SPECIAL REPORT

2020 Investor Research Canada

INVESTMENTS & WEALTH INSTITUTE®

The Current Crisis, the Impact on Client Loyalty, and the Implications for Your Business

By Julie Littlechild

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2020 Investor Research: The Current Crisis, the Impact on Client Loyalty, and the Implications for Your Business

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It feels, to many, as if we have lived a year in the past two months. It is true for advisors and it is true for their clients, all of whom are navigating significant changes in their lives and businesses on a daily basis. That change leaves us with some questions:

1. What do clients need and how has that changed?
2. Has that change impacted how clients view their advisory relationship?
3. What can advisors do to support clients in a way that reflects what they need right now?

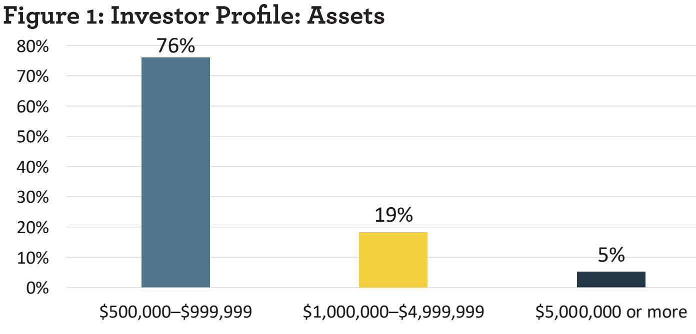
To answer these questions, and more, Investments & Wealth Institute partnered with Absolute Engagement to gather input from more than 1,000 high-net-worth clients. This annual study took on new meaning in the current crisis.

The good news is that clients remain satisfied and the net promoter score has increased. Those high-level metrics, however, mask changes that are occurring. One of the most significant changes is that clients are starting to question the value they receive from their advisors. The study examines how the current crisis is impacting loyalty, what is driving that change, and what advisors can do to provide meaningful support to their clients.

THE RESEARCH

Input was gathered from 1,178 respondents across North America, via an online survey, between March 10 and March 24. All respondents work with a financial advisor, make or contribute to the financial decisions in the household, and meet specific asset criteria (see figure 1). Sixty-four percent of the respondents are based in the United States, with the remainder in Canada; the focus of this report is the 427 respondents from Canada.

Figure 1: Investor Profile: Assets



Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Please tell us which best describes your current total investable assets.

There is good news. Satisfaction remains strong, with 88 percent of clients saying they are very satisfied (52 percent) or somewhat satisfied (36 percent) with their advisor. Net promoter score is also high, increasing from 42 in 2019 to 49.7 in 2020.

Those positive results reflect the extent to which advisors are delivering on the core attributes of the relationship. That is, clients believe that advisors are delivering on the things they rate as most important: trust, accuracy, ethics, and knowledge.

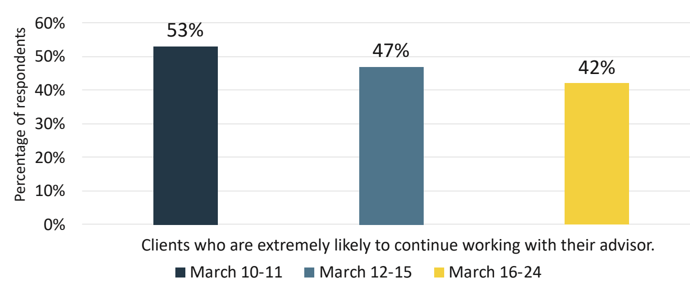
DESPITE THE GOOD NEWS, THERE IS A (POTENTIAL) LOOMING LOYALTY CRISIS

As time goes on, some clients are questioning whether their advisor is providing the advice and guidance they need. In 2019, 53 percent of clients reported that they were 'extremely likely' to continue working with their advisor. In 2020, that number declined to 48 percent.

More telling, however, is the change that took place during the two-week period in which data was gathered. Respondents were put into three categories based on when they responded. Thirty-six percent of respondents participated during March 10–11, 46 percent during March 12–15, and 18 percent during March 16–24. During that short period of time, the percentage of clients who are considering moving increased.

Figure 2 makes it clear that more investors are questioning the relationship they have with their advisors. It would be easy to be defensive at a time when advisors and their teams are working harder than ever. However, it is important to ask why this is happening and what advisors can do to protect their businesses and to help clients feel more confident and secure with the relationship.

Figure 2: Loyalty Is Fluid and Decreasing



Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: How likely are you to continue to use your financial advisor to manage your financial plan or portfolio in the next 12-24 months?

WHERE ARE THE GAPS?

In order to understand what is causing the cracks in client loyalty, we examined the more granular aspects of the advisor-client relationship. In total, we evaluated 75 different aspects of the relationship, providing a comprehensive view of what clients need, want, and expect.

Clear relationship gaps emerge when we examine the difference between the level of importance that clients place on a specific aspect of the relationship against their perception of advisor performance. Gaps emerged in the following six areas:

- I am satisfied with my long-term investment performance/returns
- I am comfortable with the level of risk in my plan/portfolio
- My advisor is trustworthy
- My advisor puts the needs of me and my family first when making recommendations regarding our plan or portfolio
- My account is handled with few errors.
- My advisor provides good value for the fees I pay.

The largest gaps related to investment performance and risk, which is to be expected in a volatile market. However, there were significant gaps on overall trust, as well as trust that the clients' needs were being put first. Although the temptation is to defend the substantial work that advisors are doing to support their clients, it is more important to ask why some clients are feeling this way and what they really need.

Beyond the relationship gaps, there are clear confidence gaps. Four confidence gaps were identified that reflect how clients are feeling, rather than the service their advisor is providing:

- Feeling financially secure
- Feeling in control of reaching my financial goals
- Feeling confident in my ability to reach my financial goals
- Having a clear plan in place to reach my financial goals

These confidence gaps highlight an opportunity for advisors to support clients in a different way. Confidence is not only a reflection of what is happening in the markets and the value of our portfolios. It is about a sense of control, clients' belief in their own abilities, and the clarity of the clients' plan. Rather than looking at "confidence," it may be more important to look at "self-confidence."

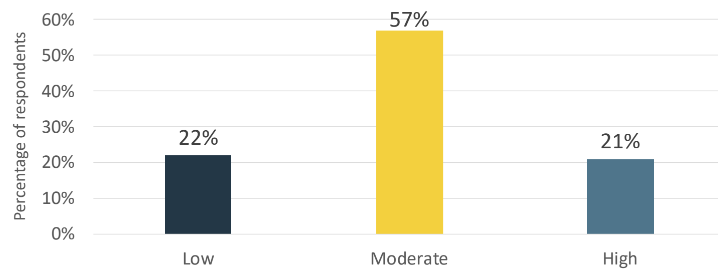
Advisors cannot impact world events or the markets, any more than their clients can. Advisors can, however, help clients to feel more in control and more confident in their own abilities. And they can ensure the plan is both clear and communicated. At a time when things feel out of control, advisors have a unique opportunity to raise the collective level of self-confidence among their clients.

THE IMPACT OF SELF-CONFIDENCE

In order to understand the importance and impact of self-confidence, we created a Client Self-Confidence Index, a composite score (out of 100) that reflects the four components outlined above.

The impact of self-confidence is clear when clients are split into segments that reflect their level of self-confidence. Figure 3 shows the percentage of clients that fall into each of three self-confidence segments, along with the Client Self-Confidence Index score for each segment.

Figure 3: The Self-Confidence Index

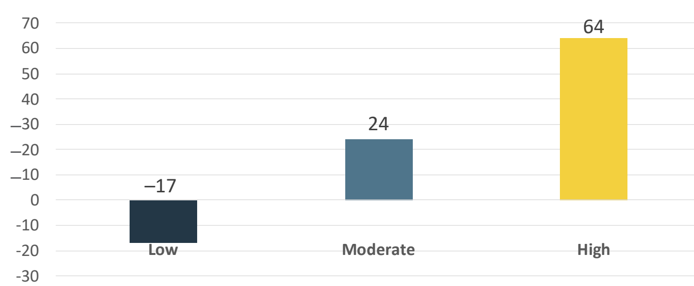


Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Although a natural place to focus attention is the low self-confidence segment, it represents a relatively small number of clients. However, the data highlight the extraordinary impact of supporting clients in making even small improvements in self-confidence. Figure 3 shows that over half of clients (57 percent) fall into the "moderate" self-confidence segment.

Figure 4 highlights the impact of closing the small 12-point gap between those clients and those in the high self-confidence segment. Net promoter score increases by 166 percent, from 24 to 64, as clients move from moderate to high self-confidence. That score goes below zero for those with the least self-confidence.

Figure 4: The Self-Confidence Index: Net Promoter Score

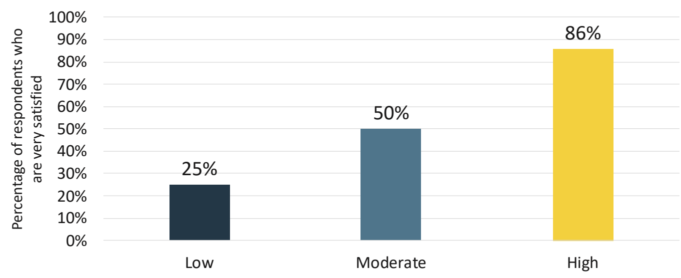


Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: How likely is it that you would recommend your financial advisor to a friend or colleague?

Satisfaction increases substantially with self-confidence (see figure 5). Half of those with moderate self-confidence said they were "very satisfied" with their relationship and that jumped to 86 percent among those who were highly self-confident.

Figure 5: The Self-Confidence Index: Satisfaction

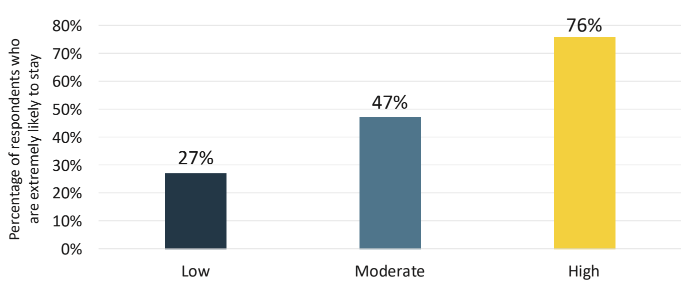


Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Please rate your overall level of satisfaction with your financial advisor.

Loyalty is similarly impacted. Despite the fact that overall loyalty is being tested during the current crisis, 76 percent of clients, who had high self-confidence, are extremely likely to continue working with their advisor, dropping to 47 percent for those with moderate self-confidence and less than 30 percent for those with low self-confidence (see figure 6).

Figure 6: The Self-Confidence Index: Loyalty

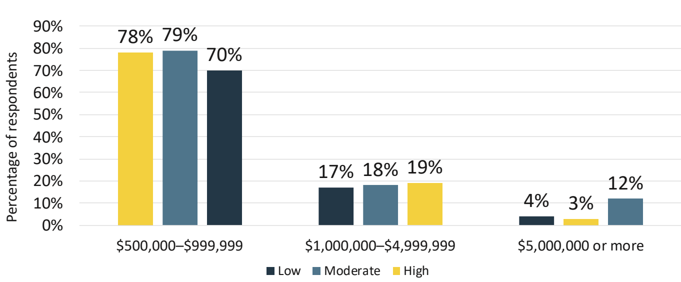


Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: How likely are you to continue to use your financial advisor to manage your financial plan or portfolio in the next 12-24 months?

It is important to note that self-confidence is not tied directly to wealth. The impact of wealth on self-confidence was relatively low, particularly for clients between $500,000 and $1 million in total investable assets (see figure 7).

Figure 7: The Self-Confidence Index: Assets



Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Please tell us which best describes your current total investable assets.

DRIVING CLIENT SELF-CONFIDENCE

The question, of course, is what can advisors do to actively support clients in feeling higher levels of self-confidence now and into the future? To answer that question, we assessed the correlation between 75 different components of the advisor-client relationship and the three self-confidence segments. Below are the 14 statements that were significantly correlated, across six key categories. These are the levers that advisors can pull to increase self-confidence.

- **Goals and Guidance**
  - I am clear about my financial goals.
  - The advice my advisor provides is helping me create a better financial future.
  - My advisor regularly reviews my objectives to understand if my needs have changed.
  - My advisor takes the time to understand my financial needs and concerns.
  - My advisor provides me with meaningful guidance.
- **Core Expectations**
  - I am satisfied with my long-term investment performance/returns.
  - The frequency of review meetings with my advisor meets my expectations.
- **Offer and Value**
  - If asked, I could clearly describe the value my advisor provides.
  - I receive good value for the fees I pay my advisor.
  - My advisor has communicated the level of service that I can expect.
- **Reviews**
  - I get a great deal of value from my review meetings with my advisor.
  - I feel energized and inspired about my future when I meet with my advisor.
- **Beyond Investments**
  - My advisor adds value above and beyond investment performance.

TAKING ACTION

What does this mean for advisors? It means that the current environment is one of the most significant threats to businesses and one of the greatest opportunities to provide clients with meaningful support that goes beyond investments and planning. As such, it is an opportunity to offer support and to differentiate the business.

Let’s look at one example to demonstrate how advisors can intentionally impact self-confidence by structuring a client communications plan that goes beyond investments.

We know that client self-confidence is impacted by access to educational content from advisors. Drawing on the research from U.S. investors, we can see that sixty-five percent of high self-confidence clients said their advisor provides educational opportunities, dropping to 46 percent among low-self-confidence clients. It is interesting to note that a further 30 percent of low-self-confidence clients indicated they would be interested in educational opportunities.
In order to gain a deeper understanding of what kind of

educational content would be of interest, we asked U.S. investors which topics they would be interested in learning more about. Among the most popular were those identified in table 1.

Table 1: Overall: Most Popular Topics

Topic	Percent Responding 'Yes'
Maintaining sufficient assets to meet lifetime income needs	39%
Coping with a significant market downturn	37%
Education on investments or the markets	32%
Dealing with the rising costs of health/long-term care	29%
Ensuring my partner/spouse is taken care of should I pass away first	28%

Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Which topics would you be interested in learning more about from your advisor? Please select all that apply.

An effective communications plan, however, is about delivering communications that may be of general interest to all clients and sharing communications that reflect what is most important to clients right now. When these results are examined, based on the date the U.S. investor participated, it is clear that other topics are gaining in popularity (see table 2).

Table 2: The Impact of Time: Biggest Changes between March 10 and March 24

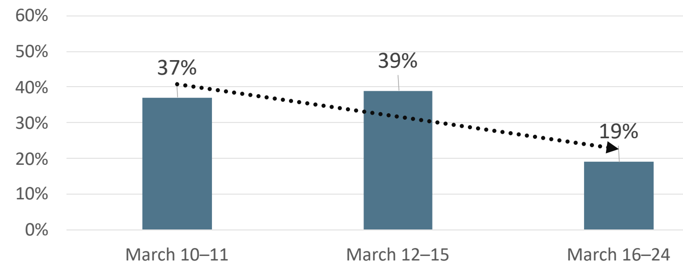
Topic	Percent Interested March 10–11 / Percent Interested March 16–24
Health and wellness	19% / 48%
Thinking about second careers	12% / 23%
Caring for aging parents	12% / 21%
Helping children make better financial decisions	24% / 32%
Education on investments and markets	30% / 38%
Leaving a financial legacy for a charity	20% / 26%
Finding volunteer opportunities	11% / 17%

Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Which topics would you be interested in learning more about from your advisor? Please select all that apply.

Topics such as health and wellness have become increasingly relevant for clients during this crisis and that is where advisors can add significant value. Of interest is that the only topic to show a significant decline was "Coping with a Significant Market Downturn" (see figure 8). The message seems to be that this was an important topic going into the downturn, but it became less important as other non-financial issues began to dominate for clients.

Figure 8: Coping with a Significant Market Downturn



Source: 2020 Investor Research, Investments & Wealth Institute and Absolute Engagement

Question: Which topics would you be interested in learning more about from your advisor? Please select all that apply. (Shows interest in topic: Coping with a significant market downturn.)

In order to take action, advisors will need to gain a deeper understanding of the real challenges their clients are facing right now and respond with content or educational opportunities that reflect those needs. In so doing, advisors can demonstrate leadership and enhance client self-confidence.

SUMMARY

During this crisis, there is much for advisors and their teams to be proud of as they deliver meaningful guidance to clients. Key industry metrics remain strong and that is no easy feat.

The study provides a look at what clients need, want, and expect during an unprecedented time in history and one that is still evolving. This report was designed to highlight the shifts that are occurring so that advisors can tackle them head on. There is no doubt that advisors are working harder than ever before to support their clients; this data should help focus that extraordinary effort.

The best that anyone can do is to focus on those things that can be positively impacted. One of the greatest gifts you can give your clients is a sense of control and confidence at a time when both are in short supply.

Julie Littlechild is the founder and chief executive officer of Absolute Engagement, a firm that conducts on-going industry research and helps advisors design and deliver client communications (and an overall client experience) that reflects what is most important to their clients. Contact her at jlittlechild@absoluteengagement.com.

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