TOWARDS CLIENT-CENTRICITY: GAINING TRUST IN CLIENT RELATIONSHIPS

As the Australian wealth management industry anticipates a wave of Future of Financial Advice (FOFA) reform, new research highlights how financial planners can change their relationship building process to enhance trust and create value. By ***Shehan Wijetilaka***.

It is clear that many clients don't actually understand the details of the financial advice they have been receiving, nor are they entirely clear on the value they have derived from interactions with their financial planner.

Furthermore, as the proposed fee-for-service (FFS) regime comes into play on 1 July 2012, these clients are also nervous about paying more than they should for obtaining this advice. With incentives for planners to choose one product over another set to disappear with these reforms, clients are theoretically going to be provided with independent advice. But how will this change clients' perception of financial planners? Will these reforms enable financial planners to develop long-lasting and trusted relationships with their clients?

Australian survey mirrors global research

A recent survey by Huthwaite Asia Pacific in the Australian marketplace revealed 24 per cent of respondents had no idea how much financial advice from a planner was worth.

Furthermore, these same respondents cited the "focus on understanding my needs first" as the top criteria (4.16 out of 5.0) to judge if their chosen financial planner can deliver on expectations.

This recent Australian survey mirrors prior Huthwaite global research into professional services which concluded:

1. The 'adviser' is an integral part of the fee-for-advice process.
When a client is buying professional advice, whether it is accounting, legal, financial, or consulting, they consider the credibility, and frankly, the likeability of the adviser offering those services. Will that financial planner bring the expertise needed? Will he or she fit culturally with the individual client's own values? What if they move forward with this financial planner (and their firm) and they don't like them after the implementation begins? These concerns occupy the mind of the client when purchasing professional services.

2. The client seeks a long-term relationship of trust.
Unlike a product sale where a client can purchase a product because of its superiority – even if they dislike the seller – buyers of professional advisory services are usually looking for the provider to partner with them over a longer period of time. This means as a client, they are going to have many interactions with the adviser, well beyond the initial commitment to proceed. Advice is an intangible service.

If clients can touch it, feel it or see it, they know exactly what they're buying and immediately many purchasing concerns disappear. But in professional advisory services, you never have the advantage of allowing the client to 'kick the tyres' the way sellers of products do. When clients don't have hard criteria or tangible products, they often place more credence on soft criteria such as chemistry and the credibility of the adviser and the organisation they represent.

Client-centric advice: moving from the 'what' to the 'how'

A cornerstone of the FOFA reforms is that it is the fiduciary responsibility of the

Continued on p34

financial planner to put the client at the centre of the advice they provide. It is clear the financial planner needs to gain a thorough understanding of the client's issues, opportunities and challenges before proceeding to offer any advice.

Unfortunately, too many financial planners think 'telling is selling'. Huthwaite's latest survey uncovered that the top two concerns of prospective clients of financial advice were:

1. The financial planner did most of the talking; and

2. The financial planner already had a solution ready when they first met.

How can this deeply ingrained client perception be turned around in practice, ahead of the FOFA legislation taking effect?

In today's climate, merely communicating value is not enough. Clear differentiation, the ability to charge higher fees and securing loyal and long-term clients will go to those planners who embrace the skills associated with creating value. Firms and more specifically, the leaders and planners of these firms, that fail to get ahead of this curve may find themselves at a competitive disadvantage at the very least.

At the very heart of client-centric advice is skillful questioning. How does a planner really understand the issues, challenges and opportunities facing a particular client? What does skillful questioning look like? What kinds of questions have the greatest impact?

The best questions require a thorough understanding of the client's situation – and the ripple effect that one problem left unsolved has on other parts of the client's financial objectives, their lifestyle and future financial freedom.

During a fact-find, asking the client to reveal personal financial data is essential and is needed to establish a boundary for the ensuing discussion. But who is getting all the value in the answer to the majority of questions in the fact-find? Let's take a question such as, "How large is your mortgage?" It's definitely the financial planner who gets the value from the response, as the client is only sharing data they already know. These questions are known as situational questions. Our research shows that the sooner the financial planner moves onto three other styles of questions (problem, implication and needs-payoff), the more the client perceives a client-centric discussion is starting to take place.

Huthwaite's global research has uncovered four key characteristics that enable true client-centricity to be developed.

1. Sitting on the same side of the table.
Clients and financial planners collaborate around a common objective to reach a common understanding of the client's problems (through problem questions), their significance (through implication questions), and the value the client will gain from solving them (through needs-payoff questions).

2. Avoiding inappropriate engagements.
The financial planner requires the skill to reframe the scope of advice to accurately reflect and gain agreement on which of the client's problems can be genuinely solved, based on the capabilities of the planner and the organisation that it represents.

3. Making selling a process, not an event.
The 'selling' is a continuous and dynamic part of the discovery process between the client and financial planner. There is also a need to regularly re-sell and re-negotiate elements such as the changing priorities of the client and their timing, as new issues and opportunities are uncovered during the implementation.

4. Ensuring the sales process is compatible with the delivery process.
You cannot sell in one way and then deliver in another manner. The way financial planners sell has to be compatible with the method of delivery of the advice. Both selling and delivery of advice seeks to have the common purpose of solving problems for the client. If not, the client will see straight through the discomfort of the planner as they swap between the sales model and advice delivery model.

—At the very heart of client-centric advice is skillful questioning.

The shape of trusted relationships

Clients are also aware that in the past, some financial planners have received larger rebates for using particular products or platforms and this has led many to push their clients in that direction. This is a conflict that needs to be fixed. The trust has to be re-established.

Our survey revealed one of the strong factors for selecting a financial planner was "a strong personal referral" (ranking of 4.07 out of 5.0). Why do many of these referrals stall mid-flight, eventually leaving both the client and financial planner frustrated? Our research reveals that as a basic principle, the financial planner has to:

1. Help diagnose the true problem(s) that result in need(s) that the client states in their own words as what they want to act on. We call these explicit needs.

2. Help the client adequately diagnose the problems as per above to develop explicit needs whilst creating a receptive environment of mutual trust.

This trust must be sustained throughout the engagement into implementation and also during the ongoing delivery process, not just at the initial interview. How can this be done?

While working with advisers from some of the largest and most client-centric of professional advisory firms around the world, we conducted extensive research into how clients of professional advisory services firms define 'trust', and what characteristics they look for in advisers of professional services. When all the responses were analysed, we found three consistent qualities clients were looking for in their adviser.

1. Concern: defined as a focus on client needs, not oneself, nor one's products and services.

2. Candour: defined as being honest, not pretending to know, not exaggerating.

3. Competence: defined as knowing what problems one's offerings solve, and how those offerings meet the needs of the client.

In the global Huthwaite study, 'concern' was cited as the area most lacking in advisers who deliver professional services. As we know, the only method for a client to recognise genuine concern is by the quality of questions asked by financial planners, and the interest displayed by the relevant follow-up questions. Think about the strong linkage between demonstrating concern and aims of the fiduciary responsibilities of the FOFA reforms.

Execution: Delivering value through the client's lens

Our survey revealed a massive 95.3 per cent of Australian respondents did not expect to pay more than $3000 for a full financial plan. This represents a great challenge for financial planners as they attempt to create value for the three types of fees they traditionally charge clients: the upfront fee to produce the Statement of Advice (SoA), the implementation fee, and the ongoing fee. This issue is compounded as these fees have been typically subsidised or kept hidden from the client in the past by rebates and 'opt-in' provisions.

How can we improve this situation? Our research reveals that if financial planners want to compete on something other than fees, they must focus not on what advice they sell, but rather on how they offer the advice in relation to the explicit needs they have helped the client identify. In today's marketplace, the client value does not reside in the advisory service itself or the technical competency of the financial planner, but in the manner in which products and services are acquired by the client to solve their explicit needs.

Continued on p36

Furthermore, the research indicates the best advisers observe two fundamental conditions of communicating this value to their clients using a 'seek' method, rather than a 'tell' method:

1. Clients value more what they say and conclude than what they're told.

2. Clients value more what they ask for rather than what is freely offered.

It is imperative that advisers recognise these conditions and the difference between 'telling' and 'asking'. Our research demonstrates clients are willing to pay a premium not for financial services expertise, but for the expertise the adviser offers during the process of investigation. The financial planner who understands how to leverage their expertise can create value in the minds of clients to achieve three outcomes:

1. Price becomes less important to clients in selecting their financial planner.

2. Clients erect barriers to competitors and redefine the nature of the client-planner relationship (competition also includes the classic 'do nothing' scenario).

3. Advisers uncover greater opportunity with each client to generate higher fees.

Our research on more than 10,000 client meetings in this field identified a phenomenon that at first glance appeared to be counter-intuitive. In a significant number of cases, where clients reported they perceived the product as an interchangeable commodity, they did not choose the lowest-cost option. These clients were willing to pay a premium for what would typically be considered a commodity purchase.

One of the key drivers of the FOFA reforms is that the number of client complaints is on the rise. In particular, in the post-GFC era, clients are increasingly claiming to have not understood the basis for the recommended strategy, nor the associated risks and fees that go with it.

— We believe value-creation skills should be synonymous with business development skills.

Getting the client to grasp the potential value of a financial strategy is only one aspect of the planner's obligation in making recommendations. The other is how to manage a client's expectations.

A financial planner can break out of the commoditised sale of financial advice and attract more clients by adopting a 'consultative' method of creating value in the client's eyes. It requires adopting a true client-centric model that easily passes the fiduciary benchmark.

Far too often, clients are claiming financial planners deliver prescriptions without proper diagnosis. Hard-working, smart and justifiably proud, these experienced professionals are eager to demonstrate their expertise, so they push solutions before clients fully understand the nature of their own problems. As a result, client relationships suffer, trust is eroded and potential business is left unrealised.

The mainstay of effectiveness in advisory services will ultimately be the balance between an efficient focus on technical skills and the effective employment of value-creation skills. We believe those value-creation skills should be synonymous with business development skills, and given the fact that skills take time to develop, we predict great rewards for organisations that get ahead of the curve early and take advantage of the impact of the forthcoming FOFA reforms. ●

Shehan Wijetilaka is a partner at Huthwaite Asia Pacific, the leading global firm on sales effectiveness. He has advised several major Australian wealth management and financial planning organisations on many aspects of value creation and the role of leadership in business development.

For survey results and instructive whitepapers on creating value, visit www.huthwaite.com.au.

References

'Avoiding the Traps in Selling Professional Service' whitepaper, by Neil Rackham. Available from www.huthwaite.com.au/whitepaper-avoiding-the-traps-in-selling-professional-services.html.
'Putting the Professional Back in Professional Services' whitepaper. Available from www.huthwaite.com.au/whitepaper-selling-professional-services.html.
Escaping the Price-Driven Sale/How world-class sellers create extraordinary profit, by Tom Snyder & Kevin Kearns, published by McGraw-Hill books, 2008.
'Professional Consulting Services in the New Normal' whitepaper, by Shehan Wijetilaka. Available from www.huthwaite.com.au/the-new-normal-dimensions-to-combat-it.html.
'Creating Real Value for Banking Clients' whitepaper, by Tom Snyder. Available from www.huthwaite.com.au/whitepaper-creating-real-vaue-for-banking-clients.html.