

# Lifeplan ICFS Financial Advice Satisfaction Index October 2015

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## About the Lifeplan ICFS Financial Advice Satisfaction Index

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The Lifeplan ICFS Financial Advice Satisfaction Index (FASI) is a tool for financial advisers that want to improve their levels of client service. It is based on academic research that models the factors that explain a client's willingness to recommend their financial adviser to a friend or acquaintance.

The three attributes that have the greatest impact on advocacy include:

1. The trustworthiness of the financial adviser
2. The client's perception of how their investments have performed
3. The financial adviser's technical ability

The research also analyses how investors' age, levels of investment and length of their relationship with their financial adviser impacts these attributes.

The research is sponsored by Lifeplan Funds Management, a part of the Australian Unity Group.

It is conducted every six months by the University of Adelaide's International Centre for Financial Services.



INTERNATIONAL CENTRE FOR FINANCIAL SERVICES

Project sponsored by International Centre for Financial Services (ICFS) University of Adelaide, for Lifeplan Funds Management.

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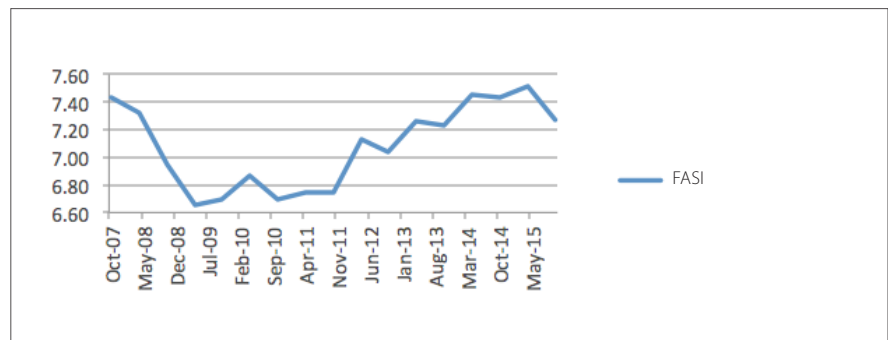
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Lifepan ICFS  
Financial Advice  
Satisfaction Index  
October 2015

The index decreased to 72.65 a decrease of 2.3% over the October 2014 index levels. All three drivers of satisfaction decreased since the last survey.

The October 2015 survey of 410 respondents, which was conducted in the last two weeks of September, showed a decrease in the satisfaction investors have with their financial advisers. The index decreased to 72.65 (see Graph 1) a decrease of 2.3% over the October 2014 index levels. All three drivers of satisfaction decreased since the last survey, perceptions of Performance due to Financial Advice led with the largest decrease of 4.7%, followed by perception of Technical Abilities of the Advisers by 3.5%. Perception of Trust and Reliability of their adviser was least affected with a decrease of 1.8%. The graph below shows the movement of the Satisfaction Index since inception.

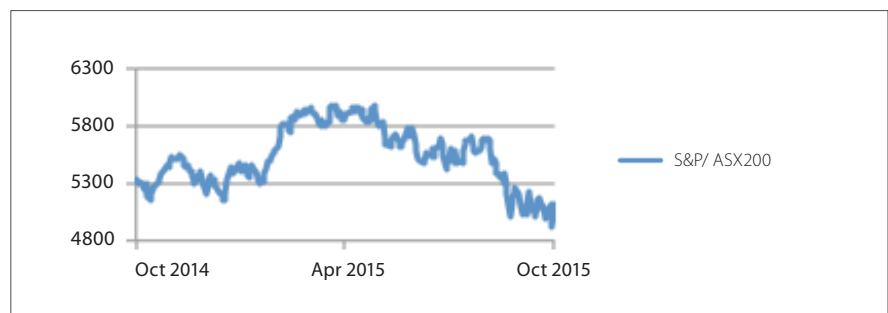
Graph 1  
Financial Advice Satisfaction Index (scaled by 0.10)



The Australian equity market index S&P/ASX200 lost 14% over the 6 month period (see Graph 2) and interest rates are at a record low. The Australian economy is in a state of change: from resources to services and manufacturing after the collapse of the commodities market. The unemployment rates across the resource sector and the closing of the automobile manufacturing sector has cast a gloom across the country, evident from the consumer confidence index (see Graph 3) now below 95. Optimism is missing. China, Australia's largest trading partner and importer of coal and iron, is expected to grow only at a rate below 6% p.a., which led to the devaluation of its currency to help improve this slowing growth rate. Additionally, capital markets of Australia's second and third largest trading partners, Japan (Nikkie 225 peaked in mid-August) and the US (S&P 500 peaked in mid-July) were also impacted by the slowdown in the Chinese economy, with high volatility being experienced in most developed markets, and interest rates remaining at their historic lows. It has not been an easy investment climate, especially for the less technically proficient financial advisers.

The index results are explained to a large extent due to the market conditions and how financial advisers respond to these conditions.

Graph 2  
S&P/ASX 200 from October 2014 to October 2015



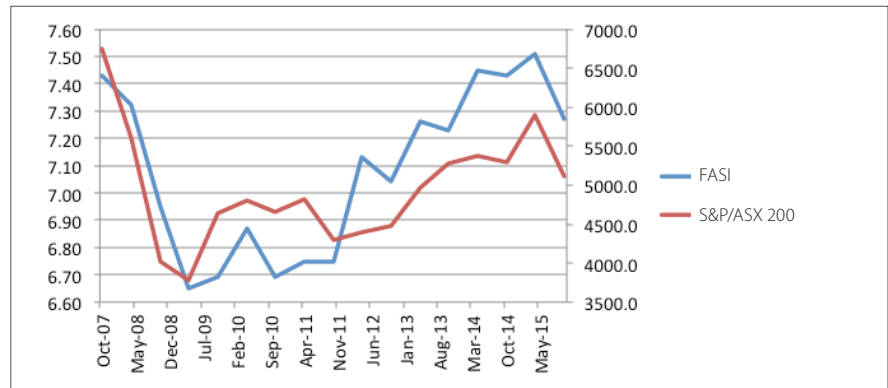
Graph 3  
Australian Consumer Confidence Index from January 2014 to October 2015



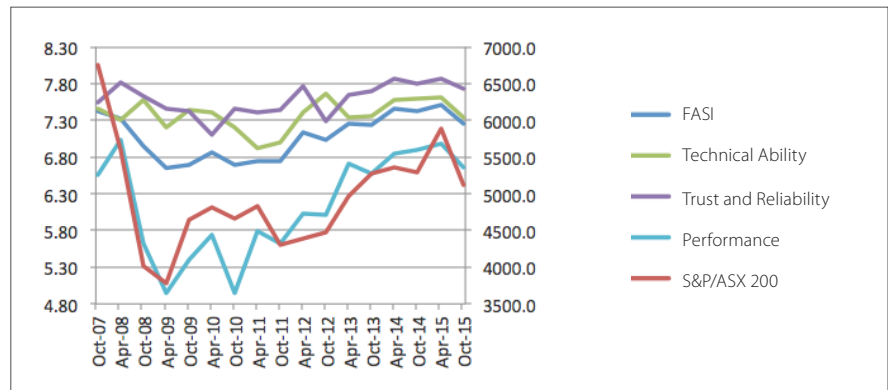
Supporting research

Graphs 4-8: The following five graphs show the relationship between the index, and each of its drivers, and the equity markets (S&P/ASX 200 is used as a proxy for the domestic equity market).

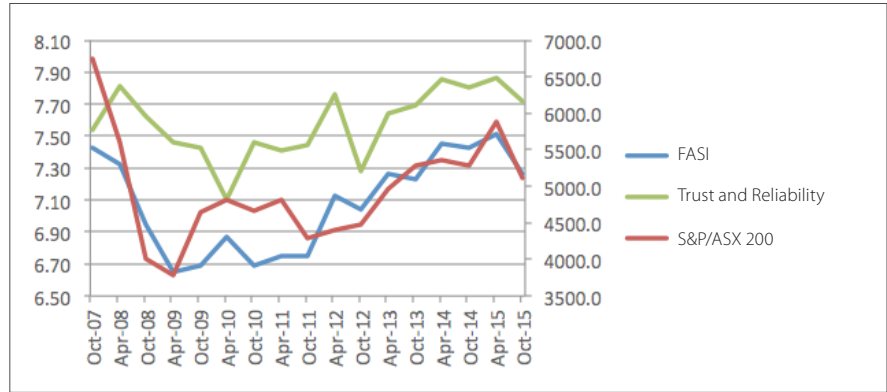
Graph 4  
The Financial Advice Satisfaction Index (scaled by 0.10) and the S&P/ASX 200



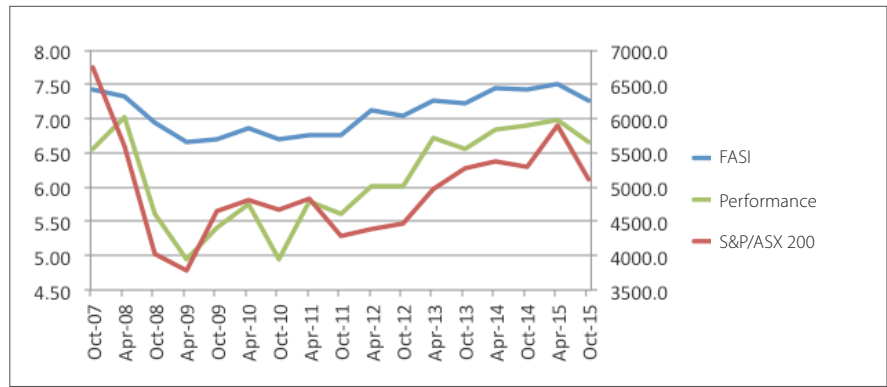
Graph 5  
Drivers of Advocacy, the FASI (scaled by 0.10) and the S&P/ASX 200



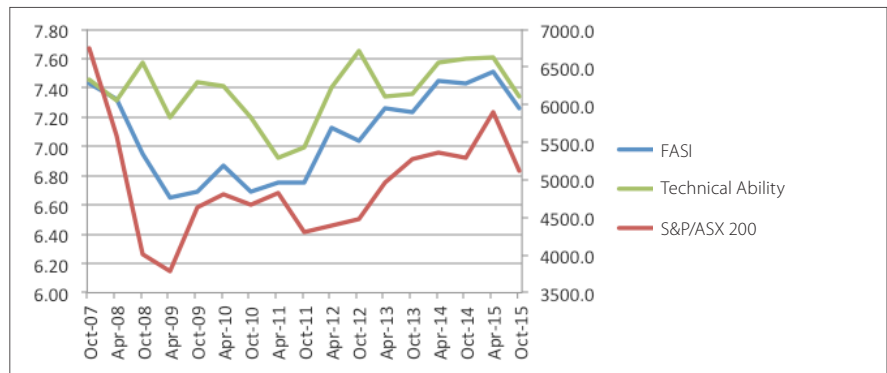
Graph 6  
 Perception of Trust and Reliability, the FASI (scaled by 0.10) and the S&P/ASX 200



Graph 7  
 Perception of Performance, FASI (scaled by 0.10) and the S&P/ASX 200



Graph 8  
 Perception of Technical Abilities, FASI (scaled by 0.10) and the S&P/ASX 200



## Highlights of the survey

*Spreads in perceptions for all three drivers of advocacy are now statistically indifferent across the genders.*

*The oldest cohort of investors' perceptions of their adviser's Technical Abilities and Trust and Reliability increased against trend.*

*Investors with the lowest wealth level show the lowest levels of perceptions across the three drivers.*

### Highlights of this survey include:

- Perceptions between the genders were surprising in that, (i) the female investors showed a larger decrease for all three drivers, (ii) decrease in female investors' perceptions of *Technical Abilities* decreased the most and are now below those of male investors, and (iii) male investors' perceptions of *Trust and Reliability* with their advisers remained constant. These results are now statistically indifferent across the genders.
- Perceptions of the oldest cohort of investors' with their adviser's *Technical Abilities* and *Trust and Reliability* with their advisers increased against trend. This group of investors showed a small decrease in their perception of *Performance*, but is expected as perceptions of *Performance* follow equity market performance quite closely. The fact that investors in this age group were not affected negatively but in fact were positive about their investment experience is a testament to the quality of advice being received. The worst affected were the younger investors.
- Longer duration of advice with the same adviser has recorded the highest levels of perceptions across the three drivers, with *Trust and Reliability*, and *Technical Abilities* showing increases. The results also notes that if an investor has just started taking advice their perceptions across the three drivers is most unfavourable\*.
- This survey has seen investors with the lowest wealth level showing the lowest levels of perceptions across the three drivers. The high net worth investors showed a decrease across the three drivers of satisfaction as well. However, investors with mid-levels of wealth were least impacted.

### Messages

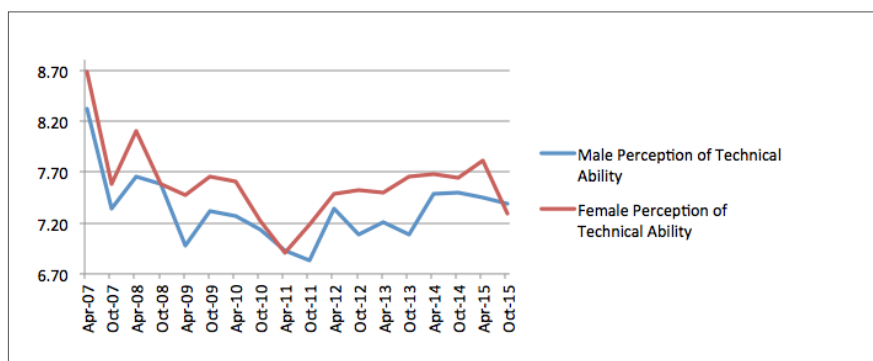
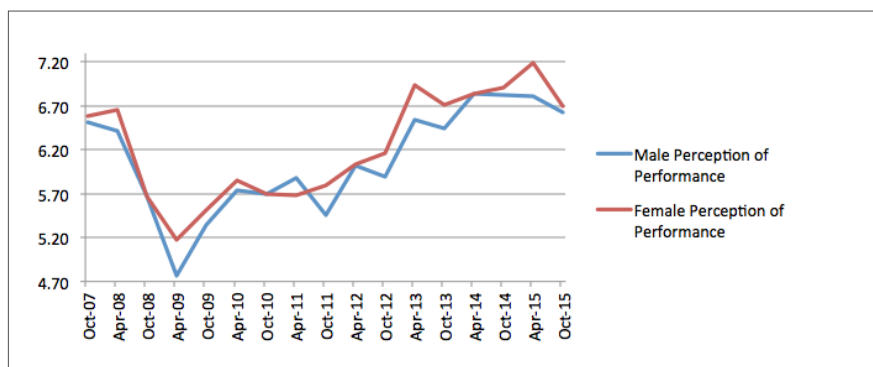
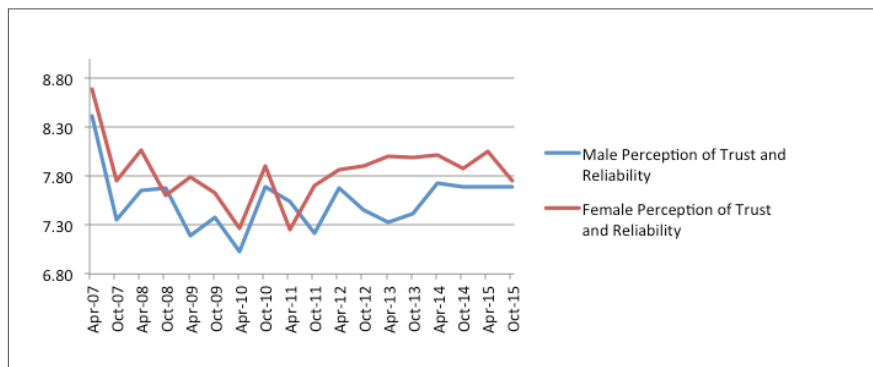
1. This survey notes that the cohort whose increase in satisfaction levels has gone against the recent market downturns, volatilities and consumer pessimism are the oldest investors who have been taking advice longest with their current advisers. It seems that these investors are unaffected by market volatility (they feel that their advisers have been keeping them informed regarding market conditions, formulating good investment strategies and implement these with quality fund managers) and also seem to be using their advisers other services such as retirement planning. These investors feel that their advisers have high levels of financial literacy and expertise and provide superior *Technical Abilities*. These investors also rate themselves with high levels of financial literacy which leads to higher perceptions of *Trust and Reliability*.
2. The cohort that has suffered in the recent market conditions have been younger investors with low investment levels and short duration of taking advice. This investor group needs to start building a relationship with the "right" adviser for their circumstances, with an emphasis on strategy that needs to be understood from the point of view of market cycles and achieving investment objectives. The adviser needs to educate the investor on the risks of formulating a poorly constructed investment plan that is implemented using underperforming asset managers.

\* Please ignore the shortest duration of advice as it is based on only nine observations and the results may not be robust.

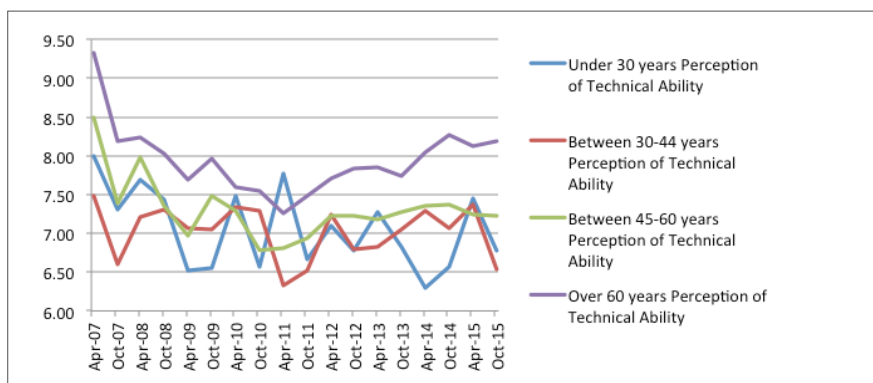
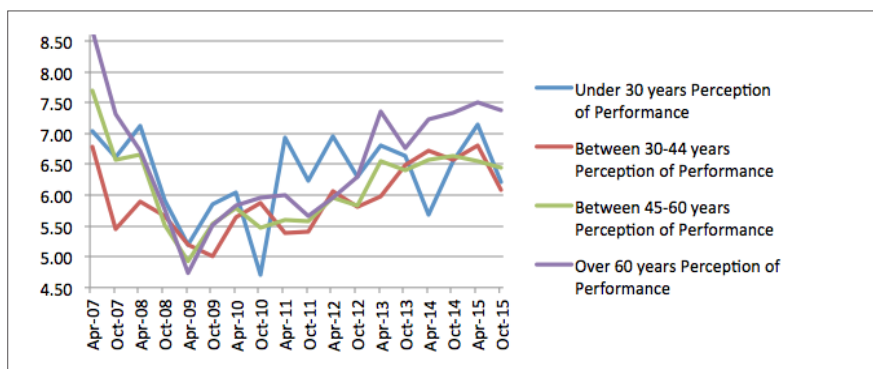
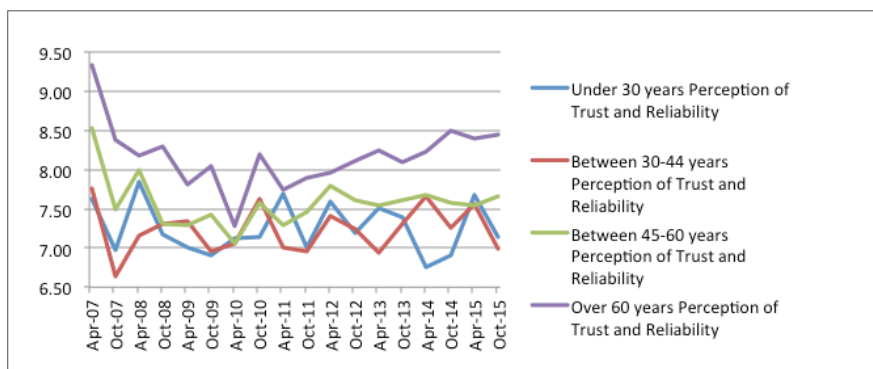
Appendix 1:

Historical Relationship between Demographic Variables and Drivers of Advocacy

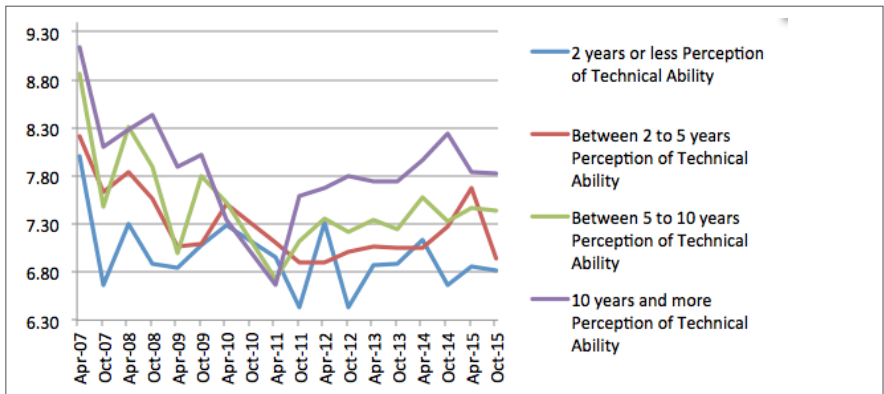
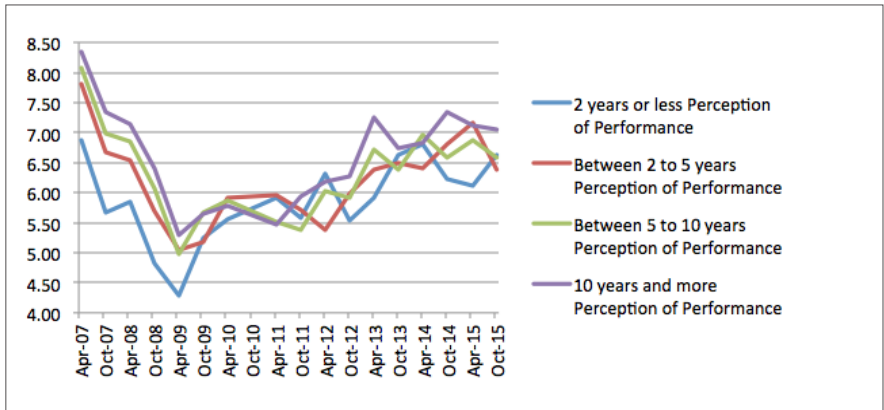
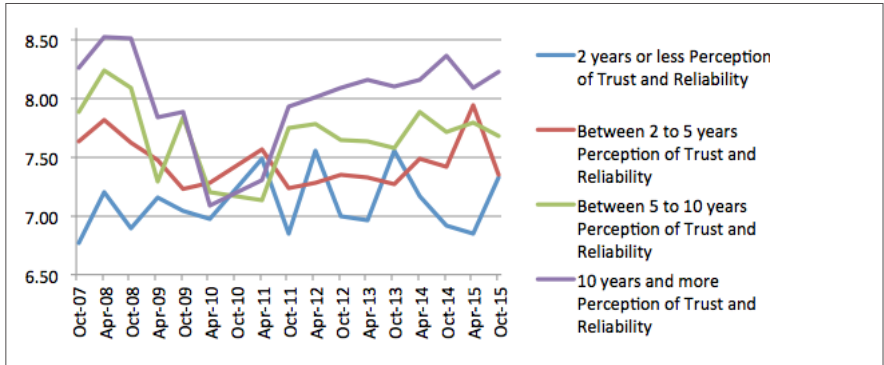
Graph 1A  
Relationship between Gender and Drivers of Advocacy



Graphs 1B  
Relationship between Age and Drivers of Advocacy

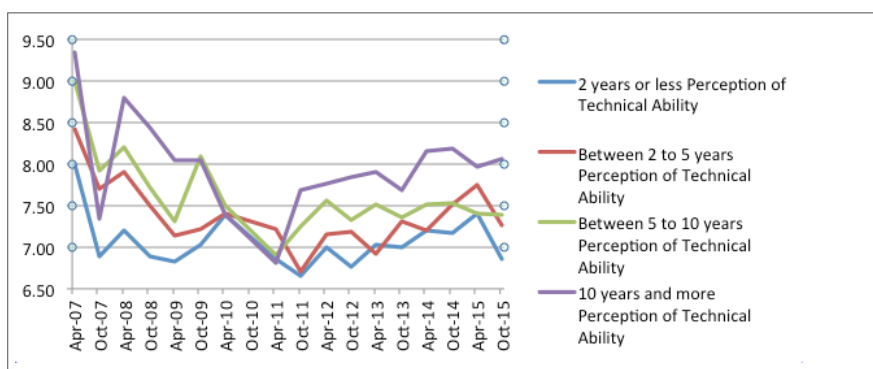
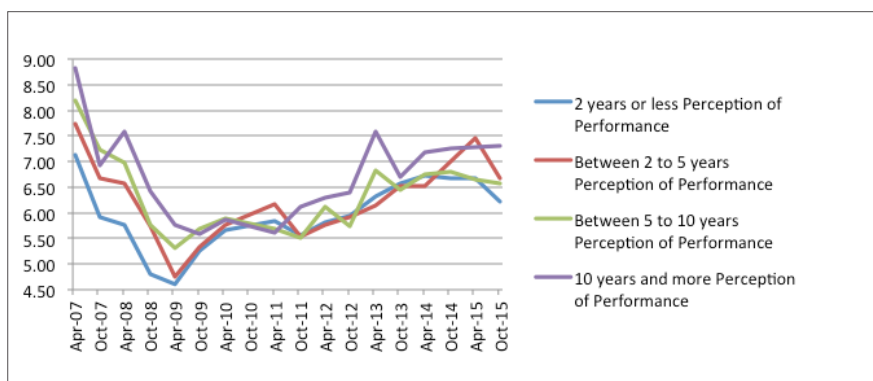
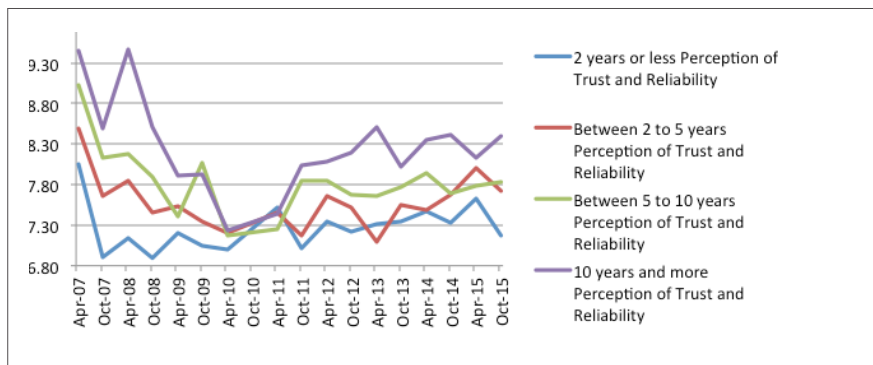


Graphs 1C  
 Relationship between Duration of Advice and Drivers of Advocacy





Graphs 1D  
 Relationship between Duration of Advice with Same Adviser and Drivers of Advocacy



Graphs 1E  
 Relationship between Investment Levels and Drivers of Advocacy

