

FINANCIAL TIMES Corporate

Restoring Client Trust: 2014 Report

Rebuilding the relationship between financial advisers,
asset managers and their client.

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Executive Summary

Many financial advisers and asset managers are taking steps to repair the damage caused by the breakdown in trust that took place in the wake of the financial crisis. The rebuilding process is likely to be a slow one, but the good news is that progress is already being made.

Over the long term, financial advisers and asset managers will be able to reconnect with their clients if they are able to prove their integrity and value. Those that fail to do so risk sliding into decline, as clients take their business elsewhere, or simply give up on the wealth management industry altogether.

This report is the result of a research study commissioned by the Financial Times, in conjunction with Meridian West, to explore how the asset management industry can rebuild client trust. The research was carried out by Meridian West and written by Longitude Research.

The report is based on research conducted among three groups: asset managers; financial advisers; and High Net Worth Individuals (HNWIs) from around the world. As such, it presents a rarely seen perspective on how these constituents view each other. It looks at what HNWIs expect from their advisers and asset managers, assesses whether these needs are being met, and explores what the industry is doing to strengthen the relationship with this important client base.

The survey data and in-depth interviews that underpin this report revealed five key building blocks to restoring confidence:

1. **Gaining a truly granular understanding of the client's needs and expectations.** Most good advisers and asset managers take steps to know their clients, but the level of this knowledge is often superficial. To really regain trust, they will need to gain much more granular insight – not just into basic segmentation categories, such as assets under management or stage of life, but into their goals, aspirations and investment behaviour.
2. **Guiding and coaching will be important new skills for many advisers and asset managers to learn.** Advisers and asset managers should seek a more holistic perspective on the investor. In much the same way that a professional services firm seeks to address the full range of issues that a business faces, asset managers should take into consideration the investor's broader life situation, and help them to achieve their goals – whether related to philanthropy, succession planning or education of the next generation about managing their wealth.
3. **Communication is vital but it needs to be tailored and relevant.** Clear communication is a foundation of trust between wealthy individual and adviser. But, for this communication to be effective, it needs to be tailored, relevant and concise. Clients do not want to be bombarded with generic information; they want insight that they feel is relevant to their situation, and that demonstrates to them that their personal needs are being met.

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4. **Technology can play an important role in relationship building.** Not every aspect of a relationship needs to be tailored and personal – indeed, this is likely to make many relationships unprofitable. Firms also need to make use of technology as a tool to build and maintain relationships. It should however, always be used as a complement to the personal touch, not as a replacement.
 5. **Clients want transparency – but the core of this is trust.** One of the key lessons of the financial crisis is that investors expect transparency from their advisers – particularly over fees, governance and investment decision-making. This does not mean, however, that firms must share everything with their clients – too much information will quickly become overwhelming. The key is that they avoid surprises – and choose to disclose the most relevant information.

Overall, the message should be a positive one. In a complex world in which good advice has become more difficult to obtain, the demand for the services of financial advisers and asset managers who prove their honesty and value will only increase. These building blocks enable firms to expand on those foundations.

Contents

• Chapter 1: The challenges: in search of lost trust	05
• Chapter 2: Rebuilding the relationship	08
i. Take “understand your client” to the next level	09
ii. Guide and coach	12
iii. Tailor communication	15
iv. Use technology to make processes efficient and profitable	17
v. Be transparent and honest	19
• Chapter 3: Conclusion	21
• About the research	23
• Acknowledgements	25

Chapter 1

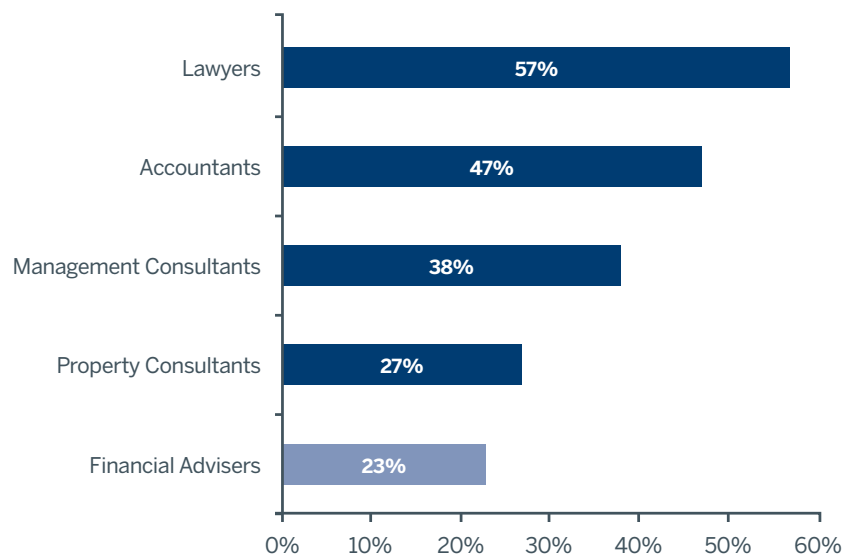
The challenges: in search of lost trust.

Five years after a crisis that brought the world's financial systems close to collapse, the damage caused to the relationship between the financial services industry and its clients has still to be repaired. And, although financial advisers and asset managers played little part in causing that crisis, it is clear that their relationships with customers have not escaped the fall-out.

“Trust was lost in the wealth management industry in 2008 and since then everybody has been trying very hard to get it back.” says Rob Withecombe, a wealth advisory professional.

Our survey bears out his view: two-thirds (66%) of high-net-worth investors (HNWIs) say that financial advisers now need to rebuild clients' trust and confidence.

Chart 1: Percentage that rate advisers' technical competence as “excellent”

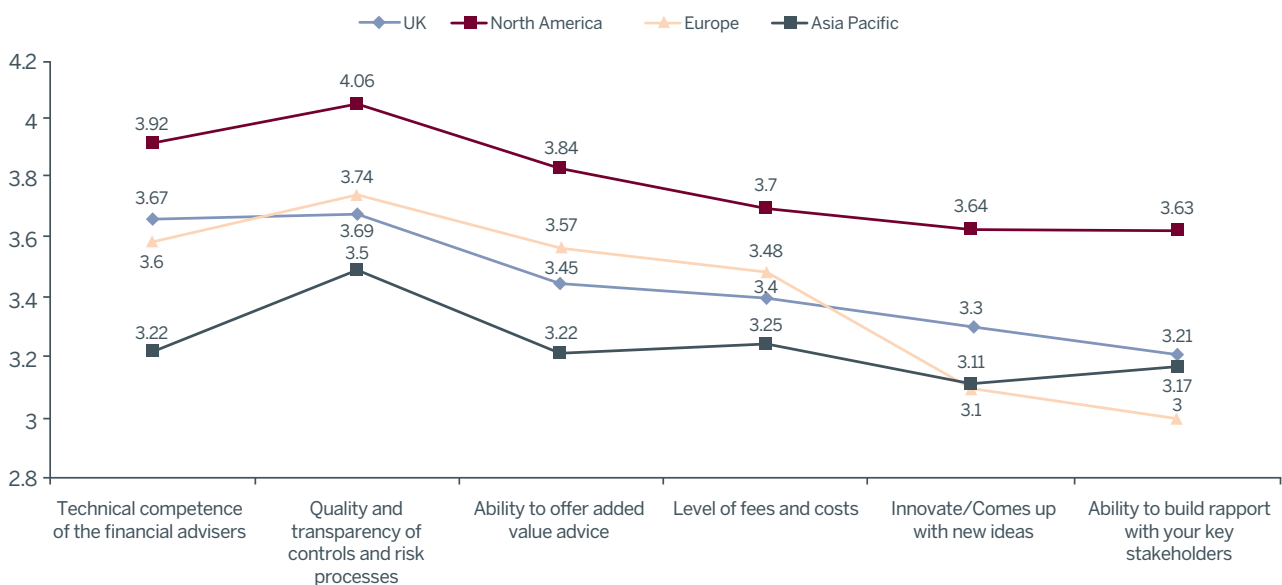


The breakdown of trust in financial advisers is laid bare in Chart 1, which shows how poorly HNWIs now rate the competencies of financial advisers compared with other professions. Many simply no longer trust the industry to do a good job on their behalf.

Nor is there a perception that asset managers and financial advisers are adding any value. “Fund managers on the whole extract wealth, rather than add it,” says Martin White, a British private investor who now manages his own pension pot through a fixed cost self-select stock market SIPP, avoiding all percentage of fund charges, rather than paying professionals to do it for him. Prior to the SIPP, the money was in conventional managed funds in his employer's DC arrangement. “This saves me a large amount each year, he explains. Financial advisers also take a regular cut of your wealth unless you can negotiate a time spent charge for advice, or just avoid them altogether as I do.”

Chart 2: Rating on the service received from fund managers against each of the following attributes

Mean score: 1 = poor, 5 = excellent



Base: High net worth individuals (284)

The picture is not uniform globally. As Chart 2 shows, US fund managers score more highly with HNWI on every aspect of the service they provide. Yet, on many issues – including, crucially, on fees – even their ratings are mediocre. And, in other parts of the world, HNWI are unimpressed across the board with what their fund managers have to offer.

This is beginning to have a material effect, with many investors no longer prepared to pay the higher fees associated with active management. “The passive management and ETF market have got very, very big because an awful lot of active money is charging

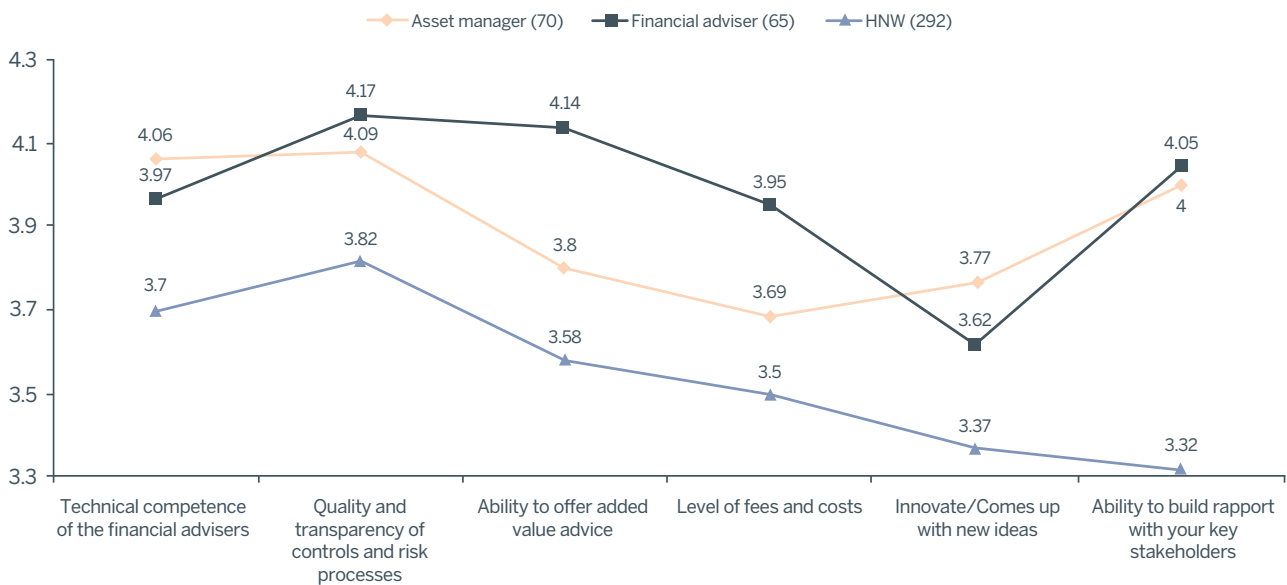
active fees when it doesn’t actually have much active risk in it,” says a partner at an investment firm, who has requested to remain anonymous for this report. “Ultimately you can only justify the active fees if you can deliver outperformance.”

The partner believes the fund management sector is at a crucial crossroads. “If the industry gets it wrong again on the downside, I think a lot of clients will throw in the towel,” he says. “Performance is still such a crucial issue and, however much excellent service you provide, if the numbers don’t work over time you’re in big trouble.”

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Chart 3: Rating on the service received from fund managers against each of these attributes

Mean score: 1 = poor, 5 = excellent



Base: High net worth individuals, asset manager and financial advisers (427)

Do financial advisers and fund managers recognise their predicament? Many of those interviewed for this report clearly do, yet our research suggests a sense of complacency may still prevail. The industry consistently scores itself more highly on what it offers HNWIs than the scores that HNWIs themselves award.

Facing up to this disconnect will have to be a priority as financial services businesses try to rectify their image

problem. Ultimately, only those firms that understand what customers think of them can begin to set about changing that view. "Clients wonder whether the big wealth managers generally act in the best interest of their customers or if in reality, if returns to shareholders are at the front of their minds?" says Mr. Withecombe. For now, our research suggests too many HNWIs for comfort think that shareholders are the priority.

Chapter 2

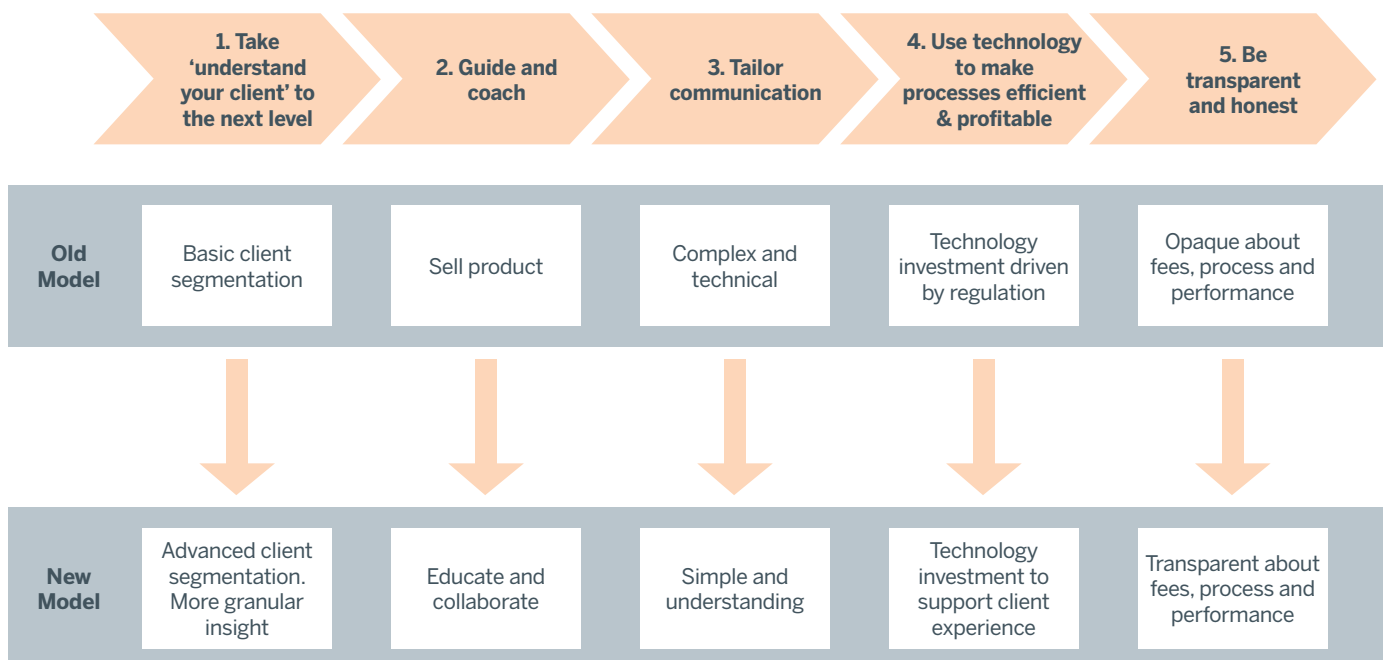
Rebuilding the relationship.

How, then, do financial advisers and asset managers transform their model in order to rebuild trust and the relationship with their clients? Mark House, Executive Director in Operations at Coutts & Co, has this advice: “Private banks are actually not in the business of making money from investments – they are in the business of making clients trust them; they need to invest more in ‘how do I get a client to trust me?’”

Dana M. Locniskar, a private wealth adviser at Merrill Lynch Wealth Management, agrees with this analysis. In his view, the key is to build trust over time. “People want to know they are with a trusted adviser who cares about what happens to them – and you can’t fake this,” he says. “These are long-term relationships and you have history in that relationship so that it can absorb the bumps along the way.”

The question is how to begin building such relationships when trust seems to have broken down so badly. Our research suggests this is a process that can be broken down into five key areas. By focusing on these areas, and by making a series of small, incremental steps, the industry can start to rebuild its relationships and regain the trust of clients.

Chart 4: Rebuilding the relationship “The Little Big Things”



i. Take “understand your client” to the next level

What HNWI's value above all else when selecting professionals, such as fund managers and financial advisers, is their technical competency, closely followed by the quality of their communication (Chart 5). Financial advisers and fund managers, however, do not list either as a top-three priority.

The fact that financial advisers and fund managers do not have a clear understanding of what their potential customers are looking for suggests that they have not taken sufficient time to get to grips with clients' needs. Moreover, there is a risk that this will impinge on their ability to offer the best possible advice.

Chart 5: Rating on the importance of different attributes when selecting a fund manager

Mean score: 1 = not at all important, 5 = very important

Top 3 most important attributes when selecting a fund manager	Asset manager	Financial adviser	HNW
1.	Quality and transparency of controls and risk processes	Quality and transparency of controls and risk processes	Technical competence of the fund managers
2.	Strength of the investment process and philosophy	Investment performance / predictability	Quality of communication
3.	Investment performance / predictability	Strength of the investment process and philosophy	Quality and transparency of controls and risk processes

Emma Hack, a retired financial adviser, suggests that many firms need to get back to basics. “The adviser has to spend time really trying to identify what the client wants to achieve over a given timeframe,” she says. “They might have an amount of money they want to invest but there are all sorts of issues to consider. For what purpose does the client want the money? What sort of access are they going to need? What are their future requirements? That's how you come up with a recommendation that meets those future needs as well as what is needed at the moment. It really is a case of doing the work in the first place to understand the customer.”

In practice, that has a range of implications. Perhaps most importantly, firms need to look beyond the more basic approaches to client segmentation, based on factors such as age, wealth or stage of life. They also need to understand the client's goals, and the approach they are likely to favour in order to reach them.

Getting the right information out of clients is an art as much as it is a science. Traditional fact-finds based on abstract questions about, for example, attitude to risk, will not necessarily get to the root of what clients really need. Consultations based on real-life scenarios – for example, how a client's life might change if they lost 20% of their wealth, say – are likely to be more productive.

86% of HNWIs believe that regular client feedback would improve relationships between customers and advisers.

For many financial firms, the temptation in recent years has been to automate their approach to clients in order to provide a standardised process that is compliant with regulation. But relationships require human interactions, says Neil Chisman, a HNWI from the UK, based on instinctive judgments about people's characteristics.

"I don't think the process of building the relationship can be replaced by a computer programme that will take you through a series of set questions," says Mr. Chisman. "It has to be something along the lines of what sort of person is this? Is it somebody timid who really can't bear the idea of investing in a share? Or is it somebody who doesn't mind a bit of a punt now and then?"

Many HNWIs say that they would welcome this shift of emphasis – 88% believe that individual account planning would be beneficial to them. They also want the opportunity to give their views.

At the heart of the challenge is the need to start a mutually beneficial conversation with customers. "Clients are more sophisticated than people sometimes realise" says Alex Silberwasser, an asset manager with Compass Group. "They are more interested in understanding what value you bring to the table and how you will get better returns than they do by themselves. That has to come from a standard and repeatable process that involves research, decision-making, execution and also risk management. What is your investment advantage?"

Ms Hack suggests that financial advisers may have to accept that their business model needs a shift in emphasis. "Often, the problem is a lack of strength in the model and a failure to understand what is and what isn't profitable work," she argues. "I think a lot of people spend too much time trying to get to new customers rather than looking after the existing clients – and identifying the benefit in maintaining them."

At the same time, firms need to do more to focus their efforts, rather than trying to be all things to all people. Each asset manager or adviser has a particular strength or competitive advantage – and they should make the most of this, rather than trying to spread themselves too thinly. For example, a firm may have excellent customer service, or really robust technology. Making the most of these key sources of competitive advantage – and stripping out what clients do not value makes sense to help a firm stand out from the crowd, even if it means narrowing the potential customer base.

Equally, however, actions speak louder than words and the long-promised offer of more personalised service now needs to be delivered to clients who have become cynical about this type of marketing. "Everyone loves talking about bespoke portfolios but, as an industry, I'm not absolutely certain that we've got that close to it," says an executive from a large asset management firm, who requested to remain anonymous. "Some of this is to make our service a little bit more bespoke and to actually work out what clients want by talking to them."

Similarly, says Sandy Black of asset manager J O Hambro Capital Management, advisers and asset managers should never forget that clients will judge them by their results. "I am not a strong believer in this idea that you can make up for what you lack in performance with great client service," he says. "That only gets you so far. It buys you time. But, if you're not delivering what the client wants, or what they think they want, it's not going to work."

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Case Study: What makes a great financial adviser?

Elaine Reiss, a high-net-worth investor living in New York City, still recalls the young financial adviser who worked with her on financial planning more than 30 years ago, not least because she has never found anyone she regards as better. “He was really pretty terrific and I trusted him,” she says. So much so that, when the adviser was reassigned by his firm to a different part of the country, Reiss ended up moving to a new firm of advisers.

She still has strong views about the qualities that a financial adviser needs. “A great financial adviser has the trust of the client but is also aware of the client’s financial condition and everything that can aid that client financially,” she says. Like many investors, Reiss wants to feel that she can rely on her financial adviser, that she is getting personalised advice relevant to her specific circumstances and that their relationship is two-way.

“He was bright and articulate, he was always there, he returned my calls and he answered my questions whether they made sense or didn’t,” she recalls of her former adviser.

“I could depend on him and trust him. The advice that he would give me was not cookie-cutter and was based on a sound understanding of what my personal needs were then and what they might be in the future. He asked questions so he could better understand and then give counsel later. It was having someone who I felt was a sounding board in making some of the decisions one needs to make.”

Key priorities:

1. Segment the client base:

work on understanding the different needs of different types of customers and go beyond basic demographics to understand real needs and concerns.

2. Seek more client feedback:

consult clients more frequently, both formally, such as through feedback surveys, and informally, through more regular communication.

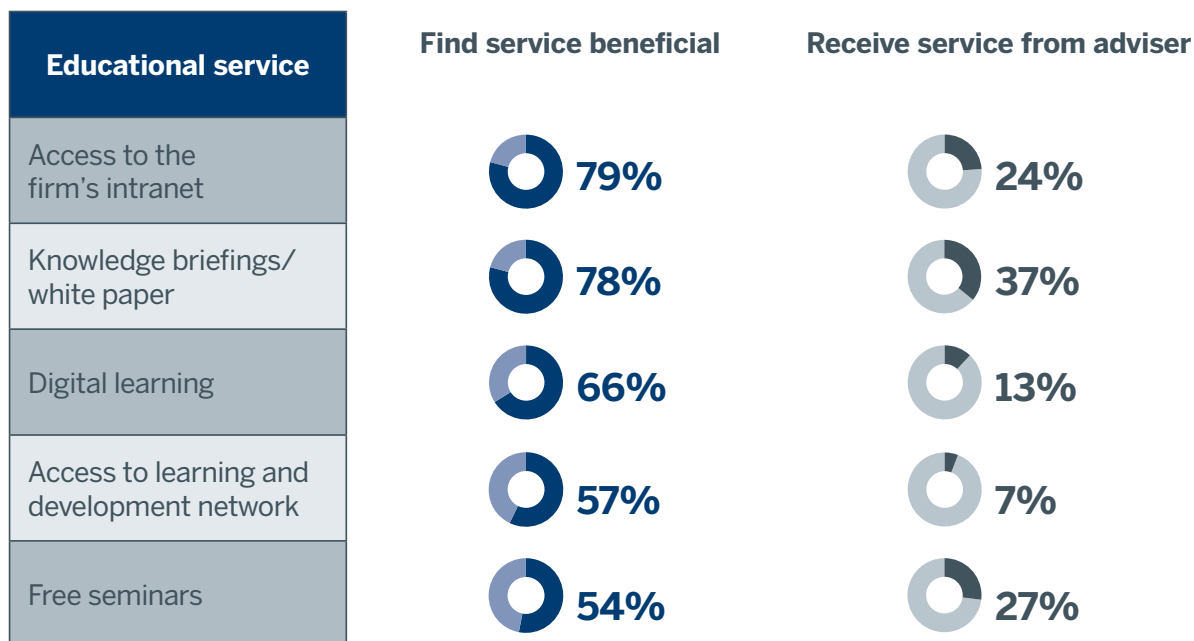
3. Revisit fact-find

methodologies: dump the tick box approach.

ii. Guide and coach

Fewer than half of HNWI currently receive educational content from their fund managers and financial advisers, even though a significant majority would find a range of services valuable. This is problematic for several reasons. Above all, clients are no longer prepared to accept the recommendations of their advisers without question, and need help to understand the issues and processes that led to the advice given. Second, firms that are failing to interact with their customers in this way are missing an opportunity to start the sort of conversations required to rebuild trust. Third, this sort of service is a potential differentiator from the competition. And fourth, if nothing else, it proves that the firm has relevant expertise.

Chart 6: Clients are not receiving the educational services they want



“What people really need is coaching, so they can understand their own situation,” says private investor Martin White. “We need to get back to fundamental education – telling people stuff like you can’t expect the earth, you must not be too greedy or hopeful, you must not waste money on expenses, and you must know the distinction between investing in the short and long term.”

Mark House thinks that this sort of education is sorely needed by many clients and represents a real opportunity for asset managers and advisers to begin winning back trust. “Most people don’t ultimately know what they want,” he says. “They know what they want right now and where they might want to go but they don’t really understand how we engage,” he says. “Wealth managers need to become educators.”

Coaching does not need to be restricted to financial matters. Wealthy individuals will typically share a range of other concerns, such as philanthropy, succession planning, tax and preparing the next generation for wealth. Through their coaching, advisers should make sure that these concerns are being addressed – either through their own firm or through a broader network. Taking a more holistic approach to a client’s well-being helps to demonstrate a deeper understanding of their needs.

There are all sorts of possibilities, particularly in an age when, in many markets, the number of people with no access to financial advice continues to grow.

For example, advisers and asset managers could consider conferences, seminars, evening classes, online materials and digital downloads. Segmentation will be important. Materials and coaching may need to be tailored to the audience – younger versus older investors, say, or entrepreneurs versus the employed – but each new piece of guidance represents a chance to interact with clients and to prove technical competence.

The importance of coaching and guidance also extends to the process of actually giving advice. Rather than handing recommendations down from on high, firms should be helping clients to reach the right outcomes through tools such as decision trees, which are designed to help them think about their own circumstances and objectives, and to draw upon the expertise and knowledge of the adviser.

Part of the challenge is to manage expectations. “Our role is to preserve and grow capital rather than shooting the lights out on returns,” says Merrill Lynch’s Dana M. Locniskar. “If you are really trying to shoot the lights out, you have a high probability of failure.”

Risk is a crucial issue, agrees Ade Roberts, a senior equity analyst at Buy Side Consultancy. “There is a tendency when you are trying to sign someone up to just talk about performance, but we also need to help them understand risk – we have to tailor our advice to the profile and background of the client.”

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Case Study: The Life Planning Tool: The Generic Primary Review

Marc Ruse, a Director and Chartered Financial Planner at Generic Financial Management plc, says that getting to know clients properly requires more than just quantitative fact-checking. “To really understand a client you have to do some deep questioning and get people to think about what they are trying to achieve in their financial life,” he says. “Ask questions to find out what their situation is, what their financial objectives are and what their attitude to risk is.”

Ruse’s approach is to begin with a one-hour meeting with clients, with no obligation to go any further. At this meeting, he asks both quantitative and qualitative questions. Based on the answers, he then sketches out a lifetime cash flow forecast for clients and begins to discuss the level of advice they might need, the added value the firm can provide – and what that advice might cost.

This “Generic Primary Review” might include questions such as “Imagine that you have enough money to take care of your needs now and in the future – how would you live your life and would you change anything?” The idea is to draw out from clients their ambitions and objectives for the future, possibly in greater detail than they had previously considered.

Ruse’s lifetime cash flow forecast maps clients’ income against their expenditure and objectives in order to create a plan for the future. It provides a simple tool for illustrating what changes in income or expenditure might be necessary to achieve the clients’ goals.

“Financial planning is about trying to understand the client’s specific objectives – you set realistic targets and you aim for those targets,” says Ruse. “And the really important thing is then to keep reviewing progress to make sure that you are on target.”

Key priorities:

1. Offer more education:

training ranging from evening classes to podcasts will be valued by existing clients and potential new customers alike.

2. Segment the coaching:

tailor the materials you offer according to the audiences that are being targeted.

3. Be more collaborative:

use tools such as decision trees to work together with the client to make key decisions.

iii. Tailor communication

“The world has changed considerably in the last 10 to 15 years and, consequently, how advisers position themselves and communicate with consumers is so important,” says Nick Harding of Canada Life.

85% of HNWI's say the quality of communication is important when selecting a financial adviser.

So why do so many firms score badly when HNWI's rate them on their communication skills? Less than one-third of clients describe their advisers as outstanding on this competency. It's not rocket science: of those HNWI's who did award their advisers an outstanding rating, 73% said it was simply because they kept in regular contact.

One problem may be that regulatory requirements are getting in the way of clear and concise communications. “The regulators are trying to make investment simpler, but they are so risk averse that they want to wrap the customer up in cotton wool and end up requiring us to give the customer information they don't understand; sometimes it is information overkill,” says financial adviser Ms Hack. “What the customer wants is less general information but more information that is specific to them and their portfolio.” This highlights the importance of being proactive with communication, and ensuring that materials provided are relevant to the investor's needs.

“We need to be tailoring information and making it personal so that, as far as the client is concerned, they're getting a one-to-one service,” says Ade Roberts. “They don't care whether you have 20 or 30 other clients – they care about their relationship with you.”

Mr. Roberts believes that many firms know all too well that the language of finance can be a way to obfuscate. “There is a tendency to talk down to clients and to hide behind technical jargon,” he says. “Clients often don't speak up because they don't want to look less intelligent than the expert, and a lot of advisers like this complexity because it intimidates clients and lets them get away with poor performance.”

The nature of communications material, as well as verbal communication, needs constant monitoring. Firms should be producing reports with their target audiences in mind, providing documentation and other materials in a format that will be useful and easily understood. Testing the format of information before it is published is also important.

The issue is not just one of content, but also one of how and when that message is conveyed. Clearly, firms need to comply with regulatory requirements, but they should also concentrate on simple language and establish how often clients want to hear from them. Some might prefer to be contacted by phone, for example, while others would like a face-to-face meeting. Some may want to be kept up to speed with changing market conditions and how this might affect them, while others may not want this level of detail and prefer less frequent communication.

A more proactive approach to seeking out clients, either on a one-to-one basis or in more collegiate forums, can also be valuable. Mark House says of his time at Coutts: “We introduced expert panels and dinners around the country and insisted that managing partners and client partners got out and met people.”

Neil Chisman, an HNWI from the UK, says that good communications skills are a crucial way for advisers to establish their expertise. “You’ve got to demonstrate that the problems clients are bringing to you are ones that you have handled before and that you know the answers,” he says. “So, you take the time to explain why your advice is appropriate – you might even pepper it with anecdotes about people who’ve got it wrong, or people who’ve got it right.”

Presentational skills are important, says Nick Harding, Propositions and Marketing Director at Canada Life. “Clients want to know what the range of returns might be if they put £50,000 into this and choose these funds, and they want it shown in a nice graphical format.”

Above all, honesty is the best policy. This means that communication must take place when things are going badly – not just when they are going well – and that the risks as well as the benefits are clearly explained. “Too many people hike the potential gains from an investment and play down the losses that might happen,” explains Ade Roberts. “The clients are then surprised when things do blow up because they were never told this could happen.”

Getting communication right will pay dividends. Mark House recalls: “We created a survey so we could understand what types of contact were in place and what a difference higher contact makes. Bankers that made better quality contact were invariably in the upper quartile in terms of profitability of revenue generation.”

Key priorities:

1. Be clear and concise:

look across communications material (including verbal communications) to ensure that it is easily understood and appropriate to the audience – and drop the jargon.

2. Test materials in advance:

seek feedback from focus groups before material is published to a wider audience.

3. Be more visible and be proactive:

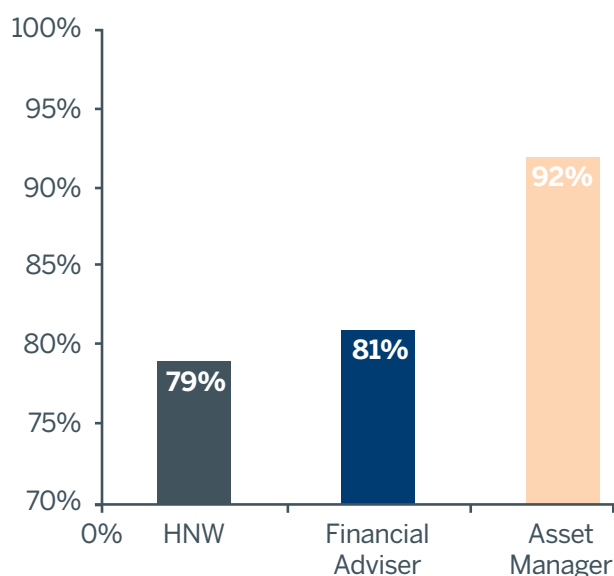
seek out more opportunities to engage and interact with clients in order to start a conversation – and don’t just give them the good news; tell them why things aren’t working if performance is lacking.

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iv. Use technology to make processes efficient and profitable

As displayed in Chart 7, a significant majority of each type of respondent in this survey believes the role of technology is set to increase, although clients are less convinced than their financial advisers and asset managers. The question is what type of technological tools will be most important in helping the industry to rebuild its relationship with clients.

Chart 7: Do you agree that technology will play a greater role in the relationship between advisers and clients?



Base: High net worth individuals, asset managers and financial advisers (427)

First of all, says one asset manager interviewed for this report, systems have to work properly. “Making the administration of the portfolios work is a crucial part of the service,” he says. “For example, if you don’t get the client’s income to them at the end of the quarter, that’s the end of the relationship.” Similarly, firms whose systems don’t meet regulators’ requirements are in deep trouble.

The next priority should be efficiency, suggests Alex Silberwasser of Compass Group. “This is about your ability to be a coherent organisation,” he says. “The structures and systems you use are not the client’s problem. If you’re operating from several different locations or from a single office which has travelling advisers you must still ensure the client gets the service,” he says. “In recent years, setting efficiency targets that are comparable to your competitors regardless of structure has become a very urgent exercise.”

That is not just about the bottom line. The more that advisers can depend on automated processes, the more time they will have to spend with their clients.

These needs are the bare minimum, however. Where technology has more scope to improve the relationship between firms and clients is in the value-adding services it is now possible to provide. For example, technological tools enable clients to monitor their portfolio in real time, execute transactions and plan their future strategies.

Clients want online portals that offer detailed information on their finances, and allow them to take action where necessary. They want tools such as interactive calculators to help them work out what the effects of particular actions might be – what they need to save now to generate a particular retirement income, say. They want digital learning materials to help them improve their skills and knowledge base. And they want to be able to access all of these things using a variety of devices, from desktop PCs to tablets and smart phones.

Tom Kidman, a HNWI from the UK, says that technology needs to help in providing access to a wide range of different investments. “If you go to a financial adviser on the high street, they’ll claim they’re offering choice from the whole of the market because they’re based on a platform that has 2,000 unit trusts available,” he says. “But I want whole of market that includes hedge funds, alternatives, cash type investments, National Savings and so on – I want someone who can see right the way across, and to be sure that they understand asset allocation, as well as individual investments.”

Good technology will also help with the challenge of improving communications, enabling asset managers and advisers to keep in touch with clients via email, text messages or even media such as social networks. And it makes for better conversation. “Technology has made information more accessible,” says Ade Roberts. “That levels the playing field in that the clients are far more informed.”

Key priorities:

1. Make technology part of the value chain: offer clients more digital information about their current finances, as well as tools to help them make decisions for the future.

2. Improve efficiency: invest in technology to improve processes so that advisers and asset managers can spend more time with clients.

3. Use technology to communicate with clients: embrace email, text messages and social media to keep in regular contact.

v. Be transparent and honest

In January 2013, the UK's financial services industry underwent its most radical reform in a generation, with the implementation of the retail distribution review (RDR). One of the most important features of RDR is a ban on independent financial advisers earning sales commissions on products recommended to clients; instead they must charge upfront fees.

It will be some time before it is possible to assess fully the impact of RDR in the UK, but few would disagree with a key aim of the reforms: to provide greater transparency for clients when dealing with financial advisers and fund managers. It is a theme that resonates around the global marketplace. Our survey suggests that transparency is a major area of concern for clients.

82% of HNWIs say that financial advisers need to be more transparent about the investment process, while 78% think that quality and transparency of controls and risk process are important when choosing a financial adviser.

Remuneration is at the centre of this debate. "Clients realise that they have to pay something but they want to make sure they understand exactly where the revenue for the advice is coming from and to make sure you can show there is no conflict," says Alex Silberwasser of Compass Group.

"I'm greatly in favour of having financial advisers paid for what they do, so that the system becomes more transparent and people know what they're getting," says HNWI Neil Chisman. "We need a transparent and free market, so that people can pick the financial advice they want, on the same sort of basis as they'd pick a supermarket – they trust the quality of the food, they like the way it's presented and they understand the pricing."

Asset managers and financial advisers will need to work together, however, to deliver this transparency – not least because their charges are often bundled together in a way that makes it difficult for clients to see what they're paying to whom. "If a fund manager says, for instance, that the charge is 1.5% per annum, the clients know that is not the total picture," says Ade Roberts. "They are keen to understand what other fees there will be, what commissions are going out to brokers and what administrative charges there are to pay but about which they're not currently being told."

Advisers will need to make all of this data available to clients, in a format that is easily communicated. But fees are not the whole picture – the need for transparency applies to descriptions of products too, both how they work and what they may deliver in risk and rewards. That message needs to be delivered appropriately, with illustrations based on potential scenarios – what the value of the initial investment could be in positive and negative circumstances. Thereafter, the data needs to include details of ongoing performance, with meaningful yardsticks and benchmarks also made available.

There is, of course, an issue over the volume of information provided. On one level, a transparent approach could mean constant communication with clients, and giving them huge amounts of detail on products and performance. Realistically, however, clients do not want this level of communication, so the need for transparency needs to be contextualised.

“This goes back to the need to develop a relationship with clients, making sure they trust you, and being fair with them,” adds Roberts. “So you tell them from the beginning: this is what we are going to charge, this is the worst-case scenario in terms of your targets, and this is the impact it is going to have on your portfolio if we don’t hit those targets. You have to tell them so that they go into it with their eyes open.”

In an era of lower investment returns, the scrutiny on fees has inevitably been higher because the relative impact of charges on performance is greater. But, where performance has been poor, advisers and asset managers have a responsibility to say so and to explain how they plan to improve.

This will require a leap of faith, particularly for early adopters of greater transparency who will face a first-mover disadvantage. But, there will also be opportunities – to better illustrate the value of advice, for example, and to establish advice as professional service for which it is worth paying.

In the UK, under RDR, some advisers are already seeing these benefits, says Emma Hack. “Now that clients have to pay fees to get advice, the adviser can spend more time providing a better service and assessing the customer’s situation and their needs,” she argues.

More generally, Rob Withecombe returns to the fundamental need to rebuild trust between asset managers, financial advisers and clients. “If you’re not prepared to charge for something, how much does the client value it?” he asks. “And if the transparency is lacking to such an extent that you make sufficient money elsewhere that enables you to provide some advisory services for free, you’re probably not telling the client the full story.”

Key priorities:

1. Develop systems that allow for more openness: invest in processes that produce the information that clients require.

2. Be honest about charges and performance: customers want to know exactly what they will pay, to whom and for what and, if performance is disappointing, they want to know what you’ll do about it.

3. Get the message across: use scenarios to explain what might happen in the future – in both positive and negative circumstances.

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Chapter 3

Conclusion.

“The number one thing is trust and without that you’ve really got nothing,” warns one asset manager interviewed for this report. In which case, a worrying number of asset managers and financial advisers are currently pretty close to having nothing.

But while our research suggests that the wounds caused by the 2008 financial crisis have yet to heal, there is also reason to be hopeful. It is clear that, by taking a number of small but positive steps, it is still possible for financial services firms to rebuild their relationships with customers and to re-establish trust.

“For as many as 90% of clients, simple, clear, low-cost and transparent is the way forward, which is in essence what most institutions are now working on”, says Rob Withecombe.

As that work progresses, asset managers and advisers should keep four thoughts in mind:

- Focus on the investment advantage: clients know more than advisers give them credit for and want to know what firms can provide that they can’t do for themselves.
- Transparency is crucial: where performance justifies it, clients are prepared to pay – but they want to know what they’re paying, how much, and to whom.
- Communication needs to be frequent, but tailored and relevant to the investor’s needs.
- An efficient business model is half the battle: cost efficiency and the ability to offer a coherent product offering will attract clients.

Above all, says asset manager Luciano Jugdar, this is a people industry. Companies that remember this stand a better chance of reconnecting with their clients. “Good people, performance and technology are important in asset management,” says Jugdar. “The most important thing for asset managers is to have good people. Without good people, you don’t get good results or a good level of service.”



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15 priorities for asset managers and financial advisers.

Take “understand your client” to the next level

1. Segment the client base: work on understanding the different needs of different types of customers and go beyond basic demographics to understand real needs and concerns.
2. Seek more client feedback: consult clients more frequently, both formally, such as through feedback surveys, and informally, through more regular communication.
3. Revisit fact-find methodologies: dump the tick box approach in favour of methods that draw out clients' needs and ambitions.

Guide and coach

4. Offer more education: training ranging from evening classes to podcasts will be valued by existing clients and potential new customers alike.
5. Segment the coaching: tailor the materials you offer according to the audiences that are being targeted.
6. Be more collaborative: use tools such as decision trees to work together with the client to make key decisions.

Tailor communication

7. Be clear and concise: look across communications material (including verbal communications) to ensure that it is easily understood and appropriate to the audience – and drop the jargon.
8. Test materials in advance: seek feedback from focus groups before material is published to a wider audience.
9. Be more visible and be proactive: seek out more opportunities to engage and interact with clients in order to start a conversation – and don't just give them the good news; tell them why things aren't working if performance is lacking.

Use technology to make processes efficient and profitable

10. Make technology part of the value chain: offer clients more digital information about their current finances, as well as tools to help them make decisions for the future.
11. Improve efficiency: invest in technology to improve processes so that advisers and asset managers can spend more time with clients.
12. Use technology to communicate with clients: embrace email, text messages and social media to keep in regular contact.

Be transparent and honest

13. Develop systems that allow for more openness: invest in processes that produce the information that clients require.
14. Be honest about charges and performance: customers want to know exactly what they will pay, to whom and for what and, if performance is disappointing, they want to know what you'll do about it.
15. Get the message across: use scenarios to explain what might happen in the future – in both positive and negative circumstances.



About the research

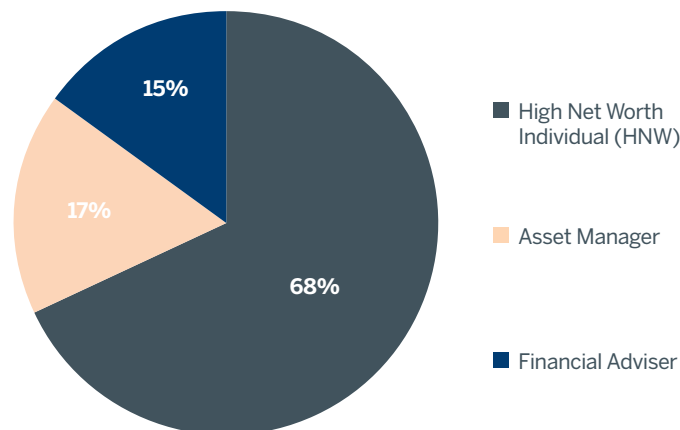
This report is the result of a research study commissioned by the Financial Times, in conjunction with Meridian West, to explore how the asset management industry can rebuild client trust. The research was carried out by Meridian West and written by Longitude Research.

This research contrasts responses from both high-net-worth investors and full-time asset managers and financial advisers. Overall we surveyed 427 people, 68% of whom were high-net-worth investors (£500,000+).

In addition, Meridian West conducted 15 in-depth interviews with HNWIs, asset managers and financial advisers from around the world.

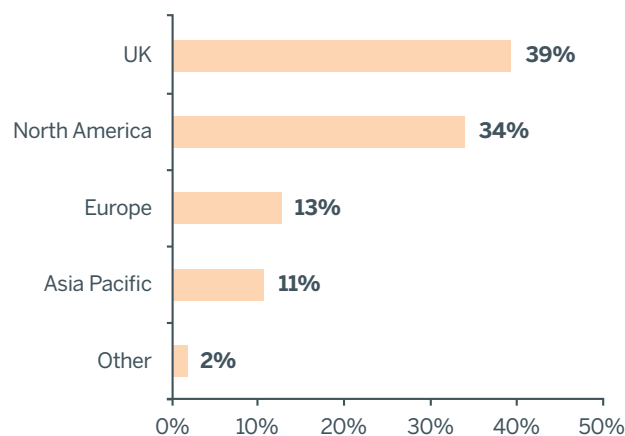
The fieldwork was carried out in Q2 and Q3 2013.

Profile of respondents



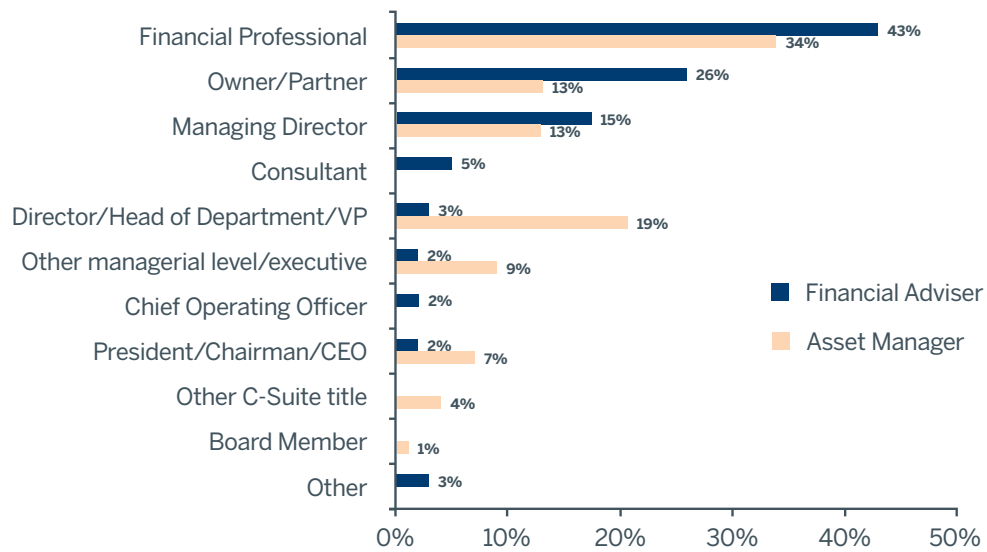
Base: All high net worth individuals, asset managers and financial advisers (427)

Region



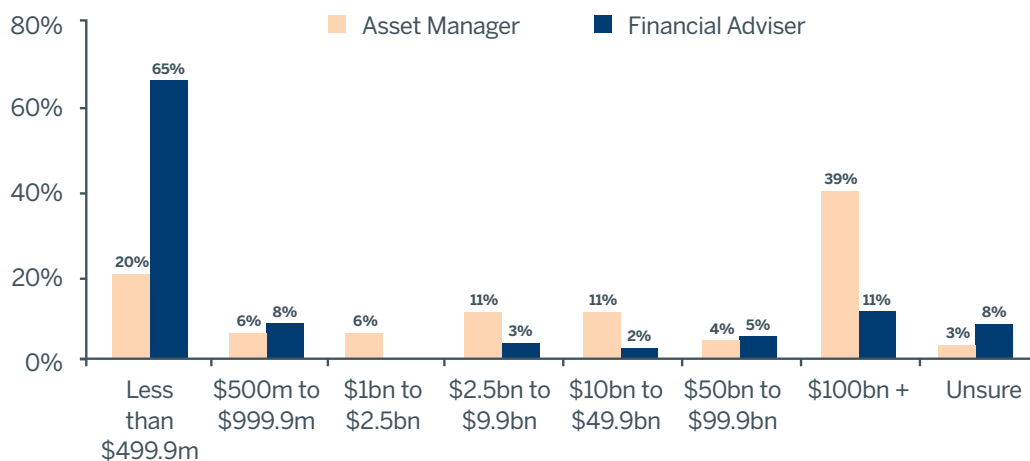
About the research

Position



Base: All asset managers and financial advisers (135)

Assets under management



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- **Elaine Reiss**, High Net Worth Investor
- **Luciano Jugdar**, Partner, Duna Asset
- **Marc Ruse**, Director and Chartered Financial Planner, Generic Financial Management PLC
- **Mark House**, Executive Director in Operations, Coutts & Co
- **Martin White**, Private Investor
- **Neil Chisman**, High Net Worth Investor
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