“In defence of financial planners and financial planning”

Paul Resnik argues that the true test of financial planning success is client and fund retention. Planners do it well… Industry funds don’t.

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As I write this in mid October 2008, Kevin Rudd has been insisting that his primary role is to maintain confidence in the Australian banking system, when only weeks earlier he was giving a robust impersonation of a traditional bank basher. We all know the myriad problems with the banks and what an easy political target they are, but the Prime Minister has read the political and economic winds and wisely decided that this is not the time to diminish confidence in the banking system.

Similarly we know that there are issues in the financial planning space. I have been writing about and offering what I believe are better business practices for more than 25 years. I would be one of the first to argue that there is much improvement possible but now is not the time to be weakening confidence in the benefits of financial planners. The financial world has turned into a dark and unpredictable space where no one knows, at least in the short term, what will happen next. Now more than ever there is a need for every investor to have access to some one knowledgeable and caring to talk with about their financial issues. If there is logic in Prime Minister Rudd supporting the banks there is a similar logic that applies to the support of financial planners. What is unequivocal is that this is definitively not the time to degrade confidence in financial advice. It is the time to promote the benefits of financial planning.

This is clearly not the case. We have seen in the last few weeks the continuance of planner bashing. What started a number of years ago as an Industry fund marketing campaign to differentiate their offering has grown into a dangerous and destructive mind set in many of the media and regulation who should know better.

APRA is one organisation who also seems to have missed the point. In their October press release [APRA releases research on superannuation fund performance No. 08.27] they note that industry funds have higher returns than retail funds and suggest that the reason is the cost of advice, insinuating, though absence of further comment, that there is little or no value in that advice. Perhaps there are one or two other issues that they might explore.

If we must compare performance we need to take into account the risk taken to achieve that performance. It is all too easy not to compare like with like when looking at investment returns. For instance, I understand that many industry funds maintain exposure to unlisted investments. Retail funds on the other hand are generally less likely to hold illiquid assets as they are subject to greater demands for liquidity. As a consequence one of the critical issues for any industry fund that has a high exposure to unlisted assets is that it must be very careful to maintain equity between different generations of investors. If it found itself subject to significant withdrawals at what might prove to be inflated values on those illiquid assets it would need to freeze or otherwise limit those redemptions. Simply put there is a value in liquidity that only those who have been unable to access their investments in time of need understand. There is much to be learned from the aphorism that a simple explanation is more often than not wrong.

The true test of client satisfaction is the growth of your business. Financial planners do not have mandated rights to clients. If you are providing decent and valued service individuals acquire those services, remain with you and recommend you to others. What is the comparable evidence of clients moving out from Industry funds, Retail funds and SMSFs? Every thing I see leads to the conclusion that Industry funds leak like an old fashioned sieve. Many of their older members are all too happy to move out of the caring, low cost environment of mutuality to the more expensive and personalised service offered by planners. On the other hand I can find little evidence that clients of planners are taking their money out of their wrap account or SMSF despite their age and sensitivity to investment volatility.

Cost versus Value

A bus is a wonderful step forward for two villages that are not linked by transport – everyone can pay the same $1 fare to travel from village A to B and back, and everyone gets a view out of the window. What could be better?

Sam reckons his limousine is better, and his customers agree because they are paying $3 for that exact same trip between the two villages. His customers focus on the value of riding in Sam's limo more than the costs. To them it is worth three times the 'cheapest-available' fare for a private, comfortable chair where Sam knows their names, serves them drinks and helps them with their bags at either end.

Financial planners are the Sams in the industry-fund world. They are hunting for people on the Industry fund bus who are carrying suitcases full of benefits and are feeling uncomfortable in their 'cheapest-possible' conveyance. Instead of utilitarian transport planners offer personalised service and tailored investment vehicles in recognition of the person's economic status. More often than not investors are smiling as they pay up to 2-3 times more to have their retirement funds 'personally' managed.

Industry funds are just not good at being 'personal' with their members. Being personal requires funds to offer services that respond to the customer's perceptions of value, rather than focusing solely on the issue of cost. Because when it really matters people understand that 'the best' – be it surgeon, lawyer, steak or car - usually costs more than the 'not-best'. As a consequence financial planners seem to have little problem attracting the high-balance near retirees from industry funds.

Members seeking to manage their finances crave personalised relevant service not just high returns…without it, they walk.

Australia has the world's most competitive retirement savings market. There are three different offers: Industry funds, Retail funds and SMSFs. Industry funds tend to be fund centric and paternalistic, generally focusing heavily on high returns, low costs and mutuality. Important as these attributes are, they are not sufficient in themselves for a critical group of their older members.

Industry funds do not provide a personal and personalised relationship. As fund balances get larger and retirement gets closer many members clearly need a human and third party endorsement of their superannuation, investment and other financial strategies.

The "lifetime of difference" campaign promoted by industry funds delivers a simple and forceful message: all else being equal, if you pay less for something you should receive more of it. However, such simplification leaves many complexities unresolved particularly for women who are more unlikely to be solely focussed on lifetime employment. With so many members unlikely to have a traditional working time frame the whole hypothesis is simply disingenuous. The argument is a simplistic manipulation to frighten members from seeking third party financial advice. The truth is that the vast majority of members will have a significantly improved retirement if they work for a few more years, spend a little less, save a little more, do not act impulsively when confronted by volatility and take out a little more insurance. To make these decisions they may need personal advice. And its advice that the Industry funds usually do not, and generally can not afford to provide. The attack on financial planners, that is the sub-text of the campaign, simply undermines confidence in financial planning. The Industry fund's lifetime of difference argument is really nothing more than a blunt weapon to frighten members away from seeking third party financial advice, just at the time it is so sorely needed.

Clearly, it is now time for the financial planning industry to loudly point out that this naïve and crude emphasis on costs is diminishing many Australian's opportunity to talk meaningfully about their financial concerns with a trained professional adviser.

Industry funds do not personalise services while planners do.

What will cause member 24601 to stay with his industry fund when a financial planner comes knocking? Most of the time – nothing. The financial planner communicates the extra value he offers through greater control and personalised service compared to the cheap Industry fund, while the Industry fund has predominantly argued that it is indeed cheap.

In essence the advice industry goes to some pain to educate its clients. Most clients leave the planning process with some improvement in their financial literacy. The task is much more challenging for a super fund which counts its members in the tens or hundreds of thousands or even millions. For most of the early years of membership interest in financial matters is low.

Industry funds usually meet their members when they are young and entering the workforce, so they do have the opportunity to deliver a lifetime of difference to those members in ways far richer than just lower fees. So while they mostly get their members delivered on a compulsory platter their real problem is that they just haven't worked out how to meaningfully engage those members yet. So while they are waiting for that to happen their preferred defence has been to demean the integrity of financial planners and undermine confidence in the value of financial advice.

The benefits of financial well being are far greater than their costs.

Helping individuals and their families think more clearly and behave more responsibly with their money enhances their ability to define and navigate their life. This is not a stand-alone benefit as there is an accelerating cycle of virtue generated through the improvement of an individual's financial behaviour which includes:

1. The sense of well-being that comes with having the financial part of their lives under control;
2. Better protection from the vagaries of life through savings and appropriate insurances;
3. More financial self-sufficiency, needing lower levels of community support in times of hardship and after retirement;
4. Higher persistency and lower levels of client disquiet results from the better matching of financial products to individual needs; and
5. The need for offshore borrowings and investment is reduced by the growing national savings pool.

The current campaign to undermine financial planners simply diminishes these outcomes.

Financial planners have better client acquisition and retention capabilities than Industry funds.

Many individuals can and would take more responsibility for their financial future but are intimidated by the complexity of the decisions they must make. They often end-up avoiding engagement in their finances, much to their detriment. The important thing is to be able to talk with someone who knows and cares. Most of us understand that we have to save more and we understand something of the consequences of losing more than we can afford. We have a right to quality financial advice unfettered by the misinformation and economic biases of one of the major players, the Industry funds. After all, the evidence tells us that financial planners have better client acquisition and retention capacities than Industry funds, so they must be doing something right.

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