

The State of Client Understanding

KEY FINDINGS

research partners



About the Study



No matter the business model (e.g., independent advisor, aligned advisor, fee-only planner) – an advisor's ability to understand clients is foundational to success in today's environment. This research focuses on mapping out the most important activity areas for Client Understanding and then identifying what the 'building blocks to best practice' look like.

MAIN RESEARCH QUESTIONS

Client Profiling Tools & Methods

What are the best tools and methods for profiling and understanding a client's goals, priorities, preferences, and current financial situation?

Relationship Perspective

How do advisors facilitate mutual understanding and collaborative, value-creating relationships with clients and their families?

Workflow Perspective

How should client understanding be integrated with the advice and planning process and underlying information management systems?

Business Perspective

How do the best advisors use client understanding in managing overall client base profitability, segmentation, and experience quality?

Key Finding

1

// Greater **Know Your Client** proficiency is associated with better outcomes



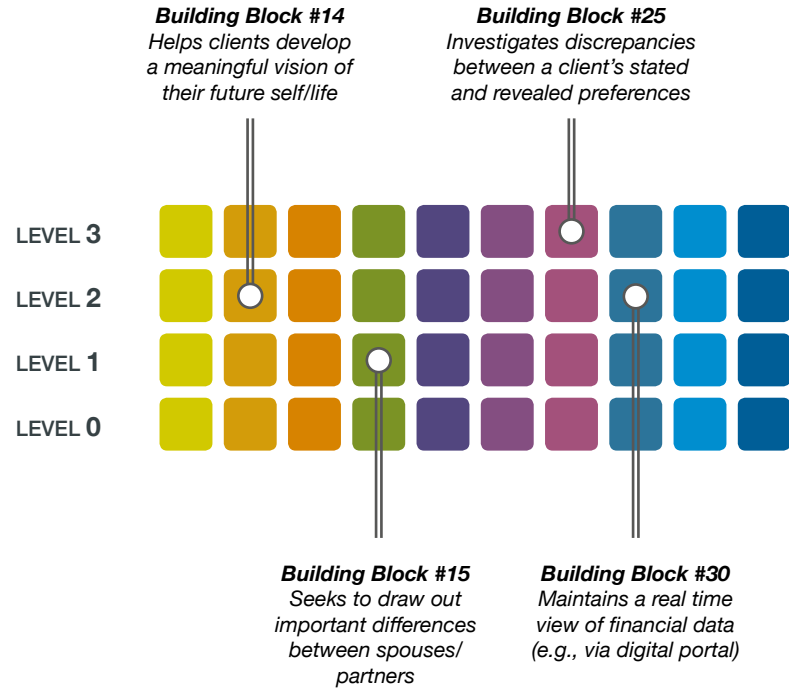
The survey tested 80 different *Know Your Client* building blocks. Each block is a distinct advisor behavior, method or competency.

ADVANCED PROFICIENCY*



BASIC PROFICIENCY

* See p. 14 for how we determined building block levels



Key Finding 1

Higher levels of **Know Your Client** proficiency correlate to higher growth and better quality client relationships

ADVANCED PROFICIENCY



BASIC PROFICIENCY

Moving from **basic** to **advanced** proficiency



n = 315

Percent of Clients Very Willing to Recommend

+26

PERCENTAGE POINTS
(47% → 73%)

Net Client Growth Rate

+8

PERCENTAGE POINTS
(6% → 14%)

Percent of Client R'ships Personally Fulfilling to Advisor

+26

PERCENTAGE POINTS
(48% → 74%)

Referrals Per 100 Clients

+8

REFERRALS
(8 → 16)

Key Finding 1

The path to greater proficiency



To benchmark your practice, visit the study homepage

Advisors can see how they compare, get their action plan and access practical resources to boost *Know Your Client* proficiency.

<https://landing.trueprofile.com/StateOfClientUnderstanding>

CUSTOMIZED BENCHMARKING REPORT AND ACTION PLAN



BEST PRACTICE CONTENT LIBRARY



Case Studies



Tools and Templates



Interviews with Leading Practitioners





Analysis revealed an emerging, high-performing segment of advisors who actively facilitate client self-discovery and behavior change

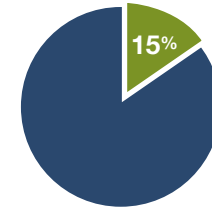


Behavioralists are adept at introducing and managing **constructive** tension with clients to **reveal** deeper insight into behaviors and promote change toward greater well-being.

What's new here?

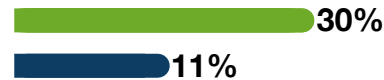
Behavioralists excel at balancing the human and the technical, and are taking greater advantage of cutting-edge science and technology (e.g., data aggregation, planning software, revealed preferences tools) to get a more evidence-based, holistic picture of clients' actual behaviors and underlying values and preferences. They are essentially skilled facilitators with unprecedented depth of insight into client behavior.

ABOUT **1** OUT OF **7** RESPONDENTS ARE BEHAVIORALISTS...

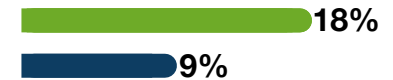


...AND THEY **DRAMATICALLY** OUTPERFORM THE NON-BEHAVORALISTS.

Net Client Growth Rate



Referrals (per 100 clients)



% Willing to Recommend



% of R'ships Fulfilling to Advisor



Key Finding 2

Behavioralists exhibit the will, skill and means to insert and manage **constructive tension**

MANAGING TENSION CONSTRUCTIVELY

- Many advisors don't actively seek points of tension (or look to quickly resolve tension when it crops up)
- Behavioralists seek to identify, embrace and explore points of tension with clients in a respectful, supportive manner by blending Skill, Will and Tools

- Willingly explores client "say-do" gaps
- Seeks to draw out important differences in perspective between spouses/partners
- Investigates conflicts in client's underlying motivations (e.g., values, desires, perceived obligations)



- Comfortable navigating emotional client conversations
- Skilled at reading between the lines into what the client isn't saying (i.e., omissions, areas of avoidance)
- Verbalizes inconsistencies in client's words or actions in a supportive manner

- Uses emerging tools for precise insight into a broad range of client behaviors (see next page)
- Uses resulting behavioral insights to explore say-do gaps and provoke client self-discovery

Key Finding 2

Working the Say-Do gaps

BEHAVIORALISTS LISTEN TO WHAT CLIENTS **SAY**...



...AND COMPARE IT TO WHAT CLIENTS **DO** (THEIR DECISIONS, ACTIONS, AND REACTIONS)...



Client's Decision Preferences
(e.g., determined via revealed preferences tools*)



Client's Financial Life Behaviors (e.g., derived from access to client financial data)



Client's Emotional Reactions
(e.g., observed in client body language and communication tendencies)



...TO HELP CLIENTS SEE AND TAKE ACTION ON MEANINGFUL **SAY-DO** GAPS



The Behavioralist



ENGAGEMENT SCOPE AND ROLE DEFINITIONS	PLAN / POLICY DESIGN
EDUCATION	FACILITATION PROCESS

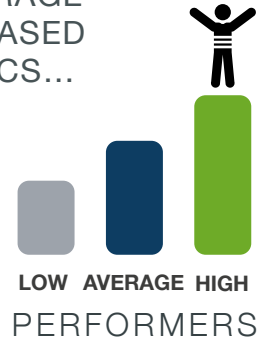
* Screenshot image is of True Profile revealed preferences tool

Key Finding

3

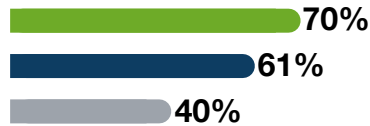
// High performing advisors manage family dynamics more **holistically**

WE IDENTIFIED HIGH, AVERAGE AND LOW PERFORMERS BASED ON KEY OUTCOME METRICS...

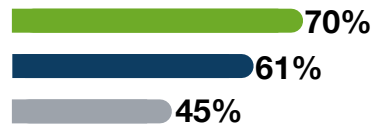


...AND FOUND THAT **HIGH PERFORMING ADVISORS** SPEND CONSIDERABLY MORE TIME UNDERSTANDING PARTNERS FROM THE BEGINNING.

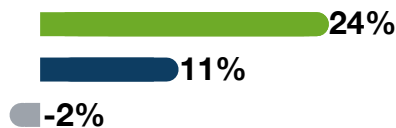
% Willing to Recommend



% of R'ships Fulfilling to Advisor



Net Client Growth Rate



Referrals (per 100 clients)



Hours spent on understanding partners/spouses in Year 1 of client relationship.

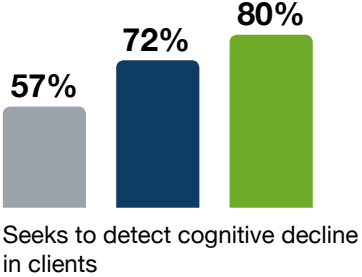
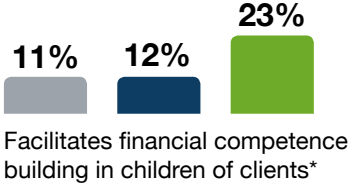
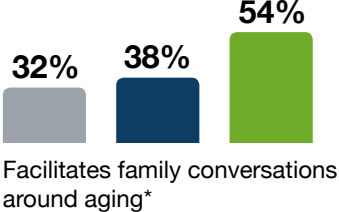
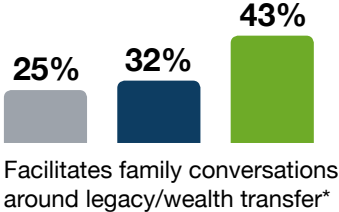
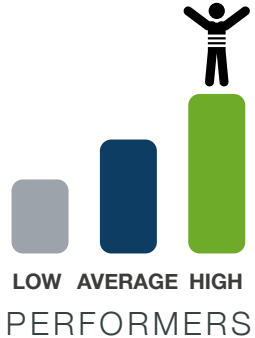
6.1 Hours

4.9 Hours

3.9 Hours

Key Finding 3

High performers are also more likely to **engage** the broader family on important aging issues

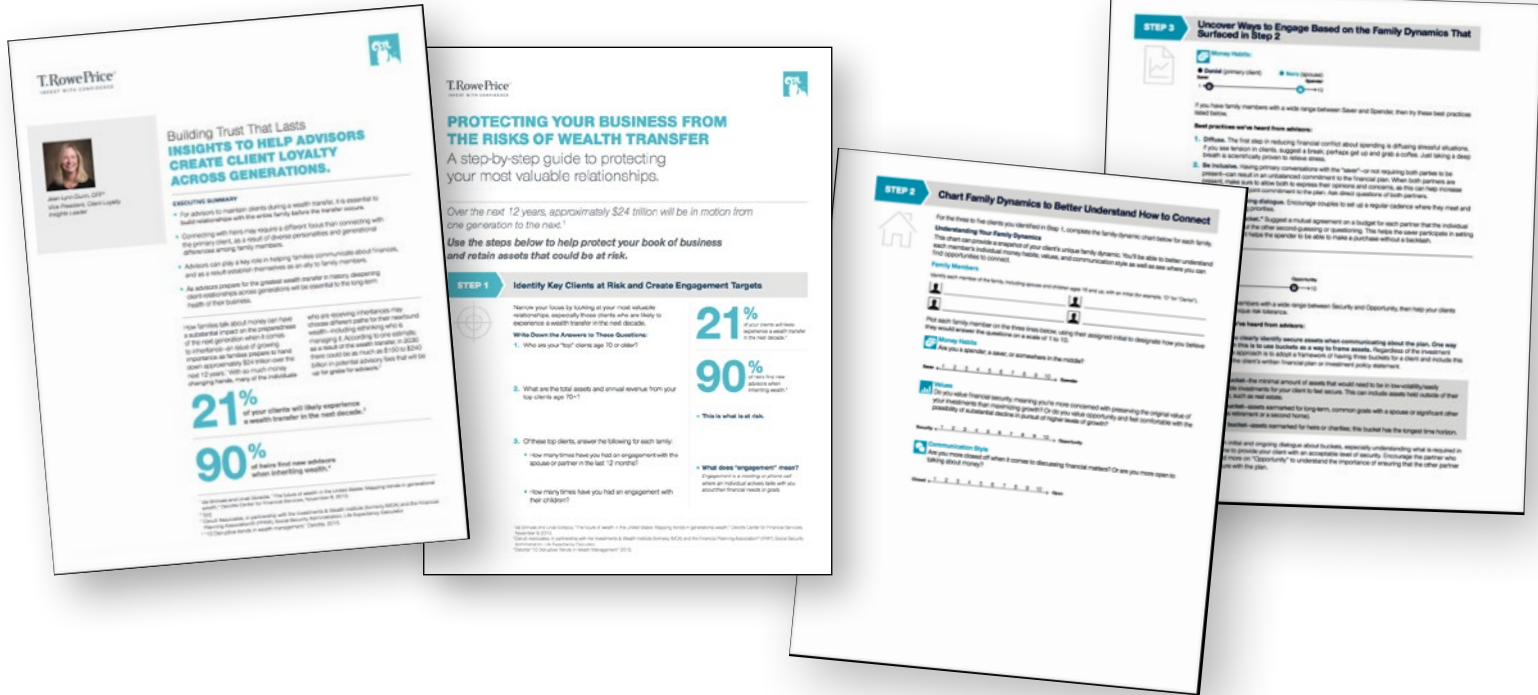


* Figures reflect percentage of advisors by performance category who routinely engage in this activity with their clients who have partners/families.

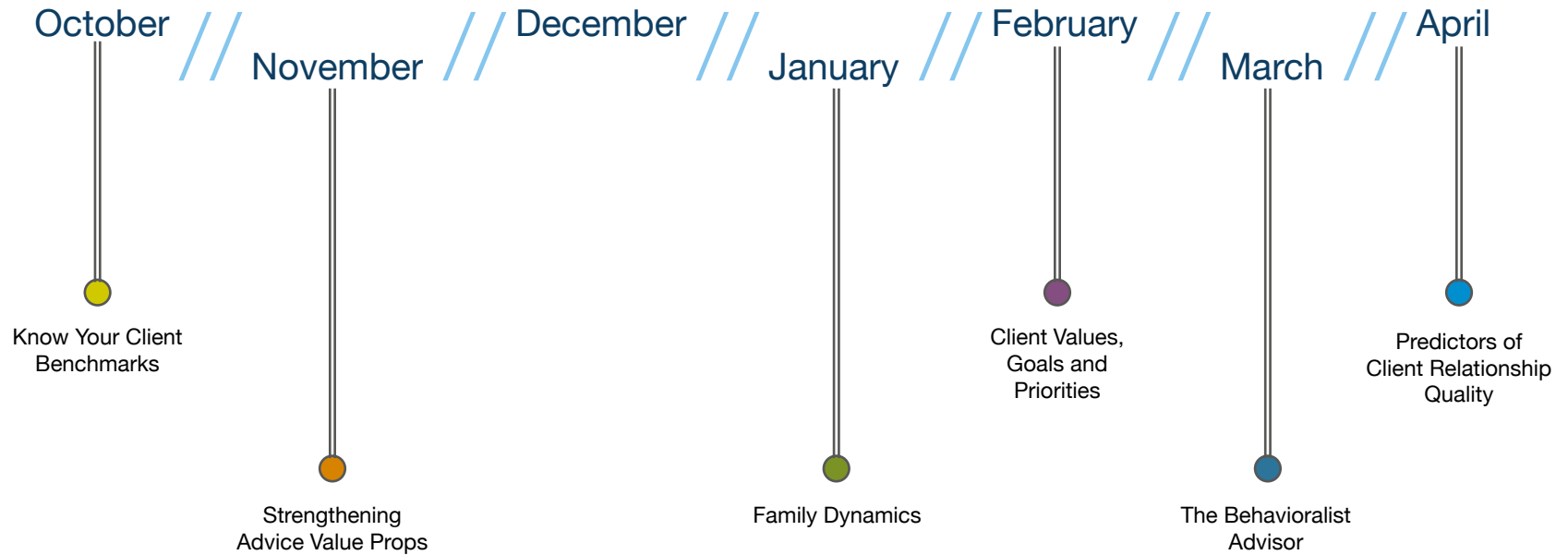
Key Finding 3

Resources to help advisors **boost** their proficiency in managing family dynamics

Resources can be found on the study's Family Dynamics page <https://landing.trueprofile.com/FD> and at T. Rowe Price's resource page www.troweprice.com/familydynamics



Study Findings Insight Release Calendar



Research Overview: *Developing the Building Blocks to Best Practice*

Respondent Demographics:

- *Geography*
- *Advisor Experience*
- *Gender*

Respondent Demographics:

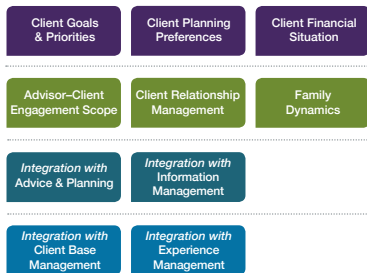
- *Client Count*
- *Compensation Model*
- *Business Model (AU/NZ)*
- *Business Model (USA)*

Research Overview: Developing the Building Blocks to Best Practice

1 WE CREATED A MAP OF CLIENT UNDERSTANDING ACTIVITY AREAS

We interviewed dozens of advisors and industry/academic thought leaders to build out the “map” of client understanding activities across ten key areas.

Map Of Client Understanding Activities



2 WE COLLECTED BENCHMARK DATA

Based on the map, we built a survey that collects advisors’ performance ratings for different client understanding activities and their “client metrics” (e.g., net new clients, referrals, client willingness to recommend).

Advisor’s Activity Performance Rating Benchmarks



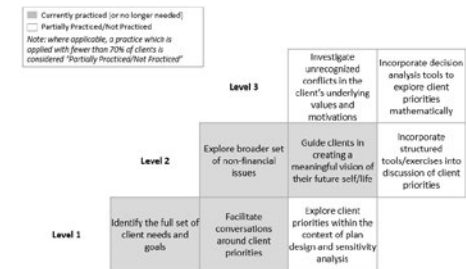
Advisor’s Client Metric Benchmarks

- Net new clients
- Prospects and conversion rates
- Client referrals
- Client relationship quality

3 WE DEFINED AND PROFILED BUILDING BLOCKS TO BEST PRACTICE

Combining our qualitative insight and benchmark data, we identified and validated best practices and plotted out the “building blocks” for getting there.

Building Blocks to Best Practice Benchmarks



Building Blocks to Best Practice Case Studies and Resources

Visit the Study Homepage

<https://landing.trueprofile.com/StateOfClientUnderstanding>

Respondent Demographics

GEOGRAPHY

n = 317



- New Zealand
- Australia
- USA

ADVISOR EXPERIENCE

n = 317

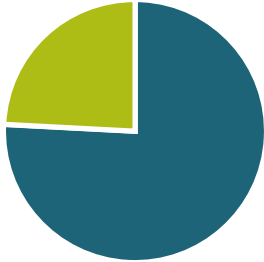


Years of Experience

- <5
- 5-9
- 10-14
- 15-19
- 20+

GENDER

n = 317



- Female
- Male

Respondent Demographics

CLIENT COUNT

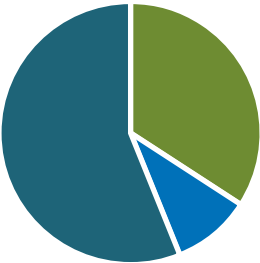
n = 317



- <70
- 70-129
- 130+

COMPENSATION MODEL

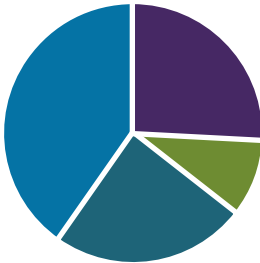
n = 317



- Fee only
- Mix of Fee and Commission
- Other

BUSINESS MODEL (AU/NZ)

n = 185



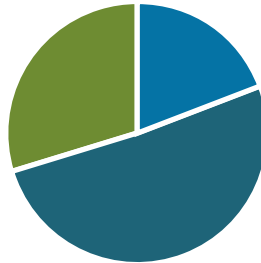
- No Ownership/No Manufacture
- No Ownership/Manufacture
- Ownership/No Manufacture
- Ownership/Manufacture

Ownership Question: Do you have any share of ownership in the entity that authorises you to give advice?

Manufacture Question: Is the ultimate owner of the entity that authorises you to give advice involved in the manufacture of financial products?

BUSINESS MODEL (USA)

n = 125



- Broker Dealer
- RIA
- Other

About the Research Partners

About Capital Preferences

Capital Preferences offers financial service firms the most advanced technology for understanding customers, leveraging decision science and behavioural economics. Its gamified profiling platform allows financial professionals to improve client experience, while gaining unique insights into product suitability and client behavior.

Capital Preferences is the creator of TrueProfile, the only tool for financial advisors that reveals their clients' true risk tolerance, loss aversion and decision consistency as defined by economic science. For more information about Capital Preferences and True Profile, visit www.trueprofile.com and follow on Twitter at twitter.com/TrueProfileSays.

About the Financial Planning Association

The Financial Planning Association® (FPA®) is the principal professional organization for CERTIFIED FINANCIAL PLANNER™ (CFP®) professionals, educators, financial services professionals and students who are committed to elevating the profession that transforms lives through the power of financial planning. Through a collaborative effort to provide members with tools and resources for professional education, business support, advocacy and community, FPA is the indispensable resource in the advancement of today's CFP® professional. Learn more about FPA at www.OneFPA.org and follow on Twitter at twitter.com/fpassociation.

About the Research Partners

About UC Berkeley Executive Education

As the #1 public university in the world, UC Berkeley has a long and proud history of being a changemaker and driver of innovation in business, the sciences, technology and policy. UC Berkeley Executive Education leverages the best resources of UC Berkeley and the surrounding business ecosystem, and embraces the mission to develop leaders who Question the Status Quo, exhibit Confidence Without Attitude, are Students Always, and go Beyond Themselves. Berkeley Executive Education partners with individuals and organizations to provide an educational experience with an enduring impact that unlocks new ideas and ways of thinking, pushes traditional boundaries and facilitates discovery of approaches that defy the status quo. We serve leaders and organizations who aspire to redefine the future of business. Our profound and unique learning experiences, led by renowned UC Berkeley faculty, equip global executives and their organizations with the vision, culture, and capabilities to thrive in an ever-changing world.

About Financial Advice New Zealand – Helping Kiwis Thrive

The most essential element of financial well-being is quality financial advice. By helping advisers do what they do best, and helping more Kiwis access quality advice, together we'll help New Zealand be financially better off.

You can count on Financial Advice New Zealand to be the voice for quality advice; to support quality advisers; and to make a stand when adviser interests could be better served.

About the Research Partners

About Association of Financial Advisers

The Association of Financial Advisers Limited (AFA) has been the authentic voice on the value of financial advice for over 70 years. Today, the AFA is a vibrant, innovative association, where the underlying driver of policy is the belief that great advice transforms lives. To this end the AFA is striving to achieve the vision of Great Advice for More Australians. The AFA's ongoing relevance as a professional association is derived from its success in engaging with the major stakeholders in financial advice including advisers, consumers, licensees, product and service providers, and the regulator and government. Culturally the AFA believes in the value of collaboration to create powerful outcomes and this drives how we achieve influence and work towards our vision.

About Portfolio Construction Forum

Established in 2002, Portfolio Construction Forum is the specialist, independent, investment continuing education, accreditation and certification service providing a curriculum which is curated for the community of Australian and New Zealand practitioners and advocates involved in any aspect of constructing multi-manager portfolios, enabling their better quality portfolio construction knowledge, skill and expertise, in order to improve the financial wellbeing of individuals.
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