Exams, elephants and advisor performance:

Dealing with the disconnect between client satisfaction and advisor performance

By David Lo and Annie Catchpole
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When polled to give their wealth manager an exam score, US HNW investors levied a score of 72.7%, which would equate to a C- grade. This score would likely result in dire consequences in most households with children.[i] Yet at the same time, net new money inflows – which averaged USD 1.8 billion (or 1.7% of assets) across the industry in 2013 – seem to affirm the health of global wealth managers.[ii]

The exam scores certainly hint that wealthy US investors are crying out for a deeper relationship with their wealth managers. How then is it possible that financially, many advisors and firms are having record years?

The challenge

The fundamental path to profitability for wealth management firms has always been to gather assets. It is a strategy that has been unchanged for the past century and may remain unchallenged in the next. This ethos, in turn, has been handed down through generations of advisors and relationship managers and has become embedded in many businesses today as a key performance objective.

Its impact has been to drive cultures and behaviors that believe prospecting is the route to improved financial performance.

As with any system of beliefs, it is hard to challenge the dogma. Yet, from a business perspective, this culture has become deeply problematic.

Recruitment drives, for example, become elephant hunts as firms seek to appoint individuals or teams who can bring large books of assets. And while firms have learned to pay for results on this front, elephant hunters don't come cheap. Firms are often saddled with the overhead of costly compensation long after the initial book has been transferred.

These significant overhead costs squeeze further already compressed margins and provide little room to maneuver through the changing cycles of the market.

In fact, elephant hunting has become so popular in recent years that it has left many advisors with a distorted view of their service capabilities. Armed with a handsome signing bonus and with over 70% of their clients coming along for the ride during a move, these advisors justifiably feel that they are doing a great job.

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Yet, rarely are their clients asked for their perspective on the upheaval of moving firms or the generous rewards reaped by their advisor.

As the Chinese proverb states, when elephants move it is the grass that suffers.

Ironically, squeezed margins have only encouraged this trend. Veteran financial advisors, presented with ever-increasing asset and production goals, feel the need to fall back on what made them successful – prospecting and conquering new clients. It is the path of less resistance for those who have established client relationships. After all, they know what their clients like, so it makes little sense to present new product or service capabilities.

Incentive structures in the brokerage world entrench these behaviors further. Brokers get paid on total revenue, so have less to gain from working hard to generate returns from existing clients when they could get a windfall from a new client account.

Meanwhile, from the business perspective, new money secured by advisors is seen as a payback for the investment in recruitment and training, so there is little incentive for change.

Yet, once again, clients are rarely asked for their views on the resulting relegation of their relationship, while their advisor chases the next new romance.

This is not to say that advisors don't take care of their clients. Not at all: client books are built on the loyalty that comes from careful account servicing.

However, there is a world of difference between "servicing" and "service". It is an unfortunate reality that clients who settle for being "serviced" run a severe risk of being taken for granted.

So, is it any wonder then that when asked for their opinion on overall performance, the marks given by so-called loyal clients are nothing short of a rear-end boot.

As the school principal might say; it is time for the industry to think about its behavior.

The opportunity

For those willing to take on the challenge of delivering genuinely on the promise of a long-term relationship the prize is significant.

Clients who report high satisfaction scores with their wealth advisor are significantly more likely to consolidate assets.

In the US, those with low satisfaction scores hold just 32% of their wealth with their money manager, compared to 68% among highly satisfied clients.[iii]

More than that – and surprising as it may sound – most US investors actually **want** to consolidate their wealth. In the US, 54.4% of HNWs are strongly in favor of working with a single wealth management firm, compared to just 10.8% who strongly prefer to work with multiple advisors.

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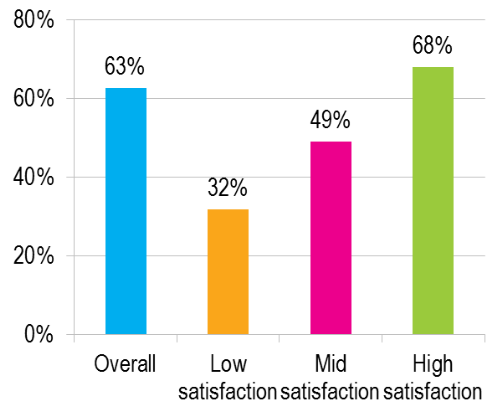
Figure 1: USA HNW share of wallet by satisfaction of client experience



Source: Scorpio Partnership

Figure 2: US HNWI preferred wealth management approach

Source: CapGemini, RBC Wealth Management and Scorpio Partnership Global HNW Insights Survey, 2014, part of the Capgemini, RBC Wealth Management (2014), United States Wealth Report

The solution

So how can US wealth managers turn their middling results into a relationship goldmine?

By putting down the elephant gun.

Firms must invest in understanding the real expectations of their real clients today, instead of paying out big bucks on the promise of winning a new client tomorrow.

They need to find ways to change the mind-set of their organizations, moving from a culture of servicing to a service culture. And they need to measure performance on metrics that make sense in a relationship business.

None of this will be easy. A culture that has been established over generations is hard to unwind and there is hard graft involved in building datasets that correspond to real client need.

Yet, the alternative is unthinkable. If you think a C- is bad, then prepare yourself for worse. Those exam marks are falling.

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Among US investors the drop was 6.4% between 2013 and 2014[iv]. Among the under 40s the picture is even worse, with scores plummeting to just 67%[v]. How long will it be before they find an alternative to this kind of relationship?

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[i] Capgemini, RBC Wealth Management *United States Wealth Report*.
[ii] Scorpio Partnership (2014), *Global Private Banking Benchmark 2014*
[iii] Scorpio Partnership Futurewealth database. Clients were asked how satisfied they were on a scale of 1-7. Respondents who responded 1-2 were deemed to have 'low satisfaction', those who submitted 3-5 were considered to have 'mid satisfaction, while those who gave a score of 6-7 were defined as having 'high satisfaction'.
[iv] Scores from investors below the age of 40 fell 9.7 points to 67%, far below the 79.1% average for over 60's. Capgemini, RBC Wealth Management (2014), *United States Wealth Report* (with data sourced from the Capgemini, RBC Wealth Management, and Scorpio Partnership Global HNW Insights Survey 2014)
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