Research commentary

There is a huge difference between good and great advice

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Three themes emerged in Vanguard's 2018 Adviser-Client Survey: the evolving role of automation, the perception gap between advisers and their clients and the interplay between trust and client satisfaction.

The only surprises about the advice gap are that it is not a lot larger than it is, and that it isn't a much hotter political potato.

The advice gap matters because financial advice is the best response we have to one of the most significant crises facing the UK – the retirement crisis. It currently takes a million pounds of investible assets, at an average annual return of 3%, taxed at 20%, to earn the mean personal income of £24,000.

Who thinks a million pounds in liquid assets is a lot of money? Probably most people. How many

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think £24,000 is a rich income? Probably almost no-one. And that is just for a pension. Never mind late-life care, tuition fees, a home, a bequest, funding to start a business or any of the hundreds of other financial goals people may have.

Investors realise they need to act, but the task is a daunting one. Investors are confronted with a choice of literally thousands of funds, all of them offering uncertain outcomes, most of them requiring complex management and many of them expensive to the point of self-defeat. This has led to an increase in demand for advice.

Market data backs up this growth in demand. According to figures collated by Platforum, assets under advice in the UK now total £521 billion as at September 2018, up from £64bn ten years ago and a rise of 25% since 2016[1].

The questions we need to answer are not whether advice is needed or why, but how it should be delivered and what it should look like.

It was from this starting point that Vanguard launched its 2018 UK Adviser-Client Survey. Some of the findings confirmed what many of us have suspected. Others were a surprise and may lead to further research.

Three significant, inter-related themes emerged from the survey:

- There appears to be a gap between what clients (and advisers) rate as important in advisory services, and what clients feel is actually delivered
- Advisers are deploying automations in ways that seem to have the potential to help close that gap
- It is at the interplay between trust and satisfaction, between basic and holistic services, that advisers are at their most powerful

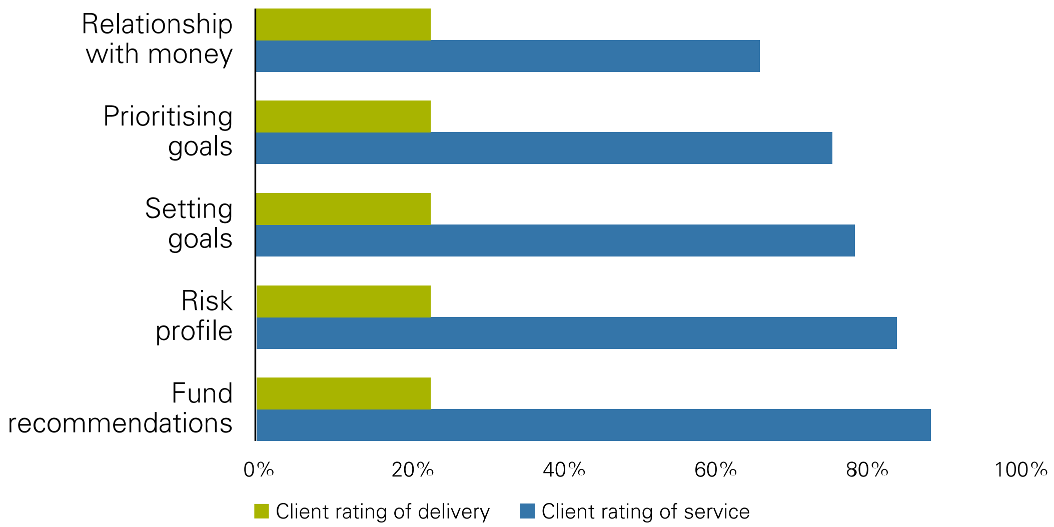
Perception Gap

Advisers and clients consider the services offered by advisers as valuable -- it would be curious if they didn't. But there appears to be a "gap" between the services advisers say they offer and the services clients report receiving from their adviser. While advisers report delivering a high number of services, the rate at which clients report receiving those services is far lower.

There may be a number of reasons for this. One is that advisers may be over-confident in assuming that their clients understand what they are doing and why. Another might be that advisers are struggling to communicate the value of their services. Our sense is that it is the latter rather than the former, but it is a point that might warrant further research.

Interestingly, when we asked advisers to value the [illegible] services in terms of revenue, there was [illegible] discernable correlation either with what clients valued or with what they felt was being delivered. A slightly worrying observation was that the most lucrative services are those which are easiest to automate.

Perception Gap: Clients Aren't Feeling the Value of Advice



Source: Vanguard

Automation

We tend to think of automation as ‘us and them’. There are robo-advisers ‘out there’, their massive, mindless algorithms chomping up market share, while human advisers work courageously on from the trenches, ‘over here’.

The evidence does not support such a view. The relatively slow uptake of pure robo-advice offerings, both in the UK and the US, suggests to us that this is a model that will likely remain at the margin. According the Vanguard Adviser-Client Survey, what is actually happening is that advisers are developing a hybrid model that combines automated processes and personal interaction, a model that in our view has significant potential to close the perception gap by freeing time to communicate value.

We asked advisers to indicate which of their services they were automating, they intended to automate, or that they expected never to automate. What we found was that in many cases a large proportion of core services were already automated, or were in the process of being automated. These services included reporting, rebalancing, risk profiling, asset allocation, portfolio management, fund selection and cash flow projections.

This suggests that, at least in the near-term, the competitive risk from automation is not the pure-play online service but the adviser across the street. If your closest competitor is automating more than you are, he or she is likely to be reducing costs, speeding their processes and freeing their time to focus on building good client relationships and offering more holistic financial planning services, thus showing more value to their clients.

That is the tactical threat, the threat that most advisers need to think about in the short to medium term. Longer term, the evidence points in a different direction. Among advised clients who mix a personal financial adviser with a robo offering, 80% were under 40 while only 5% were over 60. Among those who would be likely to shift to robo-only, 60% were under 40 while only 8% were over 60.

There was a further qualitative skew in the data that we thought was especially interesting. This was that sophisticated investors were also strongly represented among those most inclined to increase their use of fully automated services.

If your younger and more sophisticated clients are both tempted by robo-only and robo-biased offerings, this suggests a clear strategic threat and one that advisers might like to think about sooner rather than later. One way advisers can start to address this threat is by shifting their mix of services. Our survey found that while younger clients are more willing to adopt robo-advice, they also tended to value more holistic services, such as financial knowledge, good behaviours, goal setting, prioritising and the like -- services which are very difficult to automate.

Trust vs Satisfaction

In other words, a shift from okay to great brought a three-fold likelihood in a client entrusting all their assets with their preferred adviser. In money, the difference was around £200,000.

Similar shifts were evident in other key service areas. Looking at those ‘very unlikely to switch adviser’, the score was 9% for medium-trust and medium-satisfaction, but 61% for those with high-trust and high-satisfaction.

Conclusion

Given the importance of financial advice, we need to think not only about the extent and the cost of delivery, we also need to think about the means of delivery and the quality of the advice. The Vanguard 2018 Adviser-Client Survey was an attempt to contribute meaningful statistical data to that conversation. It brought home some hard truths. It showed that clients are not feeling the value of the advice they are receiving. But it also showed that advisers are deploying technology to close that gap, and those that strike the sweet spot between client trust and satisfaction will be greatly rewarded.

1 Source: Platforum.

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