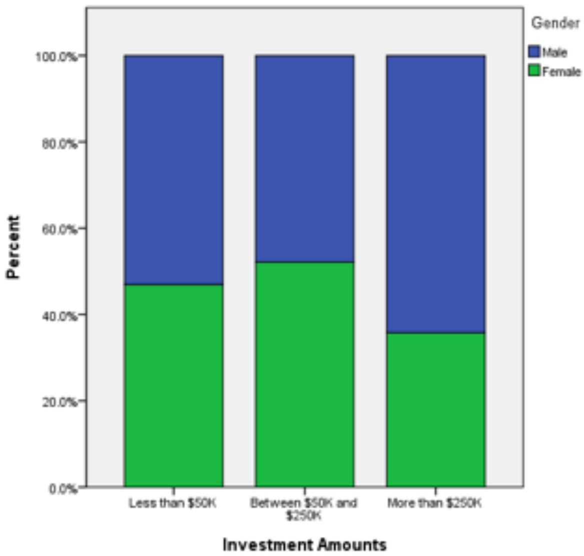


Chart 1b: Demographic Details of Respondents in terms of their Gender and Investment Levels



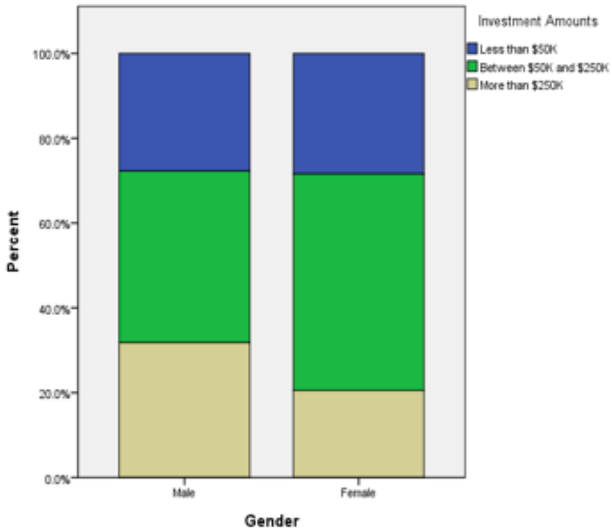
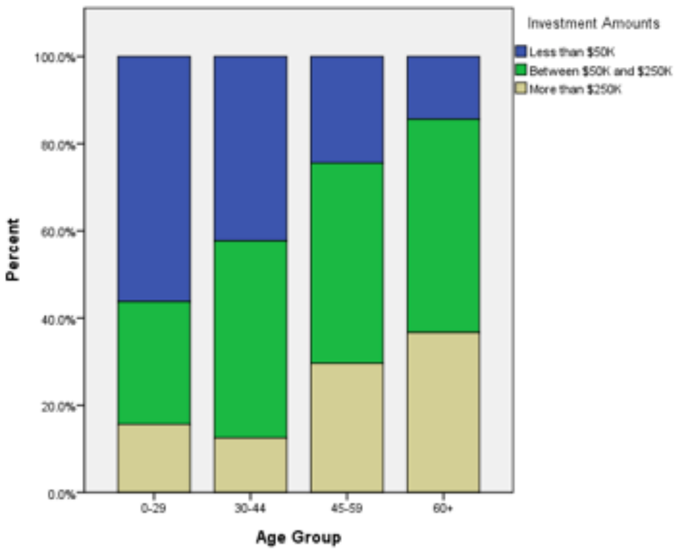


Chart 1c: Demographic Details of Respondents in terms of their Age Groups and Investment Levels



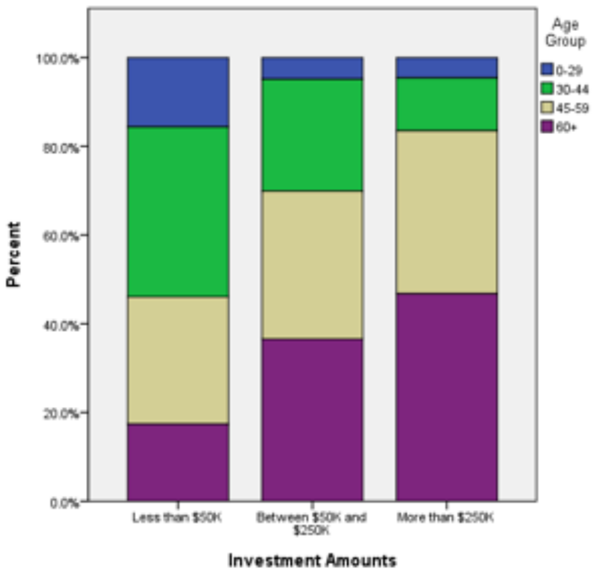
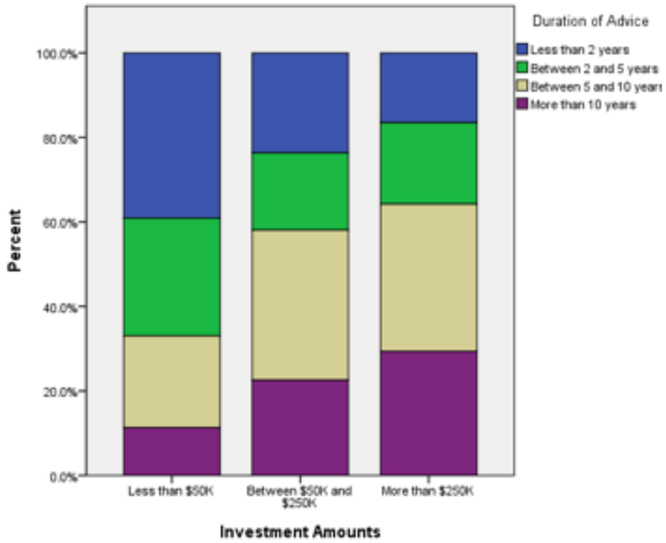


Chart 1d: Demographic Details of Respondents in terms of their Duration of Advice and Investment Levels



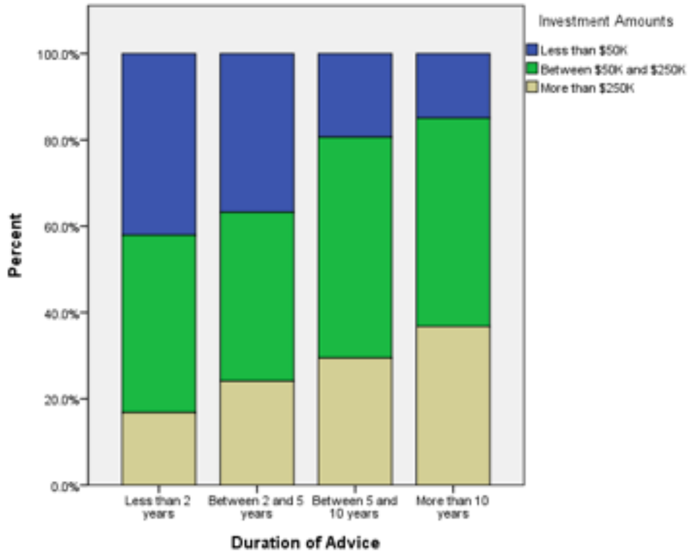
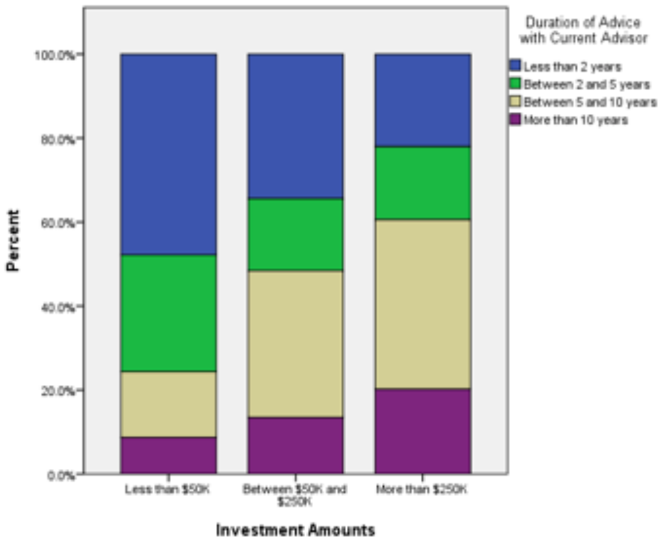


Chart 1e: Demographic Details of Respondents in terms of their Duration of Advice with Current Advisor and Investment Levels



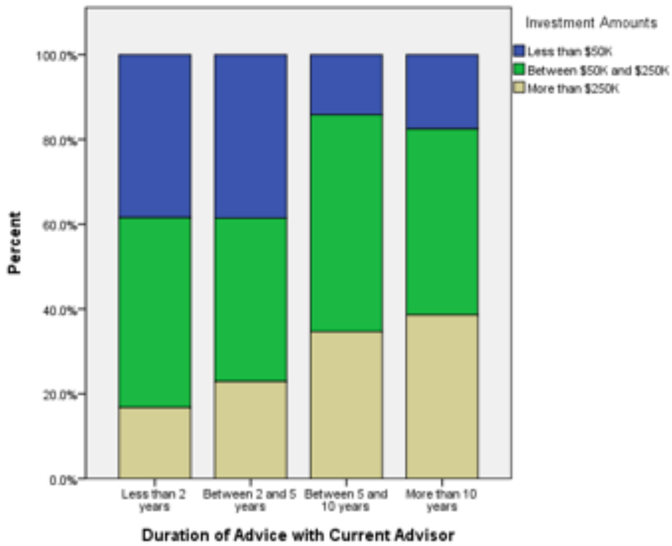


Chart 2a: Relationship between Gender and Drivers of Advocacy (October, 2011)

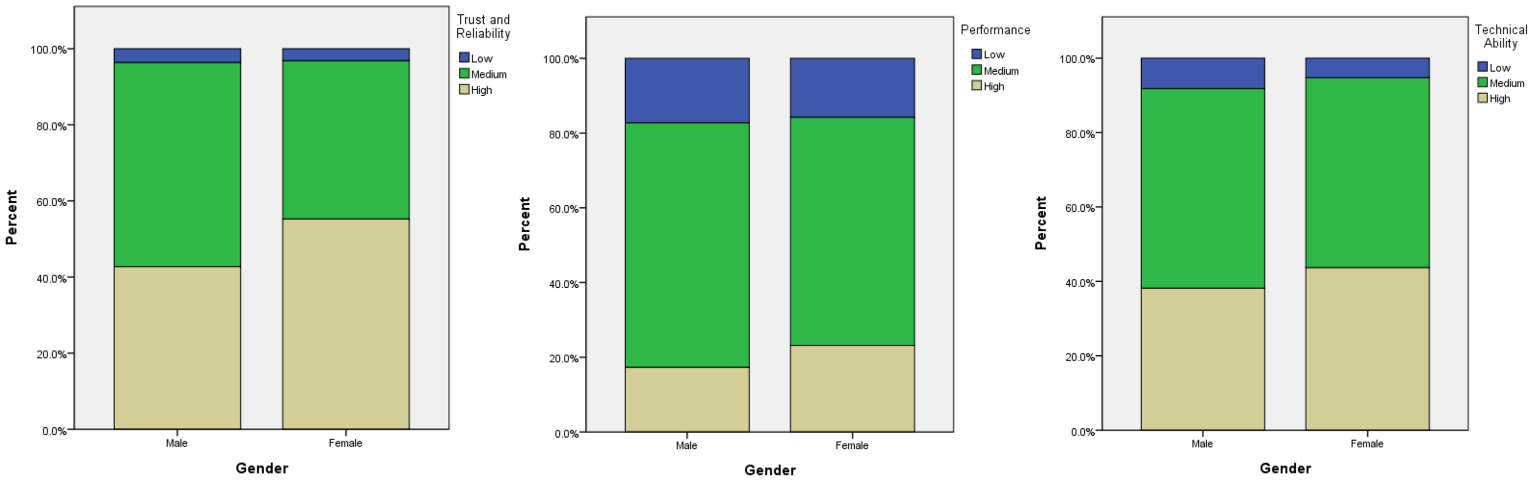


Chart 2b: Relationship between Age and Drivers of Advocacy (October, 2011)

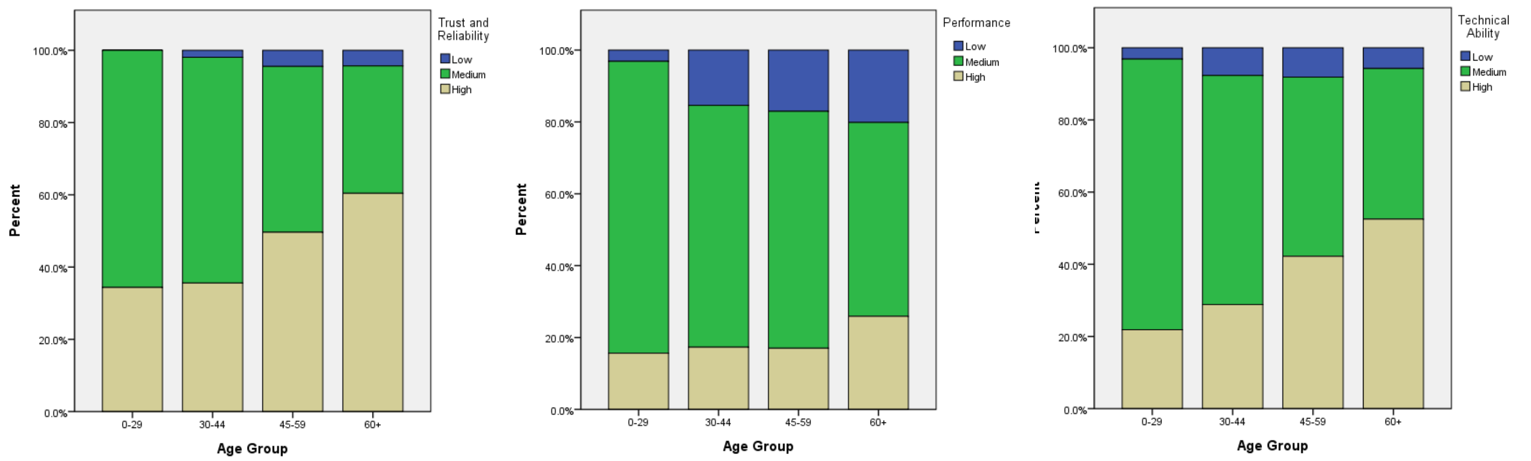


Chart 2c: Relationship between Duration of Advice and Drivers of Advocacy (October, 2011)

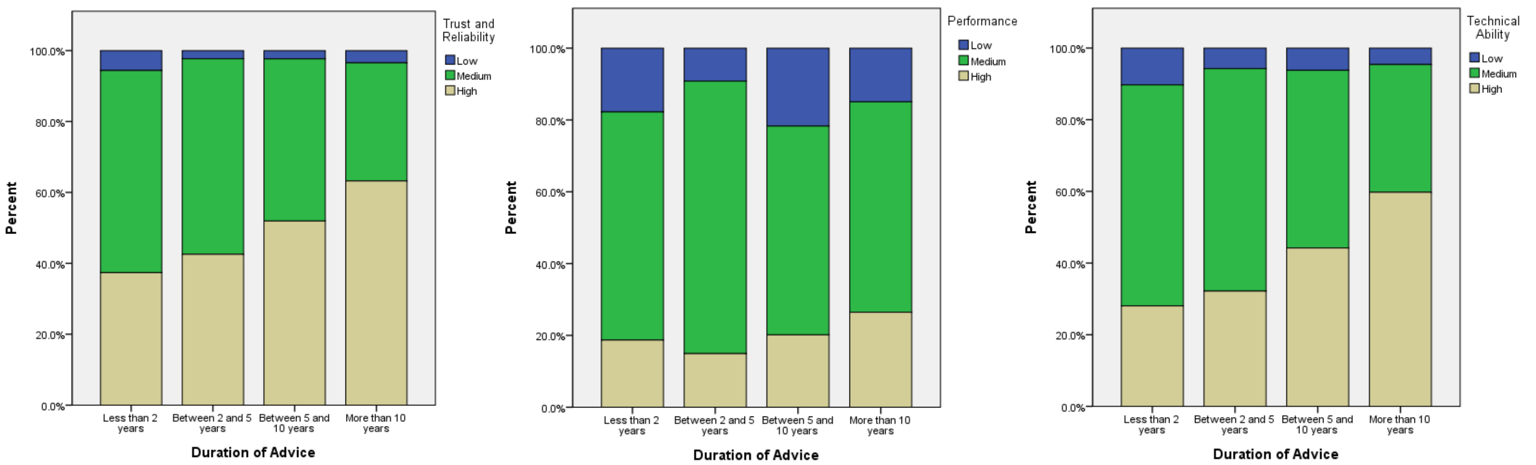
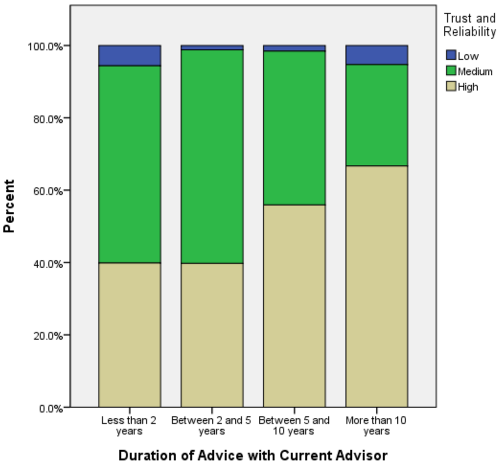
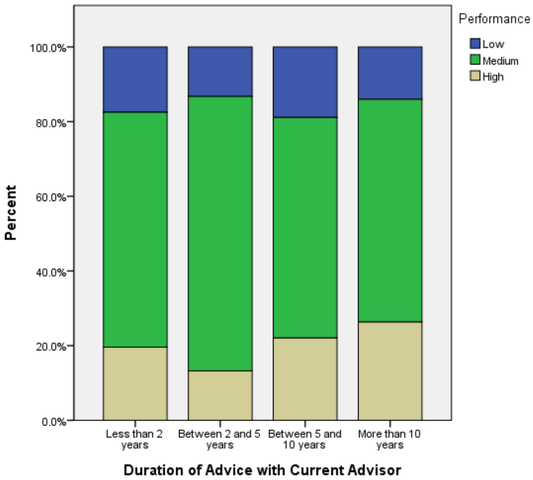


Chart 2d: Relationship between Duration of Advice with Current Advisor and Drivers of Advocacy (October, 2011)





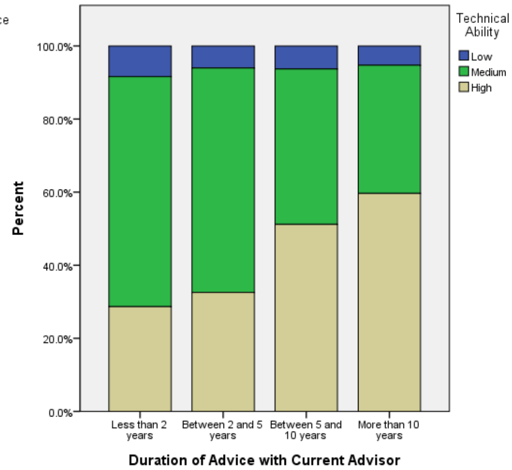
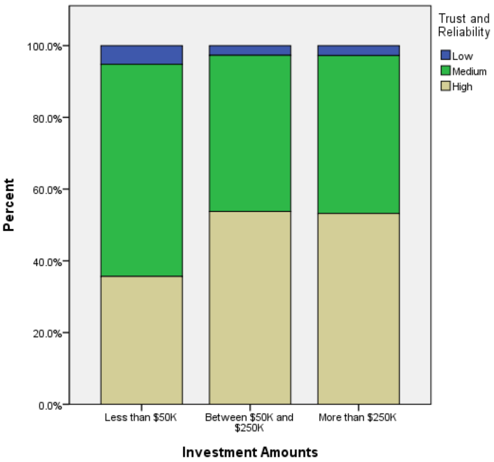
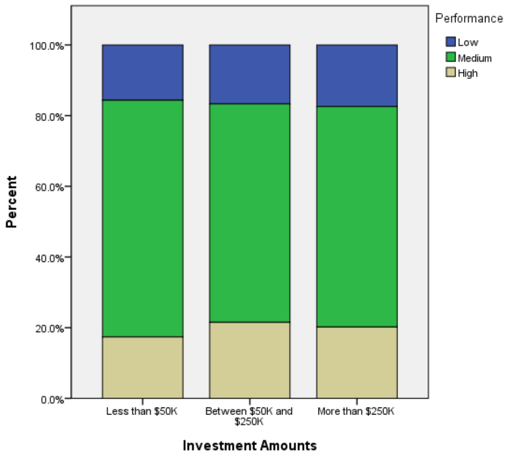


Chart 2h: Relationship between Investment Levels and Drivers of Advocacy (October, 2011)





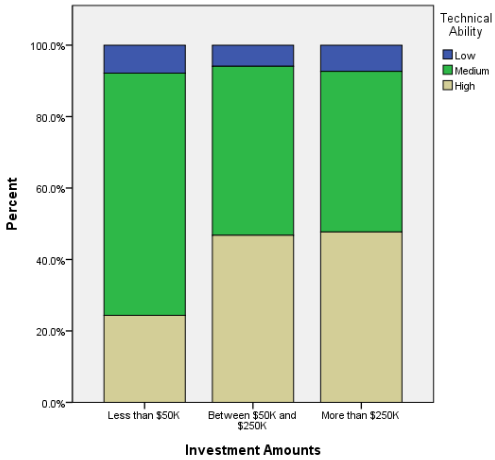
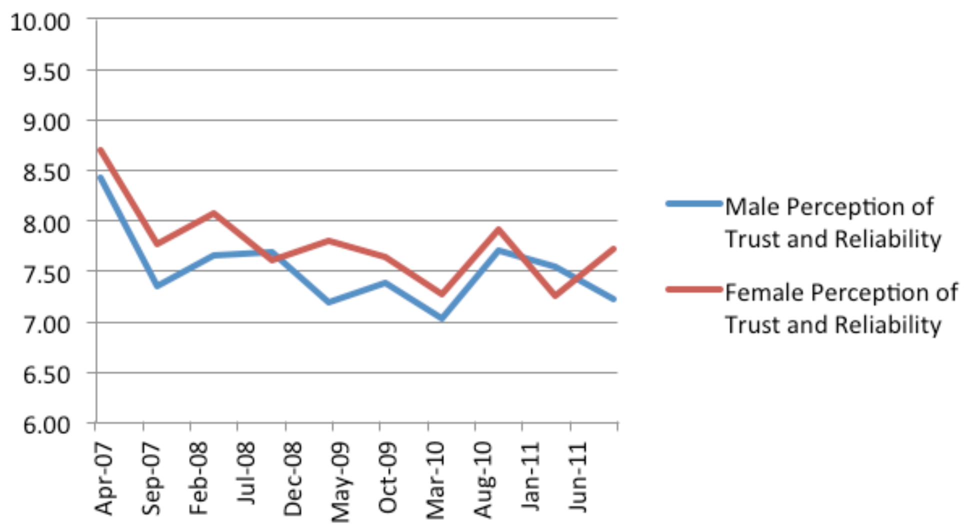
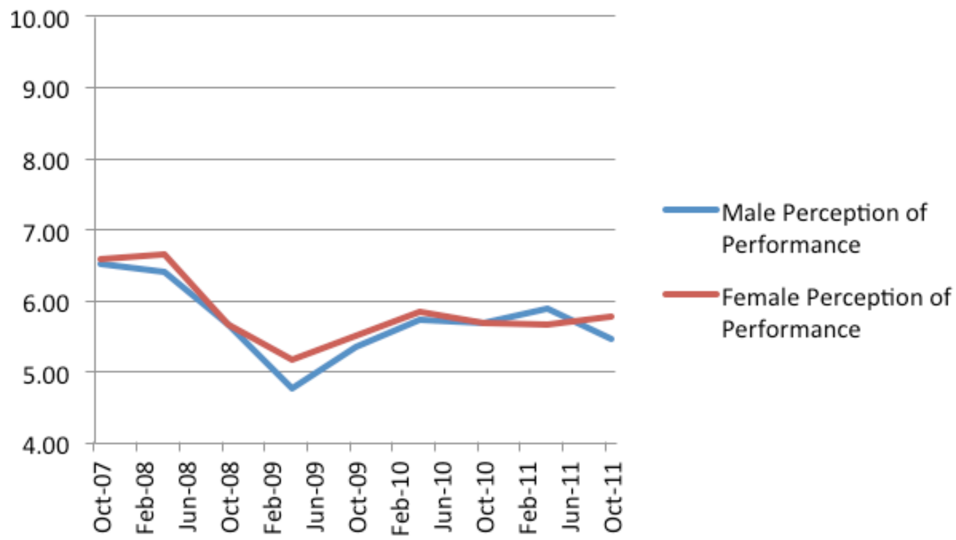


Chart 3a: Relationship between Gender and Drivers of Advocacy





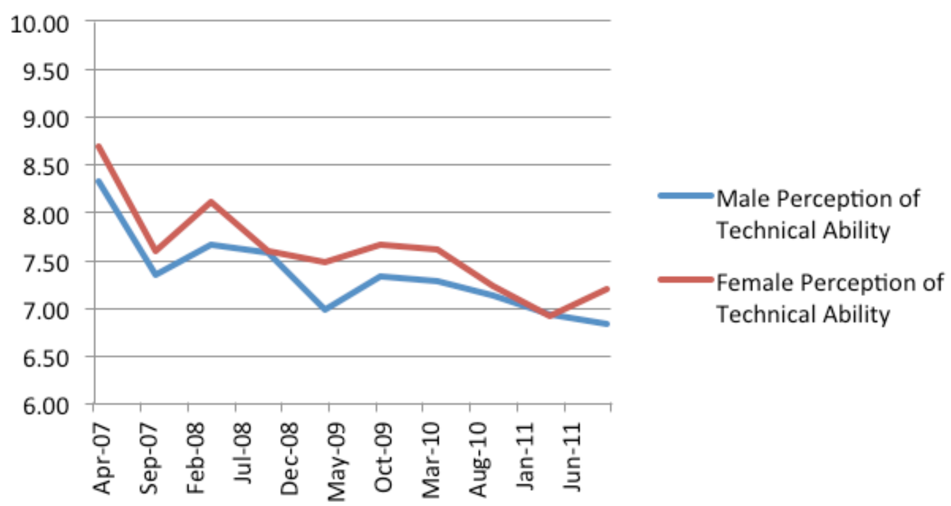
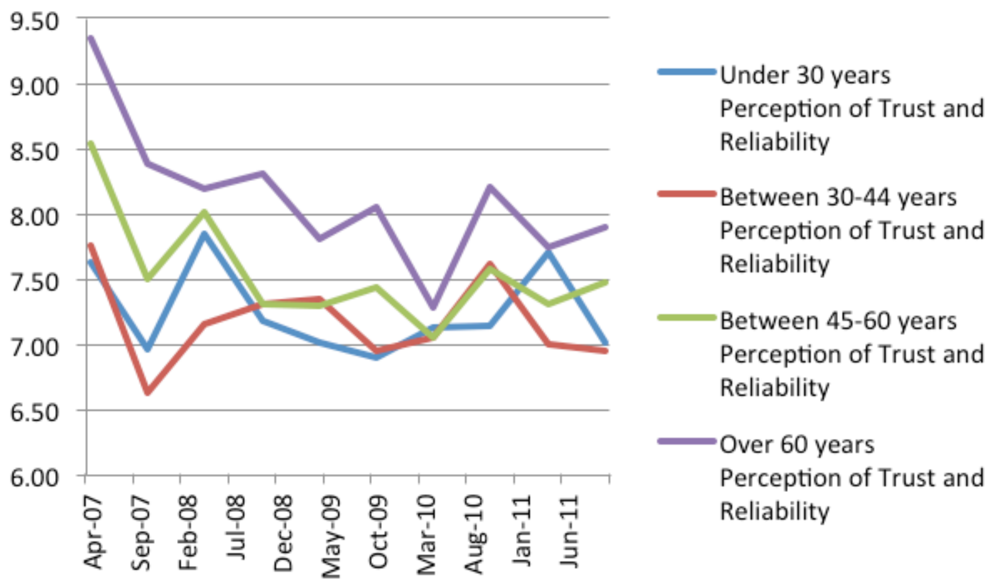
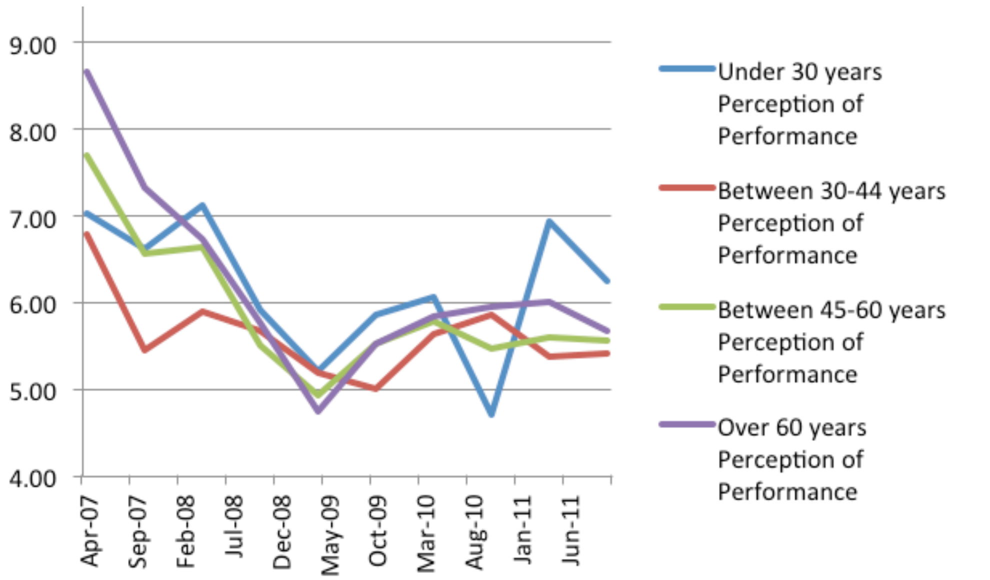


Chart 3b: Relationship between Age and Drivers of Advocacy





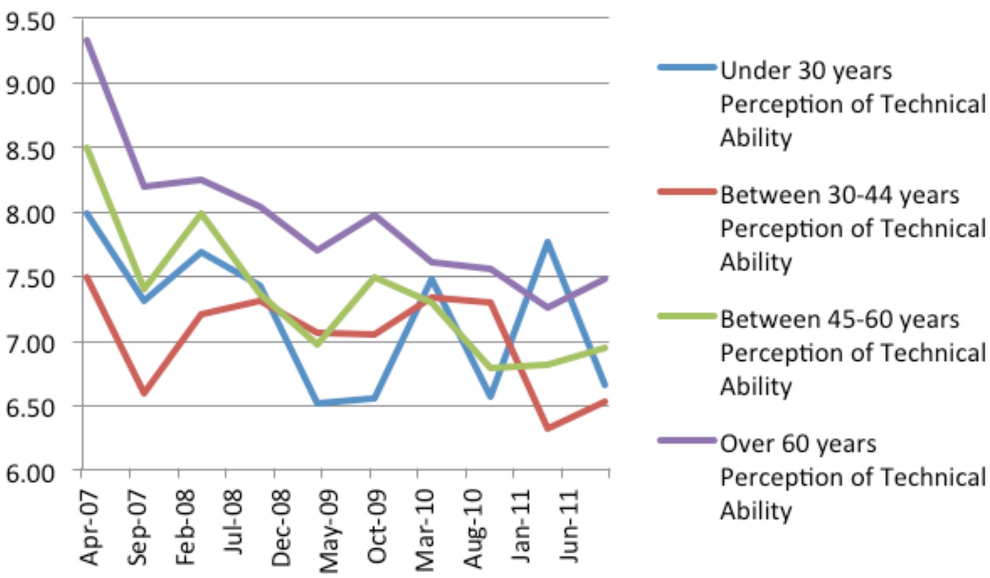
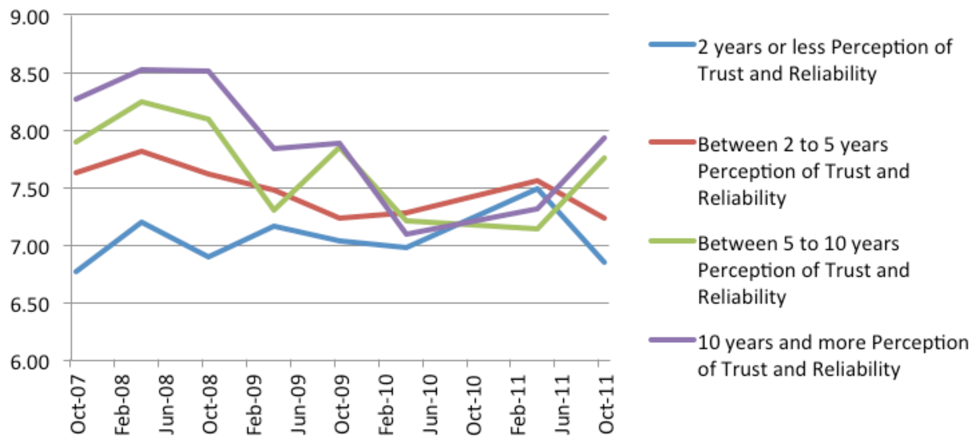
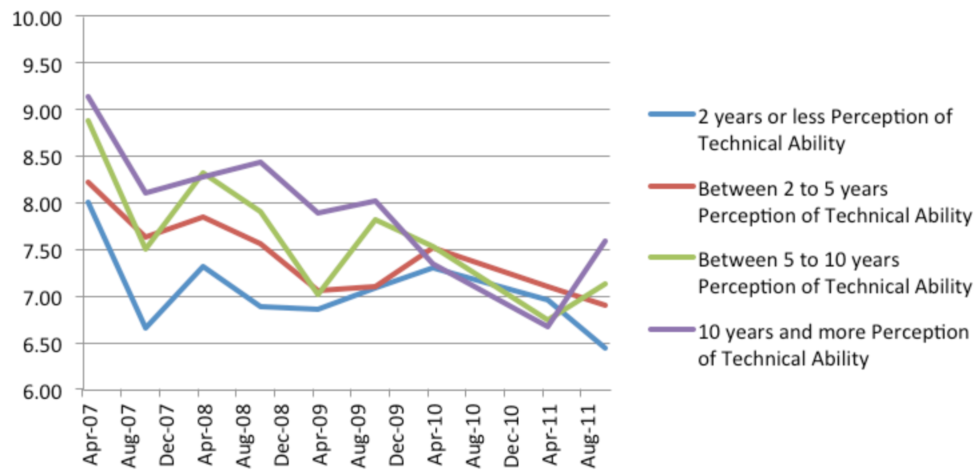


Chart 3c: Relationship between Duration of Advice and Drivers of Advocacy





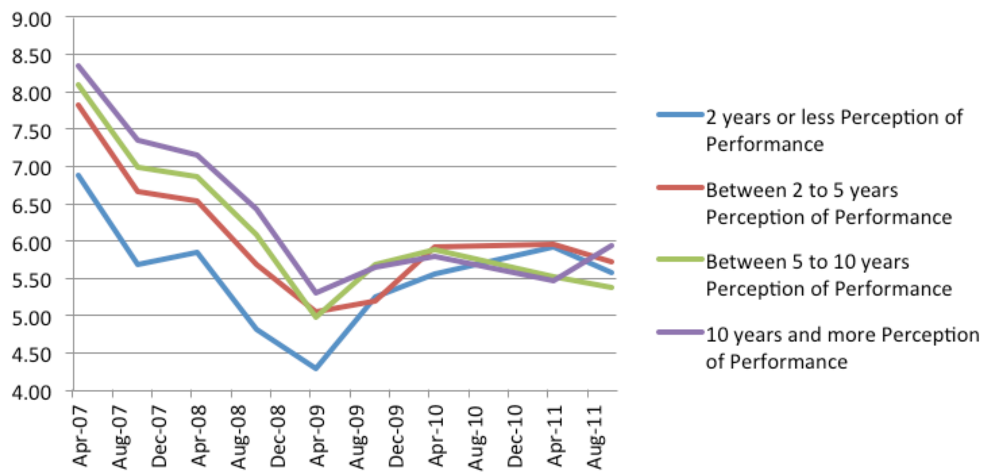
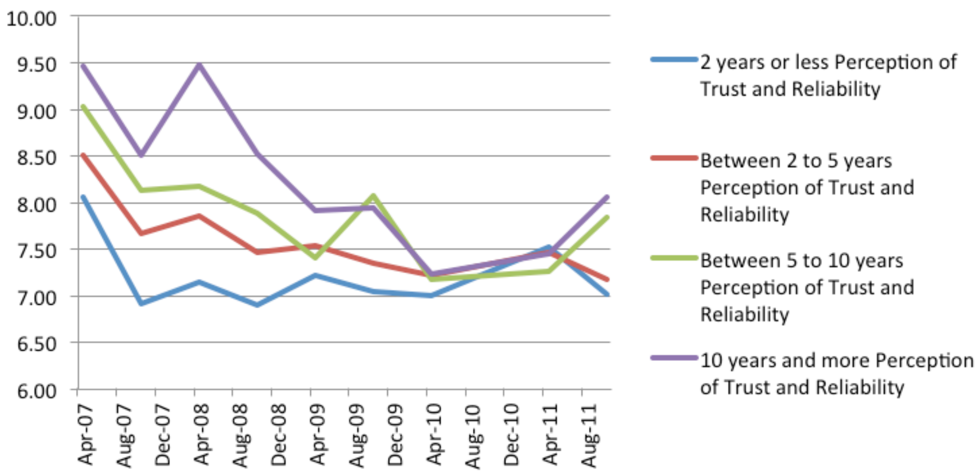
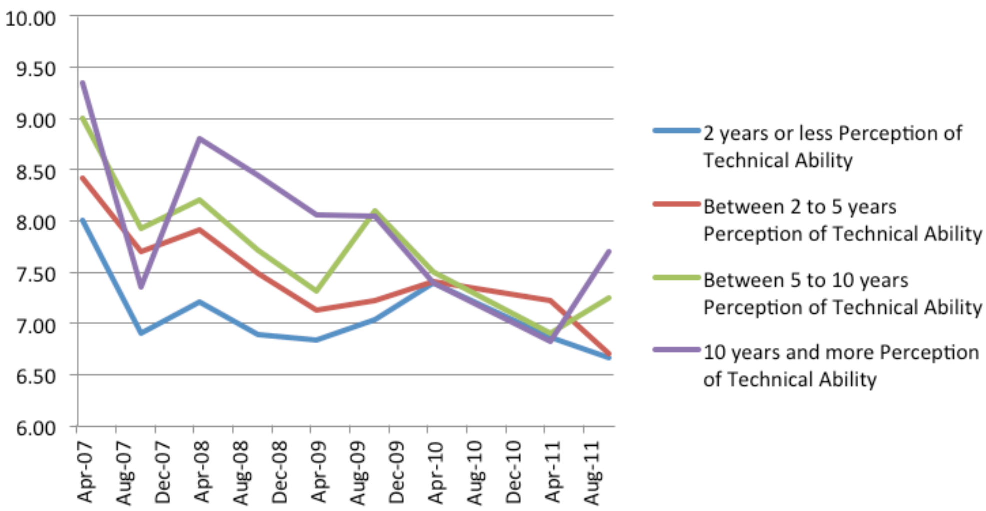


Chart 3d: Relationship between Duration of Advice with Same Advisor and Drivers of Advocacy





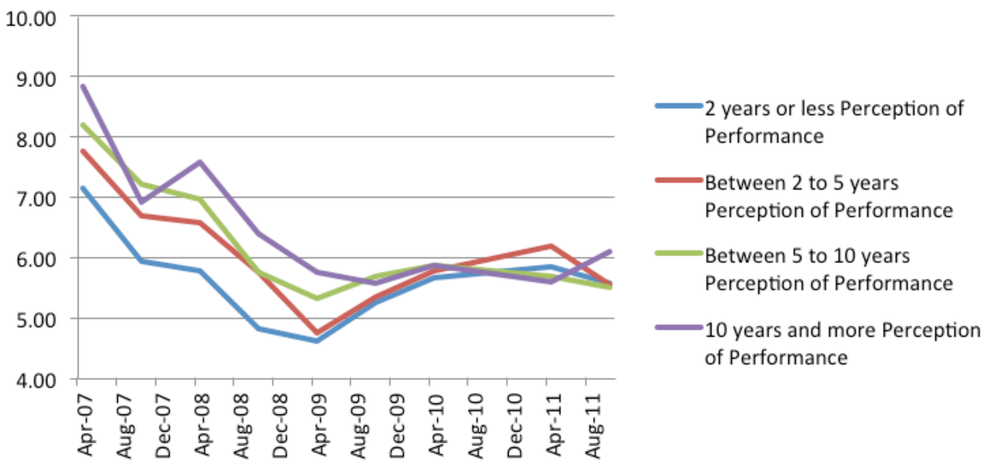


Chart 3e: Relationship between Investment Levels and Drivers of Advocacy