

What a client wants

August 12, 2010

By Jan Venter

The most important factor that clients consider when selecting a financial adviser is his or her adherence to a professional code of ethics and practice standard. This is a finding of a study that was conducted among users of financial services in which they were asked to describe various aspects of their relationships with their financial advisers.

The participants were selected randomly in all nine provinces, and the questionnaires were completed between February and June 2008. The research was done as part of the author's PhD studies at the North-West University.

The definition of "adviser" was broad and included insurance brokers, accountants and advisers with a Certified Financial Planner (CFP) accreditation. One of the reasons for the introduction of the Financial Advisory and Intermediary Services (FAIS) Act was to regulate and improve the relationship between financial advisers and their clients. The study was conducted to determine whether or not the legislation has had the desired effect.

The study investigated the reasons for selecting a specific adviser and also asked respondents to describe their relationship with their current adviser.

For the financial services industry, the relationship between a financial adviser and the client is very important, because the adviser has the single biggest influence on the client's perception of the industry. International studies have found that competence, integrity, trust, and a commitment to ethical behaviour and high professional standards are the main considerations taken into account when selecting a financial planner.

In order to determine which factors South Africans consider to be important when selecting a financial adviser, the survey provided customers with an extensive list of options and ample space to insert their own reasons. Based on the responses, an index was compiled that ranks the factors ([figure 1](#)).

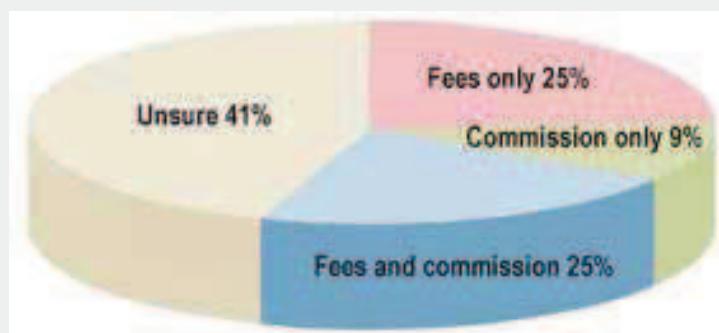


The study found that there are three very important factors that clients consider when selecting a financial adviser. The most important is adherence to a professional code of ethics and practice standard, which scored 100 out of a possible 100. The second most important factor is the number of years of experience, followed by the adviser being a representative of a reputable brand or financial services company.

The only other factors that scored more than 50 out of a possible 100 were the adviser's qualifications and the range of services the financial adviser offers. The factors that ranked low provide some interesting insights. For example, if an adviser has sufficient and relevant experience, and if he or she adheres to a code of conduct, the client will travel a significant distance to see the adviser, and the fees that the financial adviser charges are not all that important.

Commission vs fee-based

This leads to another contentious issue: fees versus commission. Respondents were asked to indicate which financial adviser, in their opinion, would give the most impartial financial advice: those who earn commission or those who earn fees. (Refer to [figure 2.](#))



The information indicates that most respondents were not sure which fee structure would be best for them.

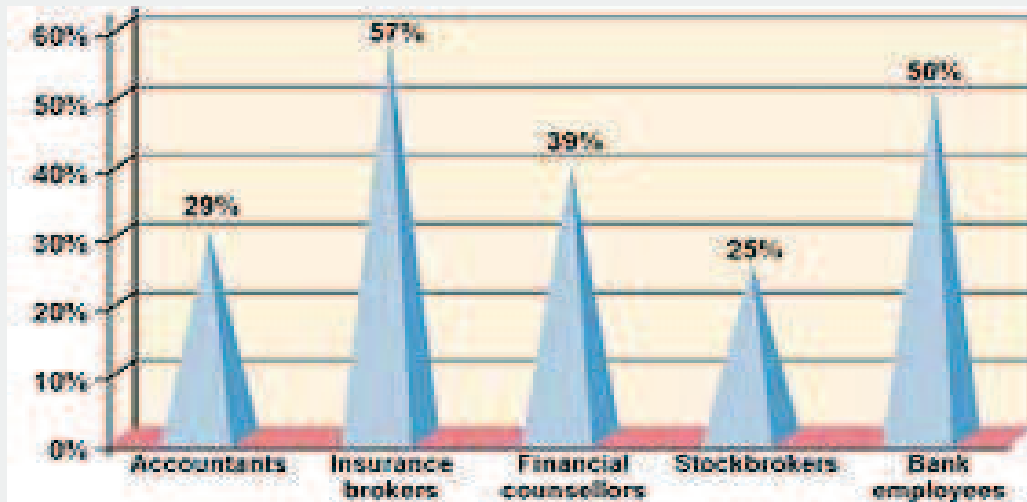
The least number of respondents (nine percent) believed a commission-only system

resulted in impartial advice, while fees and a combination of fees and commission each received 25 percent approval.

Despite the fact that FAIS legislation requires financial advisers to disclose information on fees and commissions, only 59.7 percent of respondents strongly agreed with the statement that their financial advisers disclose their fees.

In South Africa, financial advisers range from consultants who offer only death benefits to chartered accountants and planners with the CFP accreditation.

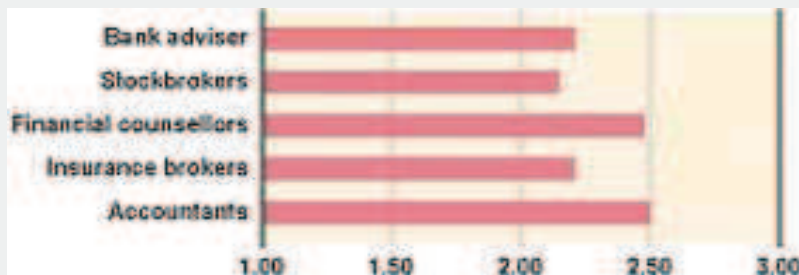
Respondents were asked which financial advisers they consulted. (Refer to [figure 3](#):



note that clients could select more than one option.) The majority of respondents indicated that they used insurance brokers as financial advisers.

Respondents were also asked to indicate the value of the service received from each type of financial adviser. This was done on a three-point scale (1 = low and 3 = high).

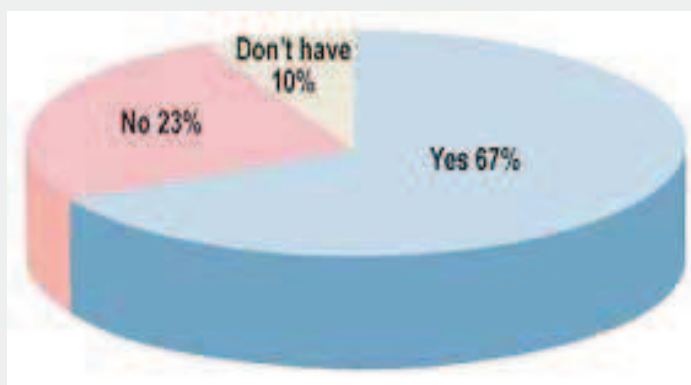
Clients found the advice provided by accountants to be the most useful, followed closely by that provided by financial counsellors. (The term “financial counsellors” includes professionals with the CFP accreditation and others.) The advice received from stockbrokers had the lowest value rating; this could be due to the volatility of the markets, resulting in customers viewing the advice from stockbrokers as being unreliable. (See [figure 4](#).)



In the study it was found that experience, reputation, and ethics and professional standards were the most important considerations when selecting a financial adviser. Costs were not considered to be a crucial factor in selection, and clients did not have a clear preference regarding financial advisers charging fees versus commission.

A matter of trust

The relationship between a customer and a financial adviser is described as a long-term relationship built on trust, during which time the adviser adds value to his or her customer. The first step in our investigation of the relationship between customers and their advisers was to establish whether or not the customer was satisfied with his or her current primary financial adviser (see [figure 5](#)).



Only two-thirds of respondents indicated that they were happy with their current adviser.

(Ten percent of respondents did not have a financial adviser. It was surprising that half of these respondents had a tertiary qualification.)

The main reasons given for why clients were happy with their advisers were:

- Trust;
- Long relationship;
- Personal support;
- Good service and communication;
- Integrity; and
- Financial adviser's knowledge.

The main reason given for why clients were not happy with their advisers was a lack of communication. Respondents made such statements as: "The adviser never contacts me", and he or she "only visits to sell more policies".

From our analysis of the responses it is clear that communication and contact are the main determining factors of respondents' satisfaction with their current financial

advisers. As stated at the beginning of this section on relationships, one of the most important building blocks for a successful relationship is trust.

Clients were asked to rate the following statement: "I have a trusting working relationship with my adviser." The results showed that 9.2 percent of the respondents disagreed with the statement, 21.6 percent were neutral/unsure, 35.4 percent agreed with the statement, and 33.8 percent strongly agreed.

The importance of trust is illustrated by the fact that the trust rating by customers who were happy with their advisers was 4.29 out of five, compared with 3.19 out of five for customers who were not happy with theirs.

In a follow-up question, respondents were asked to indicate whether or not they were treated with dignity by their advisers. Customers who were happy with their advisers recorded a score of 4.44 out of five, compared with only 3.63 out of five for those who were not happy with their advisers.

The FAIS Act introduced the FAIS ombud, with whom customers can lodge complaints about service received from their financial adviser.

Respondents were asked to indicate who they would contact in the event of not being happy with the service they received and if they were unable to resolve the issue with the financial adviser directly. Different responses were received depending on whether the person was dealing with an independent financial adviser or a company adviser. Respondents who made use of independent advisers indicated that they would contact the ombudsman, while customers who use company representatives indicated that they would contact a supervisor.

Interestingly, despite the FAIS requirement to disclose information of this nature to clients, 48.7 percent of the respondents did not have any idea as to how to resolve a problematic issue with their financial adviser. This clearly indicated a lack of customer education from not only the adviser but also from the ombudsman.

The survey clearly found that regular contact and communication with customers are crucial factors that influence the relationship between a client and financial adviser.

- Professor Jan Venter is Professor of Taxation at the University of South Africa. Copies of his full PhD, "An analysis of the expectation gap in the personal financial services industry in South Africa", are available at the Unisa library and the library of North-West University, Potchefstroom. You can also email him at atventejmp@unisa.ac.za

This article was first published in Personal Finance magazine, 1st Quarter 2010.