Designing the Future
An Advice Trend Retrospective and the Innovation Agenda for 2015
February 2015
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Foreword

To say 2014 was challenging for advisers is an understatement of the highest order. The year started with a scandal and ended with two enquiries, punctuated by the FOFA ‘to-and-fro’; it was dominated by a dialogue that was negative in tone, and which tried to paint advisers and consumers as being in opposite corners. All this sat against a backdrop of the ongoing technology revolution and rapid social change.

As this whitepaper proves, advisers aren’t ‘bunkering down’ though, they are getting on with what they do and know best – making the lives of their clients better.

As one of the last remaining truly independent life insurers, Zurich is a longstanding champion of adviser professionalism. In conjunction with the Beddoes Institute we wanted to prove that advisers are not only becoming smarter, more efficient, and better business managers; they are also incredibly customer centric. Whilst this fact may struggle for airplay with the ‘knockers’, it is well and truly appreciated by the stakeholders that matter – the customers themselves.

We wanted to bring this paper to life for a number of reasons. Firstly, we wanted to give advisers and licensees a comprehensive analysis of the key trends evolving in practice management. Secondly, to the extent that innovation drives efficiency, we wanted to share insights into the 2015 innovation agenda of more than 250 advisers around Australia. Thirdly, and finally, we wanted to prove that advisers are truly customer centric, and that this is recognised by their clients.

This paper is unique within the industry, not just because of its breadth and depth, but because of the way the data has been segmented by three drivers; the Net Promoter Score™, growth and profit. Simplistically, this allows advisers to decide which of these three goals they are prioritising and then focus on the relevant drivers of that goal.

A vibrant, growing advice profession is vital if we are to make advice more accessible. Ultimately we believe Designing the Future can act as a blueprint for advisers and practices seeking to emulate the best, and should give advisers confidence that their customer focus is recognised, appreciated and proven to drive long-term business success.

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Executive Summary

Key Findings

This report provides a retrospective analysis of the key financial advice trends covering both the client experience and business management over the last three years (2012-2014). It highlights the progress of advice practices on their journey to business success and maps out the innovation agenda for the first six months of 2015 across six Business Success Pillars.

In terms of trends in the client experience, this report highlights that:

- A trusted referral is of vital importance to consumers when choosing a financial adviser (up 16% since 2012);
- As a result, leading financial advice practices are increasingly recognising that their brand must be associated with Trust (up 11% since 2012), Respect (up 9%) and Exceptional Customer Focus (up 11%);
- Leading practices are becoming more customer-centric and are getting better at servicing and meeting the needs of their clients. They are delivering better outcomes to clients which has led to an enhanced sense of value (up 8% since 2012), has driven up referrals (NPS® up 6%) and has resulted in greater share of wallet among existing clients (up 10%); and all of this in a climate where consumer sentiment is low and attracting new clients has become more difficult;
- Analysis of the key practice management trends at leading advice businesses over the last three years reveals tough market conditions:
  - Fee for service models are far more common now than three years ago (up 83%);
  - Business expenses and labour costs have increased over the last three years (up 19% and 10% respectively) while profits have dropped (down 33%);
  - The number of new prospects and prospect to client conversion rates have also dropped (by 15% and 13% respectively) which has meant that organic growth has slowed (down 29%);
  - Centres of influence have become an area of focus with a 93% rise in revenue generated from formal referral partners over the last three years;
  - The number of clients managed by each adviser has risen sharply – up 135% since 2012;
  - Adviser productivity has increased with the time spent on non-client work falling by 18% over the last three years.
  - Salaries of employed financial advisers have dropped more than any other role within advice practices (down 14% since 2012); and
  - Client Service Managers remuneration has increased by 16% since 2012 and Practice Managers now often earn more than employed advisers.

Looking forward, analysis of the ‘current state’ of financial advice practices - and their preparedness for the future - reveals that advice businesses are performing best in the area of infrastructure and operations, with only 7% categorised as vulnerable on this key Business Pillar. In contrast, the three Business Pillars that are weakest are understandably now the key focus of the 2015 Innovation Agenda for advice practices. These Business Pillars are:

- Marketing - especially client communication, marketing plans and social media strategy which have been identified as priority areas for most businesses;
- Strategy and Business Management – especially in relation to the business plan (although this is most likely a timing consideration with many practices updating their business plans at the beginning of each calendar year), and secondly in relation to improving market intelligence and industry benchmarking knowledge; and
- Client Management – especially in relation to the practice’s referral partner strategy followed by introducing or improving the practice’s client surveys and client segmentation strategy.

So what does this all mean? In light of the significant challenges advice businesses are facing with regard to attracting new clients, it is no surprise that the majority of businesses are focusing on rainmaking activities - both in terms of building referral partner relationships and growing their share of wallet with existing clients.

The key rainmaking strategy on the 2015 Innovation Agenda is improving referral partner relationships. In terms of growing share of wallet, a number of strategies are being prioritised including improving client segmentation and communication strategies (part of which involves augmenting current communication with digital channels) and using client feedback to inform business decision-making. These findings suggest that the trend of becoming more client-centric and continuing to deliver quality outcomes to clients is likely to continue.

Conclusion

In a climate of falling profits where it is becoming increasingly difficult to win over customers, advice practices have faced a significant challenge in building sustainable businesses. This tough market environment has forced business owners to become better business managers. They have learnt to balance costs and expenses in real-time whilst maintaining a forward-focus on business planning and optimising the client experience through client feedback, client segmentation and targeted client communication strategies. They have recognised the need to monitor progress using industry benchmarks and to gain insights through market intelligence.

Leading practices are succeeding by becoming more customer-centric – both with their clients and their referral partners. These changes have delivered more value and better outcomes to their existing clients, more business from their referral partners, and have enabled them to build brands that are synonymous with trust, respect and exceptional customer focus.

The learning from the last three years is that trust, respect and optimising the client experience is essential for expanding and growing advice businesses. Business owners have recognised this and are relying on client-focused strategies, hand-in-hand with strong referral partner relationships, to produce future growth and ensure the sustainability of their business in the long-term.
Introduction

Beddoes Institute gathers data from leading financial advice practices, including practices from all major dealer groups as well as those that have their own AFSL. Accordingly, this report reviews performance trends from some of the best practices in the Australian financial advice sector. It is this segment of Financial Advice Practices that are typically responsible for a disproportionately large amount of their dealer groups’ revenue and which are therefore worthy of a focused study. In addition, the responses of these leading practices to the changing Australian market may be instructional to the rest of the sector.

Method

This report is based on comprehensive industry trend data from Beddoes Institute’s benchmarking database derived from three different surveys:
1. A Client Experience Survey;
2. A Practice Benchmarking Survey;

Advice practices that have completed Beddoes Institute’s Client Experience Survey and Practice Benchmarking Survey and on which the industry trend analysis contained in chapters 1 and 2 of this report is based are ‘best of breed’ practices (‘Leading Practices’) in Australia and therefore represent a high performance industry benchmark as opposed to an industry ‘average’. The ‘Success by Design’ Business Planning Survey is a checklist of business systems, processes and initiatives – Business Success Tools - that underpin business success. The Business Success Tools are based on a comprehensive review of multiple Australian Government and peak body best practice business guides. High performing businesses typically have more Business Success Tools in place compared to lower performing businesses.

This report is based on data from over 300 practices and 3,000 advice clients. For a full profile of advice practices and clients contained in this report, refer to Appendix A.

Data was analysed, tabulated and significance tested using Q Research Software. At the highest level, business data has been segmented by year (2012, 2013 and 2014) for trend analysis purposes. Additional segmentation analysis has been undertaken for high and low profit practices, high and low growth practices, and high and low Net Promoter Score (NPS®) practices (refer to Appendix A for more detail).
For a hard copy of the full Designing the Future whitepaper, contact your Zurich BDM on 1800 252 650