ANATOMY OF ADVICE

PREPARED FOR:
INVESTMENT FUNDS INSTITUTE OF CANADA

EDWIN L. WEINSTEIN, PHD, C.PSYCH.
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EXECUTIVE SUMMARY

The aim of this study is to develop an understanding of what financial services clients mean by "advice" and how this may differ and evolve under a variety of circumstances. We are not aiming for a legal definition of advice, but rather a consumer-centric definition of advice. The study aims to answer four critical questions.

1. What does advice mean to clients?
2. What kind of help do people get making financial decisions?
3. How does the nature of advice change with product line?
4. What is the impact of age, income, experience and assets?

This study is based on a 12-minute online survey consisting of a "core" and product "modules. Our sample consists of 2,001 Canadians aged 20 or older. The sample for the core is representative of the Canadian population by age and gender within region. We have excluded the bottom 20% of the population based on household income because this group has limited resources for discretionary purchases including financial services.

Overall Conclusion

Advice is a personalized communication between a client and a provider that is built on a few expectations:

- There is a financial transaction between the parties – past, present and/or future.
- The client has an ongoing relationship with the advisor.
- The advisor's communications to the client respond explicitly to the client's concerns and questions.
- There is an underlying sense that the advisor cares about the client's welfare.

- The advisor behaviours that underpin these expectations begin with answering a client's own questions and not by providing the client with generic financial education, legal disclosure or promotional material. The answers must be provided in a form that conveys person-to-person communication, be it a face-to-face meeting, a phone call, or an exchange of e-mail messages. The sense of continuity in the relationship is maintained either by regular contact, or in many cases, by a sense that the advisor will be available when needed.

- The fact that the vast majority of investors in our sample saw themselves as part of an ongoing advisory relationship points to the sense of continuity as an underpinning of trust. The notion of "continuity of care" is further extended by talking to the client about their future through the medium of an account review or financial plan. Past, present and future are built into the relationship or it isn't a true advisory relationship.

- When it comes to defining advice, the importance of personalized communication in a relationship based on trust and continuity of care cuts across all groups and products.

Now, let's turn to some of the detailed findings that led us to this conclusion.

Help Making Financial Decisions

- Most client communications with a company or an advisor aim to accomplish more than one goal. It is unclear whether the client starts with multiple goals or if they are encouraged to expand their communications by an advisor.

- Activities differ in their perceived complexity from simple administrative changes to complex financial plans. The proportion of simple and complex decisions is comparable across product lines. As people get older and learn more about products and investment, they increasingly see the decisions they need to make as simpler. They know more about the products they buy and they have made similar decisions before.

- It is very clear that clients don't see the decision-making complexities that professionals see. As behavioural finance teaches us, people faced with complex decisions find ways to simplify them. As we learned from numerous research projects for the Investor Education Fund[1], "Canadian investors want to know just enough to make a decision they must make due to a life event --- and they want to be comfortable with their choice."

- Consumers' lack of awareness of the complexity of some activities (e.g., financial planning) suggests a real need for advice beyond what people recognize.

- Service delivery includes four criteria that bear on delivery of advice: method of communication; type of contact person; regularity of contact; and history of prior contact.

- Communication method is tied to the activities the person wants to accomplish. Across product lines, in-person is more common for financial planning, account reviews and new product purchases. Phone is more common for seeking information. The younger and more educated favour online contact more than others.

- About 4/10 contacts are viewed as "product specialists" (i.e., actual words were investment advisors, insurance brokers, loan officers, etc.) implying a product focus to their interaction with their clients. Financial planners are the contact in one-third of communications. In-depth discussion and planning beyond the next purchase are the first criterion for the role of a financial planner, while expanding to multiple product lines consolidates the notion.

- Two-thirds of people thought of their service contact as part of an ongoing relationship (78% for investment). More than half of clients had contacted the person they talked to at least once before in the past year, and about one–quarter had quarterly contact. For the remaining third of clients this was a first contact. Regularity of contact implies a relationship. A relationship implies that more personalized service is delivered.

- One of the most important ways that someone can help a client is by answering their questions. Most clients had 3-4 questions they needed answered. The questions were mainly product-focused rather than strategic.

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[1] The Brondesbury Group, "Demand-Based Investor Education: What Investors Want to Know and How They Want to Learn It", Investor Education Fund, November 2010.

- People proved to be the best source for getting answers to questions, even for those who don't have a regular contact at the company. For those with an advisor at the company, online sources were rarely more helpful. For those without an advisor, using independent online sources to get answers was more common, but despite the availability of online information, product specialists were more often viewed as a helpful source.

What Is Advice?

- Advice has a value to the client and the company. When a client perceives their contact as delivering advice, they are twice as likely to increase the amount of business they do with a company. When the contact just delivers information, the company has a higher risk of losing some of the business.

- Some 90% of advice is delivered by contacts that consumers think of as financial planners or product specialists. The remaining 10% of "advice" comes equally from salespeople, office/branch staff and people at an order desk. That this is not fully in accord with regulatory distinctions indicates that consumer perceptions of advice may differ from that of regulators.

- Service delivery is a critical determinant of what constitutes advice. It is an important part of creating an advisory relationship. How people communicate creates the basis for a personal relationship. The "advisory relationship" is strengthened by a sense of continuity of care that develops from regular contact between a client and their advisor.

- Getting good answers to personal questions is a critical part of "getting advice". The perception that this is the heart of advice grows with age. When the answers to personal questions are deemed to be advice, it makes it far more likely that subsequent contact of any type will be judged to be advice.

- As we see it, the personalized nature of communications that define advice poses some challenges for the growth of robo-advisors. Our work would suggest that robo-advisors might be a starting point but that the lack of a personal relationship means the business will not persist. It is likely that most firms offering robo-advice will move to a hybrid approach involving personal contact to build and maintain relationships and perhaps to provide customized answers to investors personal questions.

- We anticipate that there will be a small group of experienced investors who don't feel they need advice, who will use robo-advisors as an alternative or a supplement to a personal financial advisor. We suspect that within this group, robo-advice will cannibalize discount brokerage more than full service brokerage.

Product Lines & Advice

- We expected to see more differentiation of advice across product lines, but that is because we see the complexities of the products and how one needs to think differently about them. It is very clear that clients don't see the complexities that professionals see.

- There is far less differentiation of advice by product line than we anticipated. The common elements of advice across product lines are far more numerous than the differences. The differences in the meaning of advice tend to be minor and not very consequential.

- Having said that, there are some product line differences. Investment clients at all levels of income (above $40k) are more likely to have an account review or get financial planning than clients using other product lines. In part this is a function of what the products themselves demand. Investments require monitoring in a constantly shifting market and monies constantly move into and out of investment accounts.

- Unlike other products, the key concern about an investment is its return rather than its cost. Once bought, investment products themselves demand more regular attention and decision-making than other product lines and we believe this is why investors get more personal attention. The products themselves create the demands.

- People generally judge the complexity of insurance decisions to be greater than either investment or borrowing decisions. Investment and borrowing decisions are viewed as comparable to one another in complexity.

- We looked at the most common questions that people want answered for each product line and there is certainly an economic focus to the top questions. The single most common question for insurance and borrowing is "How much will this cost". For investment, the focus changes to returns with the top question being "How much will I earn on this compared to other investments".

- Most insurance clients buy only the one product line from the company. Age differences in product sequence suggest that insurers have improved their product reach over time, such that the youngest age group (20-34) is the least likely to solely buy insurance from their company.

- Borrowing and investment are unlikely to be the sole product line bought from a company and seldom are they the first purchase. Transaction products (savings/chequing, credit cards) are gateway products for both investment and borrowing.

- One reason an advisor can extend to other product lines is that advice is viewed in much the same way across product lines. Despite differences in products and expectations, the nature of advice is more similar across product lines than different. The client inherently believes that someone who can truly advise them about one product line can advise them about another.

Evolution of Advice

- Decisions about what products to buy are mostly made in the early years of a relationship and persist for decades to follow. But a good relationship provides an avenue for extending into other product lines after an initial relationship is built.

- While we anticipated that the nature of advice would evolve with age, what we found is that age-related differences were far less important than relationship fundamentals like ongoing contact and personalized communications.

- Investment ownership grows steadily with age. Insurance and borrowing peak between age 35-49 and drop substantially among seniors. The biggest uptake of new types of products is between ages 20-34. The types of investment products that people buy remain constant after age 35-40. Household income has a big impact on the amount held in a product line and often the number of products in the line that a household will buy.

- The activities an individual does with their company are not materially related to age or income. Financial planning and account reviews are equally common for investors at all income levels. Those with less than $200k in assets are somewhat less likely to get financial plans, and quite logically, those with less than $50k in assets are less likely to get account reviews.

- Perceived complexity of decisions was not related to income, holdings, or education. Many activities are viewed as simpler with age, but not financial planning or account reviews.

- With the modest exception of younger clients using more online contact, contact method is not related to age, income or holdings. Seniors are likely to have more contact than younger age groups, and correspondingly, those with more assets are likely to have more regular contact.

- Questions about cost and "how things work" decline most with age. Asking, "Do I need to do something different" is most common in the peak ownership years for a product line. Income has relatively little impact on questions. The one question asked more by people with more investable assets is "How can I pay less tax/keep more of my earnings". Despite the few significant differences we find, it is our sense that most of the questions a person asks are quite individual and not a function of their "group" membership.

- Transaction products (e.g., savings/chequing accounts and credit cards) are the gateway for borrowing and investment. Six out of ten investors are people who started with other product lines (typically transaction products) and subsequently bought investments. Some two-thirds of borrowers started with another product line prior to borrowing.

- Insurance products are more often stand-alone product lines, but that is becoming less common in successive age cohorts. The influence of income and holdings across product lines is quite mixed and differences are related to cross-sell between insurance and other product lines.

Conclusions

- When it comes to defining advice, the importance of personalized communication in a relationship based on trust and continuity of care cuts across all demographic groups and products. While there are differences among demographic groups, they are minor and trivial compared to the overwhelming commonalities in what turns communications into advice for most people.

- Early contacts between a client and their financial institution create a sense of what the financial institution and its representative will deliver. If the potential client decides the contact person delivers "advice", then that judgment "frames" subsequent contact as advice and views it in a favourable manner. It increases the likelihood of future business, as well as retention of existing business.

- Unlike other products, investments require monitoring in a constantly shifting market and monies constantly move into and out of investment accounts. Investment products themselves demand more regular attention and decision-making than other product lines and we believe this is why investors get more personal attention.

- Looking to the future, we see two promising areas for research.
    - Tracking the evolution of new relationships within a financial institution for ages 25-39; and
    - Assessing the psychological value of advisory relationships.

1. INTRODUCTION

1.1 Background

Several trends in retail financial markets have put a focus upon advice. Discussions often address the role of advice for the "Modest Investor" with under $100k accumulated, as well as issues like access to advice, automated advice, the economic and psychological value of advice, and more. Underpinning this discussion is a belief that we are all talking about the same thing when we use the word "advice". Yet that is never proven.

Our contention based on past research is that the use of advice begins with simple questions about simple products and grows over time as people know more and their needs become more complex. The meaning of "advice" evolves over time for an individual.

The Financial Conduct Authority in the UK[2] has developed criteria for judging client-supplier communications that suggests there is a continuum of communication ranging from "find information and decide yourself" to "let someone else make the decisions". The UK approach distinguishes information, guidance and personal advice as useful points in the communications spectrum.

Past work for the Investor Education Fund[3] also tells us that there are three fundamental types of advisory needs depending on the "state" of the client. These needs are not mutually exclusive and they are clearly tied to investment, borrowing and insurance. It is both possible and likely that the nature of the client's needs affects their perception of whether they are getting advice.

- Have money: Questions deal with money I have or expect to get;
- Need money: Questions deal with getting money in excess of what is available from savings;
- Protect/Structure money: Questions about protecting and maintaining lifestyle, present & future.

Tying these threads together, the aim of this study is to develop an understanding of what financial services clients mean by "advice" and how this may differ and evolve under a variety of circumstances. We are not aiming for a legal definition of advice, but rather a consumer-centric definition of advice. In the process, the study aims to answer four critical questions.

1. **What kind of help do people get making financial decisions?** This should be inclusive of all methods including people, software, print and more. When it comes to people, we need to include all relevant people.

2. **What does "advice" mean to clients?** What differentiates advice from answering a question or giving information is a question of perception, but important for defining the client's relationship with their financial institution.

3. **How does the nature of advice, both perceived and actual, change by product line?** What can we expect from borrowing products, investment/savings, and protection products?

4. **How does the use of advice evolve with age, experience, income and assets?** We need to understand how the use of advice develops from client experiences.

[2] Financial Conduct Authority, "Retail investment advice: Clarifying the boundaries and exploring the barriers to market development", FG15/1, January 2015.

[3] The Brondesbury Group, "Financial Literacy Report – Summary of Consumer & Advisor Research", Investor Education Fund, February 2003.

This is an enormous range of questions to address in a single study, so we must recognize that some questions will be better answered than others. Given IFIC's mandate, an emphasis is put on investment advice, but it is important to understand how advice evolves and how advice is delivered.

1.2 Method

This study is based on a 12-minute online survey consisting of a "core" and product "modules". The choice of module was based on screening questions. The survey was available in English and French. Interviewing was done in early August 2017.

Our sample consists of 2,001 Canadians aged 20 or older. The sample for the core is representative of the Canadian population by age and gender within region. The sample has some restrictions that ensure richer information about advice and decision-making.

The most important restriction is household income. **We have excluded the bottom 20% of the population based on household income because this group has limited resources for discretionary purchases including financial services.** In practice, this means that lone person households with less than $25k annual income are excluded from the study, as are multi-person households with less than $40k annual income. This excluded 8% of respondents.

Some of the excluded households may include seniors with investment assets but little income. That is unavoidable, but it should be remembered that our focus is advice rather than financial ownership. We believe that we get an adequate representation of advice despite these limitations. In fact, the limitations insure that we get more detailed information at a lower cost than would be possible without this exclusion.

A second exclusion (3%) is that only chief or co-equal financial decision-makers are included. Those not involved in financial decisions are excluded, once again to ensure that we get meaningful data from active participants in financial services.

The final exclusion is that the respondent must own a financial product (5% excluded) and must have had some form of contact with a financial institution over the past year regarding at least one product line (9% excluded).

The cumulative effect of these exclusions is two-fold. First, we have a higher incidence of product ownership then we would see for the general population, so ownership numbers in the study should NOT be viewed as typical for all Canadians. Second, and far less of a concern, is that our sample is more active in contacting financial institutions than the general population.

The trade-off for these limitations is that this sample is better able to analyze contacts and make judgments about whether people get information, guidance or advice. With that as the focus of the study, the reason for these trade-offs should be clear. What we have in our sample is a reasonably representative view of contact between clients and their financial institutions regarding investment, insurance and borrowing.

1.2.1 Survey Questions

Core Questions

All respondents answered the core questions. Most of the questions are demographic: age, gender, region, household income, household size, educational attainment and financial decision-making.

The remaining questions deal with product ownership and company contact. These questions are the basis for assigning a respondent to a module, so it is important to include exact definitions. You should note that the products selected were those most likely to involve advice.

- **Investment products** including GICs, Mutual funds, Seg funds, Stocks, Bonds, ETFs, annuities, RRSP[4], RRIF, TFSA or other investments. This does NOT include employer pensions or retirement savings plans.
- **Insurance products** including life insurance, mortgage/loan insurance, and critical illness insurance. This does **NOT** include employee benefits or auto/home.
- **Borrowing products** including mortgage, loan or personal line of credit. This does **NOT** include credit cards, auto leases or student loans.

Once we established that one or more of these product lines is owned/used, we identified the nature of the contact the person had with a provider during the past year in a prioritized sequence.

- **Communicate** with an advisor or other employee of a financial institution by any method (phone, e-mail, online, in-person, etc.);
- **Buy** (Get insurance, borrow, invest more);
- **Seek information** about any of their products by any means (in-person, phone, online, e-mail, etc.)

The vast majority of the respondents (87%) established their eligibility with the "communicate criteria". Most of the rest (10%) were buyers and just a few qualified by seeking information. Some 9% of those who owned products were disqualified due to lack of contact.

Product Line Modules

Each eligible respondent was assigned to one of the three product line modules based on product ownership and quotas for the modules. The allocation was split such that half of respondents completed the investment module and one-quarter completed each of the other modules. If a respondent qualified for more than one module, they were randomly assigned.

All of the modules had a parallel design that facilitates comparison of answers across product lines. The components of the modules are as follows.

- **Product** establishes the amount of the product line owned (e.g., total investment assets) and specific products owned (e.g., mutual funds, GICs, etc.).
- **Activity** describes the nature of their contact with the financial institution or its representative, including whether the activity required decision-making and how complex their needs were.
- **Service delivery** included methods of contact, the kinds of people they contacted (if any), frequency of contact with the person that helped them, whether they had a financial advisor at the FI, and related issues. They also identified whether they got information, guidance or advice.
- **"Common questions"** identifies the questions they have had, the sources they used to answer the questions, and the helpfulness of the answers and sources. The process and results were identified on the information-to-advice spectrum.
- **Cross-sell** identifies where this product line fits in to their total relationship with the company, both past and future.

[4] We understand that RRSPs, RRIFs and TFSAs are not products from the view of the industry, but consumers view them as products and our approach is consumer-centric.

- **Service Scenarios** build on the UK criteria for differentiating between information, guidance and advice. We present six scenarios (3 personal contact, 3 online) based on a combination of needs, processes and outcomes. The respondent judges the outcomes along the information-to-advice scale, bearing in mind both the need and the process.

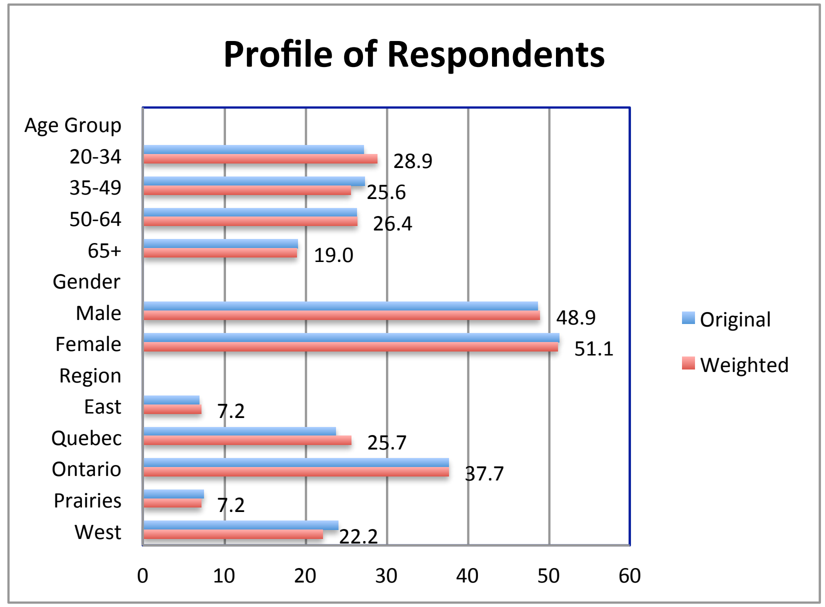
1.2.2 Data Analysis

Survey data were first checked for consistency and weighted to represent adult Canadians by age and gender within region. We looked at the frequencies of the data, as well as cross-tabulations that provide a more complete picture of how variables relate. When reviewing the cross-tabulations, we typically used both chi-square analysis and analysis of chi-square residuals.

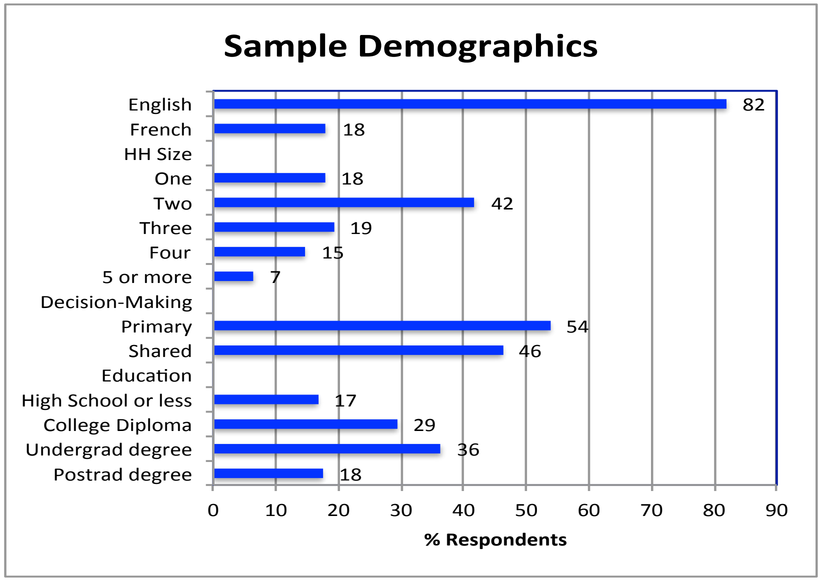
Subsequently, we used a number of multivariate analytical methods to build our depth of understanding. For assessing the characteristics that determine whether an interaction is advice, we relied heavily on linear regression methods. We also used discriminant analysis as an alternative but found the regression was more readily interpretable. On occasion we used factor analysis to help identify underlying patterns.

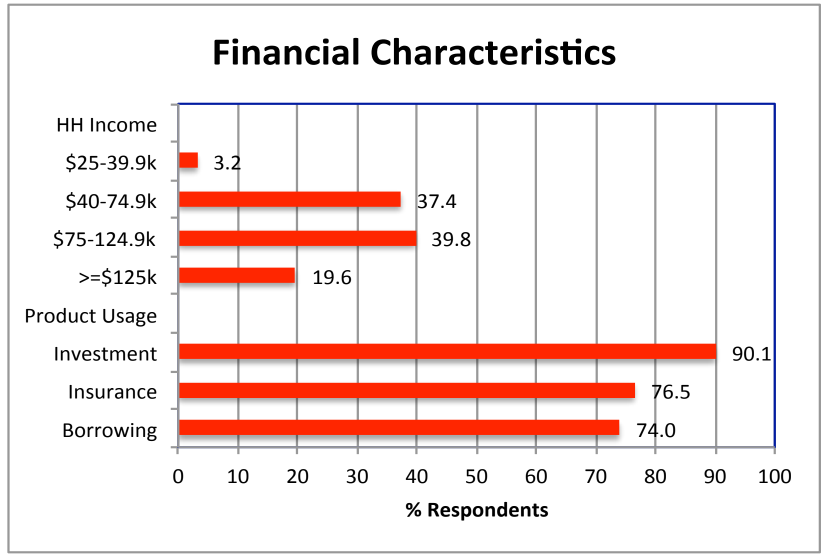
1.3 Who We Interviewed

Before reading about the findings, it is important to understand who responded. The table below provides a profile of the respondents, showing our sample and what it looks like after weighting. The three variables in this chart were the three used to set survey quotas. The very small difference between the original and the weighted sample tells us that the respondents really were a good cross-section of the population. The sample reflects the balance in the Canadian population by age, gender and region.



With very little difference between the original and weighted samples, it is simpler just to present the proportions in the original sample. The next chart gives some insight into additional demographics. Among these demographics, language is the one that proved to have the most influence on defining advice.





And finally, it is important to understand the basic financials of the respondents. Of particular note is the high incidence of product ownership, especially for investment. When looking at this, it is important to review the definition of product lines. For example, ownership of GICs alone is sufficient to qualify for investment.

While not shown here, we note that 37% of those completing the investment module have less than $100k in financial assets and 23% have $500k+. Comparing this to inflation-corrected estimates from the 2012 StatCan Survey of Financial Security, we have twice the incidence of people with over $500k and about half the incidence of those with under $100k compared to the general population. For insurance coverage, the proportions are 32% under $100k and 17% with $500k+ respectively. For both investment and insurance, the median value is just under $200k. Debt is harder to capture, since it is split into mortgage and non-mortgage. Median mortgage debt is just under $200k, while median non-mortgage debt is about $35k.

Half the sample (54%) has all three product lines and one-third have 2 out of 3 product lines. Ownership of a single product line is not too common (14%).

1.4 Organization of the Report

This report consists of an Executive Summary and six chapters. In addition to this Introduction, the five remaining chapters follow our key questions.

- Chapter 2: Help making financial decisions;
- Chapter 3: What is advice;
- Chapter 4: Product lines and advice;
- Chapter 5: Evolution of advice; and
- Chapter 6: Summary and conclusions.

2. HELP MAKING FINANCIAL DECISIONS

Before attempting to define advice, we need to set out the scope of possibilities. This chapter describes client interactions with their providers and the kinds of help that are available to them.

Highlights

- Most client communications with a company or an advisor aim to accomplish more than one goal. It is unclear whether the client starts with multiple goals or if they are encouraged to expand their communications by an advisor.

- Activities differ in their complexity from simple administrative changes to complex financial plans. Perceptions of decision complexity decline with age, and likely product experience. The proportion of simple and complex decisions is comparable across product lines. Consumer perception is a "great leveler". It doesn't see the complexities that professionals see.

- Consumers' lack of awareness of the complexity of some activities tells us that people simplify complex decisions. This tendency to simplify suggests a real need for advice beyond what people recognize.

- Service delivery includes four criteria that bear on delivery of advice: method of communication; type of contact person; regularity of contact; and history of prior contact.

- Communication method is tied to the activities the person wants to accomplish. Across product lines, in-person is more common for financial planning, account reviews and new product purchases. Phone is more common for seeking information. The younger and more educated favour online contact more than others.

- About 4/10 contacts are viewed as "product specialists" *(i.e., investment advisors, insurance brokers, loan officers, etc.)*, implying a product focus to their interaction with their clients. Financial planners are the contact in one-third of communications. In-depth discussion and planning beyond the next purchase are the first criterion for the role of a financial planner, while expanding to multiple product lines consolidates the notion.

- Two-thirds of people thought of their service contact as part of an ongoing relationship (78% for investment). More than half of clients had contacted the person they talked to at least once before in the past year, and about one –quarter had quarterly contact. For the remaining third of clients this was a first contact. Regularity of contact implies a "relationship". A relationship implies that more personalized service is delivered.

- One of the most important ways that someone can help a client is by answering their questions. Most clients had 3-4 questions they needed answered. The questions were mainly product-focused rather than strategic.

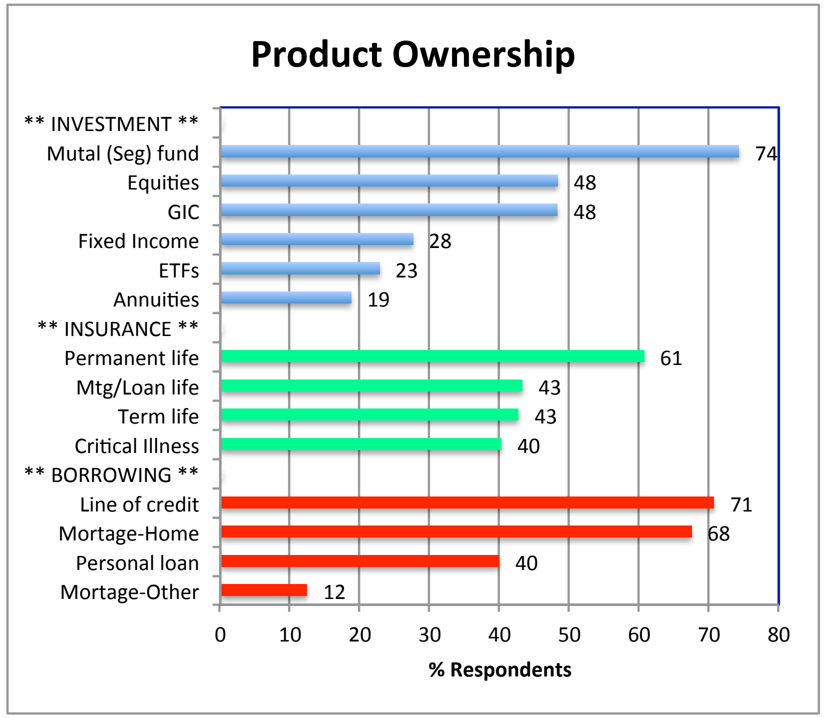
- People proved to be the best source for getting answers to questions, even for those who don't have a regular contact at the company. For those with an advisor at the company, online sources were rarely more helpful. For those without an advisor, using independent online sources to get answers was more common but lagged product specialists as a helpful source of answers.

2.1 Products & Activities

To understand the help that people need and get, it is useful to understand their starting point. Besides the dollar amounts described in the Introduction, it is useful to look at the products that respondents own. The products cited are based on the choices offered to respondents and reflect commonly owned products. For every product line, more than half of respondents own more than one product in that line. This is to say that most are drawing on more than a perfunctory experience of the product line.

When you look at product ownership, it is important to remember that this sample was designed to find respondents that are more active and it excludes the bottom income quintile. Ownership rates here will be far higher than the general population, especially since the rates are quoted only for people who own some product in that line. For example, the 74% owning mutual funds represents 74% of those that own any investment (90% of the sample) rather than 74% of the general population. These numbers should not be used as a benchmark for the general population but they are a reasonable benchmark for active buyers.

As subsequent analysis revealed, **the products a person owns have no significant relationship to the activities they want to accomplish or their perception that communications were advice**. Asset value and amount of debt also have no measurable influence on activity or perceptions of advice.



Activities

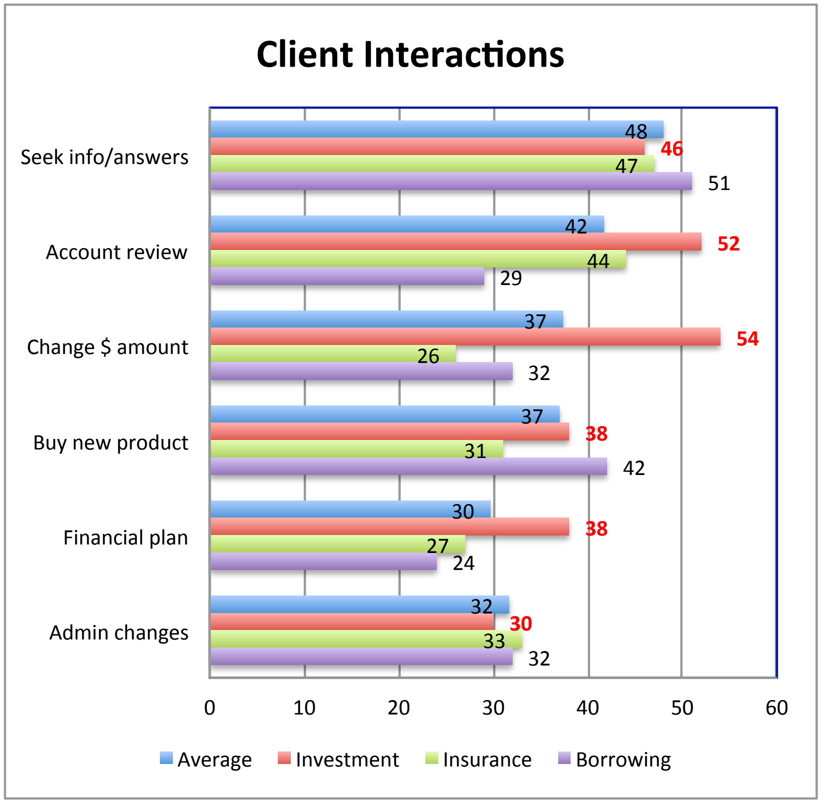
There were six activities that we monitored, representing six of the most common interactions between a company and their clients. The typical activities are shown below for all product lines. **Two-thirds of respondents had more than one of these activities in mind when they made contact with their company.**

Some pairs of activities are more common than others, potentially suggesting that one activity may trigger another. Looking at investment, for example, two-thirds of the people who sought information got account reviews and so did 6 out of 10 people who wanted to change the amount they invested in a product they already owned.

Activities differ somewhat by product lines. Both account reviews and financial plans are more common for investment contacts than for other product lines. Investors are also more likely to change the amounts they had in the product than others.

Across product lines, account reviews were more common for older respondents and the better educated. Financial plans were more common for the better educated as well, but bore no relationship to age. Since education is often an indicator of time horizon, this is not surprising. Education and age are also related to asset accumulation, and as we will see later, those with smaller amounts of assets are less likely to get account reviews (<$50k) or financial plans (<$200k).

Younger respondents are more likely to seek out information about products and services and more likely to need administrative changes (address change, marriage, etc.). As always, people with more income are more likely to buy new products.



Complexity of Decisions

When looking through the list of activities, it is easy to see that some are just functional and require no real decision-making, while experts see other activities as more complex and requiring thoughtful decisions. It is important to capture the distinction because the need for decisions, especially complex decisions, may be an integral aspect of advice.

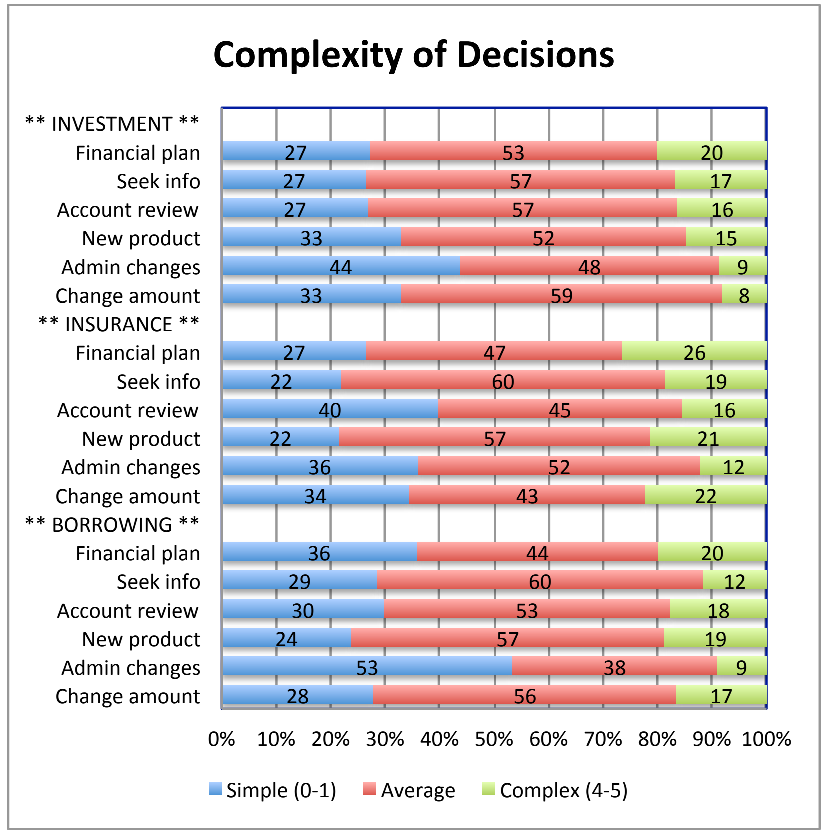
The exhibit makes it clear that **some activities require little or no decision-making** while others are more complex, but more than that, we find that the product line does affects judgments of complexity quite strongly. Bear in mind that these are consumer judgments of complexity, and frankly, we often disagree with their judgments. That is irrelevant because we are trying to capture their perceptions.

A good example is "Changing amount". For investment, putting more/less money in a product a person already owns is only seen as a complex decision by 8%. Borrowing more/paying down a loan is seen as a complex decision by 17%. Maybe more surprising is that 40% of insurance clients see an account review of their insurance coverage as something simple requiring little or no decision-making.

Consumers' lack of awareness of the complexity of some of these activities suggests two things. First, as behavioral finance tells us, people simplify complex decisions. Second, this tendency points to a real need for advice beyond what people recognize.

Perceived complexity varies by age, which we view as a likely proxy for product experience. Across product lines, perceived decision complexity declines significantly with age. Other demographics make little difference (including income and education), hence our view that this likely reflects product experience.

Across product lines, the proportion of simple decisions is quite comparable (30-33%) and the percentage of complex decisions doesn't vary by much more (14-19%). Consumer perception is a "great leveler". It doesn't see complexities that professionals see.



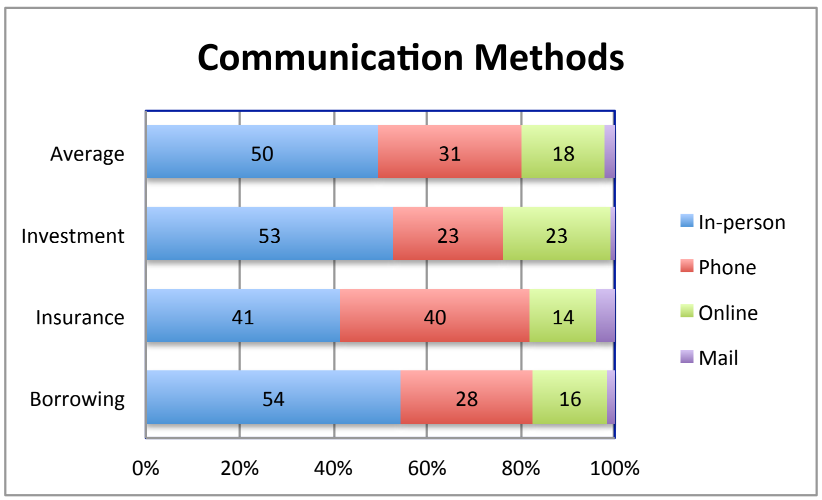
2.2 Service Delivery

As analysis in later chapters will show, service delivery includes several criteria that bear on whether a client thinks the company has delivered advice. There are four aspects to service delivery that we consider:

- Method of communication;
- Type of contact person;
- Regularity of contact; and
- History of prior contact.

2.2.1 Communication Methods

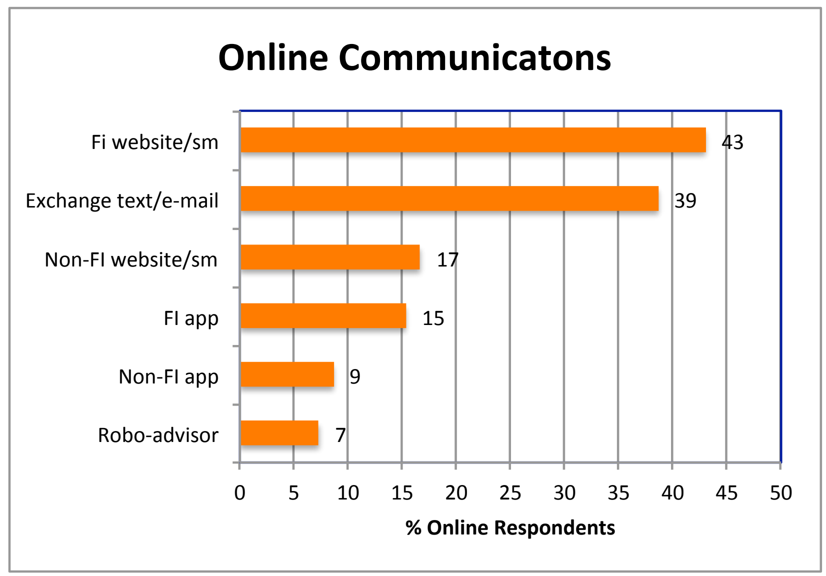
This exhibit shows the recent communication methods by product line and overall. Overall, half of communications are in-person and 3/10 are by phone with 2/10 online. Online is more common for investment and phone for insurance.



Communication method is tied to the activities the person wants to accomplish. Across product lines, in-person is more common for financial planning, account reviews and new product purchases. Phone is more common for seeking information, and generally for less educated clients. By contrast, online is used more heavily by the younger and more educated overall. Online is used more heavily for changing the amount of an existing product.

Phone communication is more personal than one might surmise. Almost none of it is purely automated (1-3%), so most people do talk to a person.

While we only had 334 respondents that made online contact, this is an anticipated area of growth. With that in mind we thought it would be useful to profile usage, bearing in mind that some people use more than one online method.



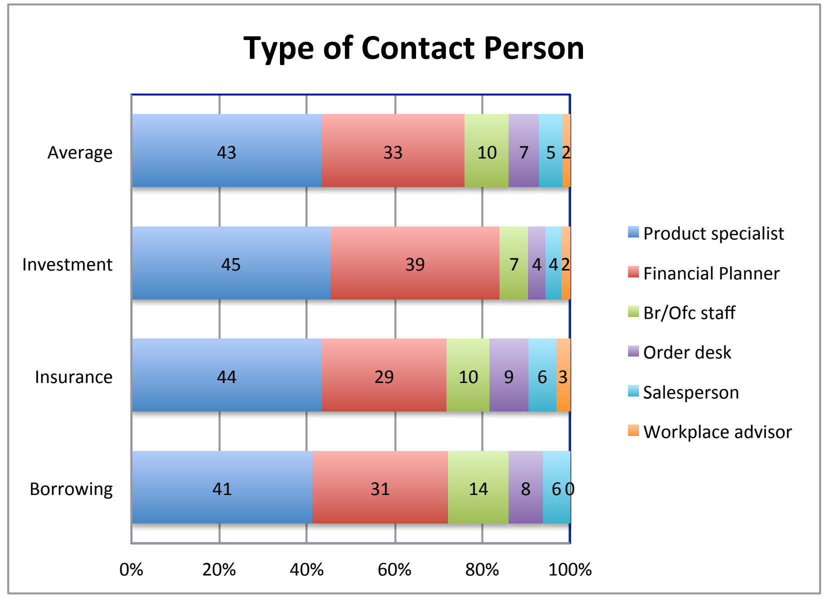
Online communications differ in their level of personal involvement. In particular, we suggest that exchanges of text or e-mail (39%) as a communication method is just as personal as any other contact method. For insurance and borrowing, this is the most common form of online contact. For investment, it lags website access considerably (33% versus 53%), probably reflecting the ease of online trading via websites.

2.2.2 Type of Contact Person

Generally speaking, there is a relationship between the choice of communication method and having an advisor at the company. Two-thirds of in-person contacts are at a company where a person has a financial advisor and most are with that advisor. For phone, a bit more than 4 in 10 have an FA in the company. This drops to 3 in 10 for online users. It is unclear whether the nature of the desired contact dictates the method or the communication method affects the type of contact that is possible.

There are many designations and titles across financial services, and for the most part, clients don't know them. Nonetheless, some unpublished research suggested that how a person thinks of their contact person shapes their expectation of what the person will deliver. We asked respondents "Whether you know the person's title or not in your best judgment, what type of person did you speak to". There were typically an half dozen "labels" they could choose from to identify their contact. The labels are abbreviated or made generic in the graphic.

About 4/10 contacts were deemed to be product specialists (e.g., investment advisor, insurance advisor/broker, loans/mortgage officer), clearly implying a product focus to their interaction with their clients. Financial planners were deemed the contact in one-third of communications. Only 5% identified their contact as a "salesperson".



An analysis of type of contact person and activities identifies what one would expect, namely that when a contact does financial planning that includes more than a single product line they are much more likely to be identified as a "financial planner". Having said that, even doing an account review that focuses on just one product line raises the likelihood of being deemed a financial planner too, albeit to a lesser extent. **In-depth discussion and planning beyond the next purchase are the first criterion for the role of a financial planner, while expanding to multiple product lines helps consolidate the notion.**

In a related notion, 84% identified their financial planner as their "financial advisor". Fewer than half (49%) identified a product specialist as their "financial advisor". There was a big difference by product line on this, but solely in judging the role of a product specialist. For investors, an investment advisor was deemed their financial advisor 72% of the time. For other product lines, a product specialist (i.e., loans officer or insurance broker) was deemed a financial advisor only one-quarter of the time.

2.2.3 Regularity of Contact

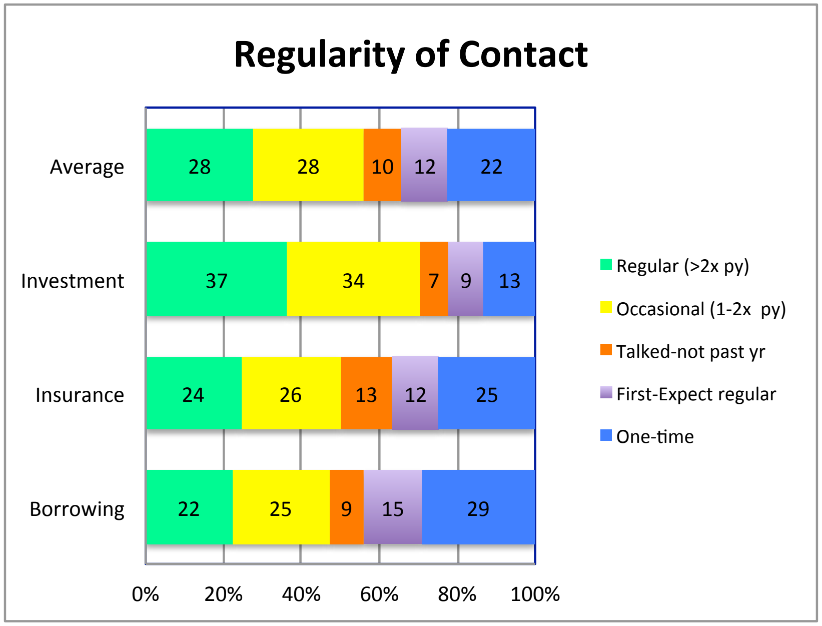
Regularity of contact with a key person at the company is an important indicator of relationship strength, and as we will see later, it is an important part of a client feeling that they get advice.

When we asked about contact, we recognized that some contacts would be ongoing and some first time. For ongoing contacts, frequency of contact is an indicator of relationship strength. For the first time contact, the expectation of future contact (or not) colours the interaction.

Overall, **((of people thought of their contact as part of an ongoing relationship**. For investment, this rises to 78%. More than half of clients had contacted the person they talked to at least once before in the past year, and about one –quarter had quarterly contact. For the remaining third of clients (34%), this was a first contact but some (12%) anticipated that contact with this person would become regular.

Not surprisingly, regular contact was more common for investments, since investments are bought and sold more regularly than other products. One-time contacts with no expectation of further contact were especially prevalent for borrowing, but surprisingly, they were also quite substantial for insurance.

Of course, there is some relationship between the activities that a contact might provide and regularity of contact. Account review, financial planning, and changes in already owned products are likely services primarily for those with contact during the past year. Most notably, two-thirds of clients with regular contact (3+ times per year) have had an account review. That is not so surprising as the finding that more than 4/10 having a first time contact that they hope to continue also have an account review.



In short, **regularity of contact implies a "relationship". A relationship implies that more personalized service is delivered.**

2.2.4 History of Prior Contact

One of the most important ways that someone can help a client is by answering their questions. To get at this aspect of contact, we asked people to look at a list of 8-9 common questions that people commonly want answered before they make a financial decision. We then asked them which of the questions they had over the past two years.

The questions we presented came from prior research done for the Investor Education Fund, and where we thought the questions might be out of date; we sought advice from knowledgeable people in the industry. With modest differences in wording, some questions are common to all product lines:

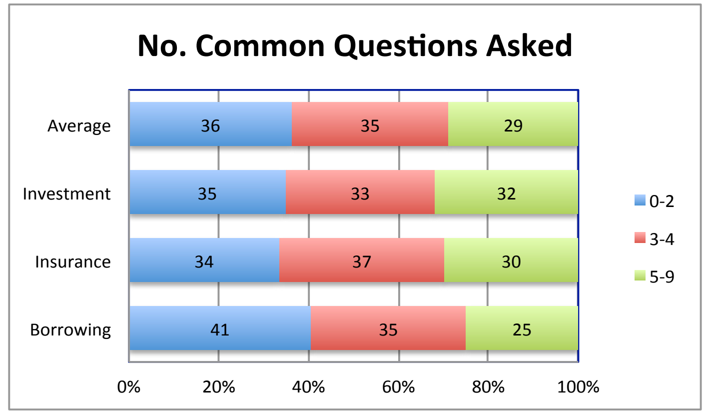
- What do I need to do to prepare for the future;
- Do I need something different than I have now;
- How does this product work;
- What type(s) of product should I get; and
- How much will this cost.

Other questions are unique to a product line, for example:

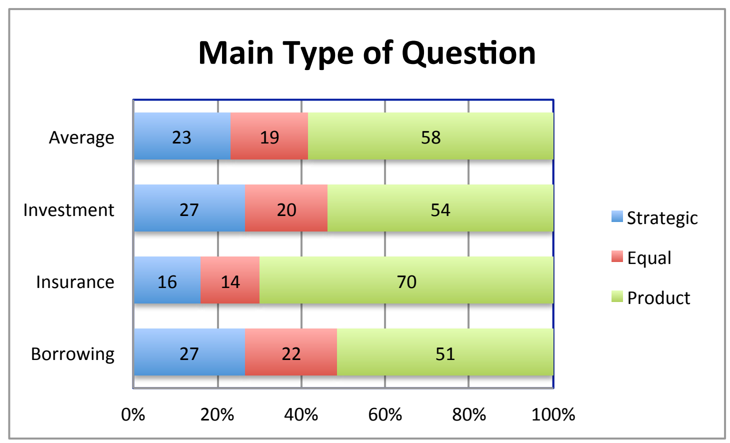
- How can I pay less tax on what I earn;
- Can I qualify for insurance despite medical problems; or
- How can I pay off this loan faster.

And as you can see, some questions are strategic like preparing for the future and some are more narrowly product-focused. This is a judgment call on our part, but we thought that the nature of questions might make a difference. We will look at the questions in detail in Chapter 5.

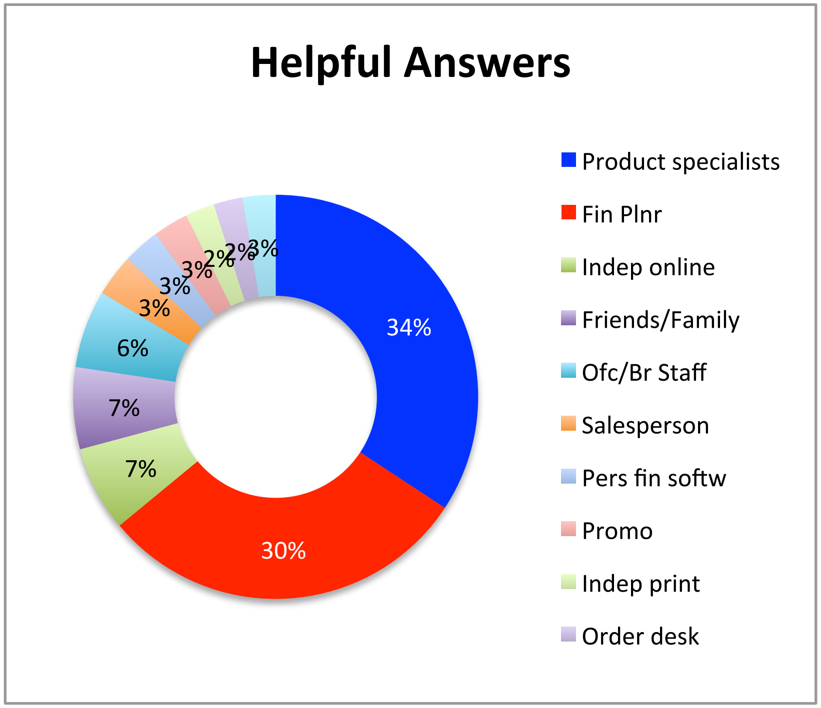
For now, it is clear that **companies and their personnel help their clients by answering questions and most had 3-4 questions they needed answered**. The amount of questioning was comparable for insurance and investment, but borrowers asked less. Younger clients asked the most questions and seniors the fewest. Surprisingly, other demographics were not predictive at all including gender, income and education.



In terms of the nature of questions, it is not surprising that **most people ask predominantly product-focused questions.** Strategic questions are necessarily more occasional. Demographics have no impact on strategic emphasis.



People proved to be the best source for getting answers to questions, even for those who don't have a regular contact at the company. For those with an advisor at the company, online sources were seldom more helpful (2%). For those without an advisor, using independent online sources to get answers was more common (13%) but it lagged product specialists (e.g., loan officers, insurance brokers, etc.) as a source of helpful answers.



3. WHAT IS ADVICE?

This chapter aims to understand how consumers view advice. What differentiates advice from answering a question, providing guidance or just giving information is a matter of perception, but what shapes this perception is critical.

In the survey, we asked people about their product ownership, their company interactions, the complexity of their decisions, service delivery and even cross-sell. After describing their recent contact, they identified it as information, guidance, or advice. We asked them to make the same judgments for some standardized scenarios based on UK criteria for defining "investment advice". Using linear regression analysis, we build a picture of the influences that lead people to identify their interactions as advice and create a definition of advice that builds on regulatory and consumer considerations.

Highlights

- Advice has a value to the client and the company. When a client perceives their contact as delivering advice, they are twice as likely to increase the amount of business they do with a company. When the contact just delivers information, the company has a higher risk of losing some of the business.

- Some 90% of advice is delivered by contacts that consumers think of as financial planners or "product specialists" *(e.g., investment advisors, insurance brokers/advisors, mortgage/loan officers)*. The remaining 10% of advice is seen as coming equally from salespeople, office/branch staff and people at an order desk. That this is not fully in accord with regulatory distinctions indicates that consumer perceptions of advice may differ from that of regulators.

- Service delivery is a critical determinant of what constitutes advice. It is an important part of creating an advisory relationship. How people communicate creates the basis for a personal relationship. The "advisory relationship" is strengthened by a sense of continuity of care that develops from regular contact between a client and their advisor.

- Getting good answers to personal questions is a critical part of advice. The perception that this is the heart of advice grows with age**.** When the answers to personal questions are deemed to be advice, it makes it far more likely that subsequent contact of any type will be judged to be advice.

- Our sample scenarios, based on UK criteria for defining investment advice, looked at how contact method, need, process and outcome affect judgments of advice. Our analysis of the scenarios indicates that what matters are the questions the client and advisor discuss and the kind of outcome the client gets. The client's sense of their initial need doesn't matter.

- None of the findings for the sample scenarios contradict what we see when we evaluate real-world experience, but they are different in scope. Virtually everything we find in the hypothetical scenarios is found in real world judgments including the nature of the demographic differences.

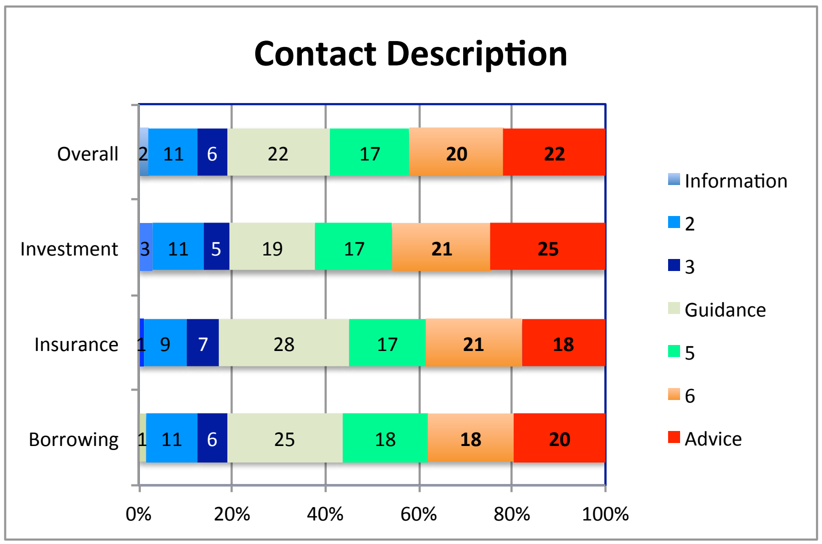
- In accord with the UK definitions, advice is based on an implicit assumption of a financial transaction that includes a recommendation to an individual in their capacity as a current or potential client. There is a response to the individual's own questions rather than a "broadcast" of generic information. But in addition to the transactional variables identified by the UK regulator, we find there is also an assumption of an ongoing relationship that provides continuity of care.

3.1 An Overview of Advice

In the survey, we asked people about their product ownership, the activities they contacted a firm about, the complexity of their decisions, service delivery and even cross-sell. Prior to this, we gathered demographic information.

After these responses, we asked them "how would you characterize what you got from the company in your most recent contact. Judgments were indicated by using a "slider" that moved along a bar. The bar didn't have numbers, but a 7-point scale was built into it running from "Information" (1) to "General Guidance" (4) to "Personalized advice"(7). Ratings of 1-3 were subsequently grouped as "Information", 4-5 as "Guidance" and 6-7 as "Advice".

Some 2 out of 10 contacts were described as information (blue), 4 out of 10 as guidance (green), and 4 out of 10 as personalized advice (red). Advice was more common for investment.

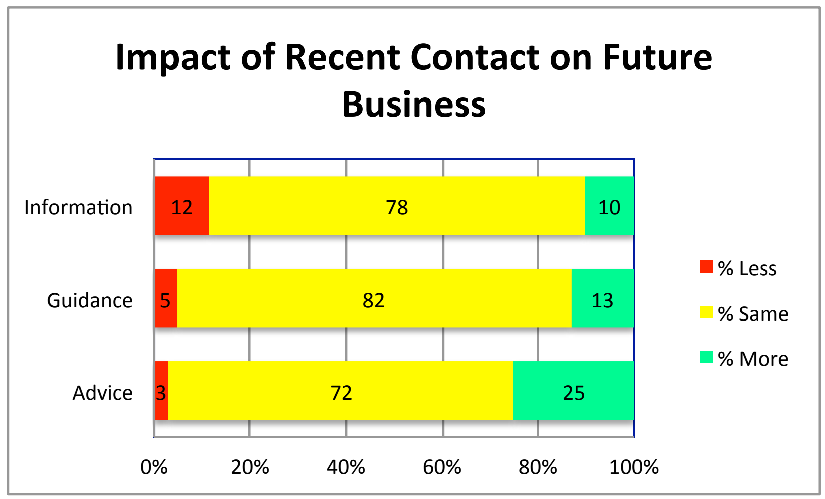


Based on these contact ratings, we used linear regression analysis, to build a picture of the influences that lead people to identify their contacts as advice. Within this chapter, the information we use comes from all product lines. In chapter 4, we look at the product lines individually, but most messages will be the same.

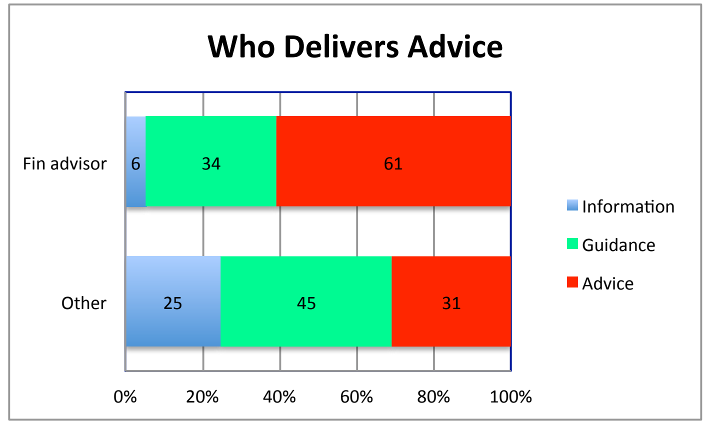
Regressions were done using the 7-point contact rating, the three grouped ratings, and a simple advice (yes/no) variable. All yielded the same conclusions, so how we grouped the ratings is more a matter of displaying findings than one of creating an arbitrary definition.

Why Should You Care If It Is Advice?

Leaving aside the need for regulators to define advice, it helps to understand that advice matters to clients. Before we asked people to characterize their contact, we asked them how their recent contact would affect the amount of business they did with the company in the future. We linked this to their contact ratings.



Advice has a value to the client. When a client perceives their contact as delivering advice, they are twice as likely to increase the amount of business they do with a company. In fact, when a contact is viewed as just delivering information, the likelihood of losing some of their business is four times as high as when advice is delivered. Looking at the information from an angle not shown in the graphic, we note that when a client says they are likely to do more business with the company, 60% of the time they got advice. Advice also has a value to the company in the form of more business.



Who Delivers Advice

Some 90% of advice is delivered by contacts that consumers think of as financial planners or "product specialists" (e.g., investment advisors, insurance brokers/advisors, mortgage/loan officers). The remaining 10% advice is seen as coming equally from salespeople, office/branch staff and people at an order desk. That this allocation is not fully in accord with regulatory distinctions indicates that consumer perceptions of advice may often differ from that of regulators in terms of activities and the nature of their advisor.

In fact, clients perceive most contacts with people they view as financial advisors as contacts where they got advice. Financial planners are almost always viewed as advisors (84%). Product specialists are not seen as favourably with only half (49%) being viewed as the client's financial advisor. Other office or branch staff are viewed as advisors about one-quarter of the time.

3.2 What Influences Advice?

In this section we systematically examine variables that influence a client's judgment about whether a contact with a company gave them advice. By looking at these influences, we gain a better understanding of the aspects of communication that turn it into advice, and in turn we better understand what advice means to clients.

Throughout this section, we are using the 7-point contact rating in our regression analyses. We will not show the regression analyses here, but we will talk about their properties. Any variable we describe as having an influence is statistically significant ($p \leq .05$). A variable can be statistically significant without being particularly important for practical purposes, so we will focus our discussion on those with a practical impact. Product influence is discussed in the next chapter but it is negligible.

3.2.1 Client-driven Predictors

Demographics

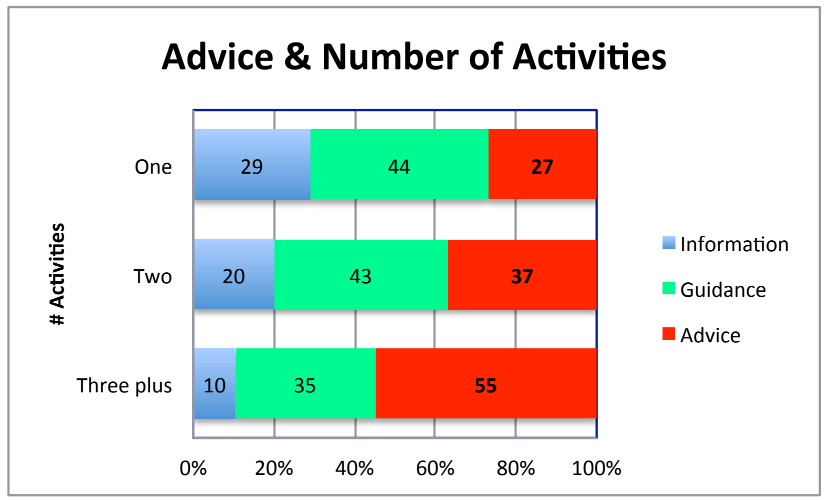
The experience and mindset of a person contacting a company shapes their perception of whether a contact provides advice, but in fact, **demographics are a weak influence on judgments of advice.** We determine influence by looking at how much of the variability in judgment can be explained by knowing the information (R-Squared=4%). It ranges from 0% to 100%, but for predicting behaviour, exceeding 20% is a strong result equivalent to a correlation of 0.40.

Six demographic variables influence advice, but **age is by far the largest demographic. Gender and language also have an influence**. Older clients, and to a lesser extent women and Francophone, are more prone to see a contact as providing advice. To us, the more surprising finding is that neither household income nor education influence perceptions of advice since both of these demographics influence buying patterns and financial literacy.

Activities

We asked people about six activities they might want to accomplish, ranging from simple activities like an administrative change to complex activities like building a financial plan. **When a person has more activities they want to accomplish, getting them done is more likely to be deemed getting advice** (RSQ=9%).

Looking at the six activities individually, there is only one activity that is predictive of "getting advice" on a stand-alone basis and that is an **account review**. Surprisingly, financial planning is not predictive, despite a similar percentage of clients deeming it to be advice. This suggests that clients' ideas of financial planning vary widely, thus limiting the possibility of a cohesive judgment.



Complexity also has an influence that improves predictive power. **A perceived need to make more complex decisions leads people to feel they are getting advice**, especially for an account review. This is particularly true for older clients.

Taking into account both influential activities and the three key demographics considerably improves our ability to predict judgments of advice (RSQ=14%).

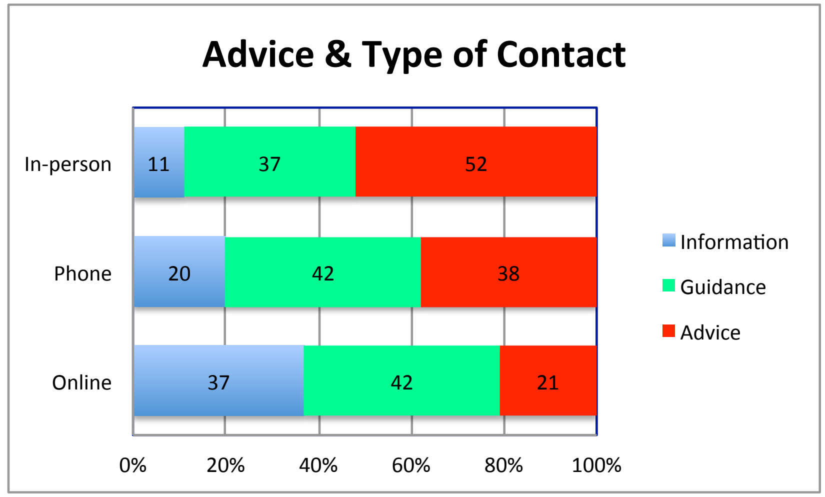
3.2.2 Service Delivery

Service delivery is a critical determinant of what constitutes advice involving communication methods and past contact with the company. Service delivery alone is a reasonably good predictor of whether advice is delivered (RSQ=19%), composed equally of the contact method and the regularity of contact. It is made slightly stronger when we also consider client activities and key demographics (RSQ=23%).

Contact method

Contact in-person or by phone is more likely to be deemed advice than online contact. Phone and in-person don't differ much since virtually all phone contact involves talking to a person. But while contact method has an influence, as we saw in Chapter 2, contact method does vary according to the activities the client wants to accomplish.

In this sense, we suspect that **exchanging e-mail or text messages online should be judged much the same as phone contact**, but the number of people doing this (n=129) is too small to generate a statistically significant finding. In support of this notion, we note that 4/10 exchanging messages felt they got advice, which is exactly the same as telephone. Robo-advisors might also generate a stronger "advisory" response than other online methods, but with the very small number of users (n=18), we can only get rough indications.



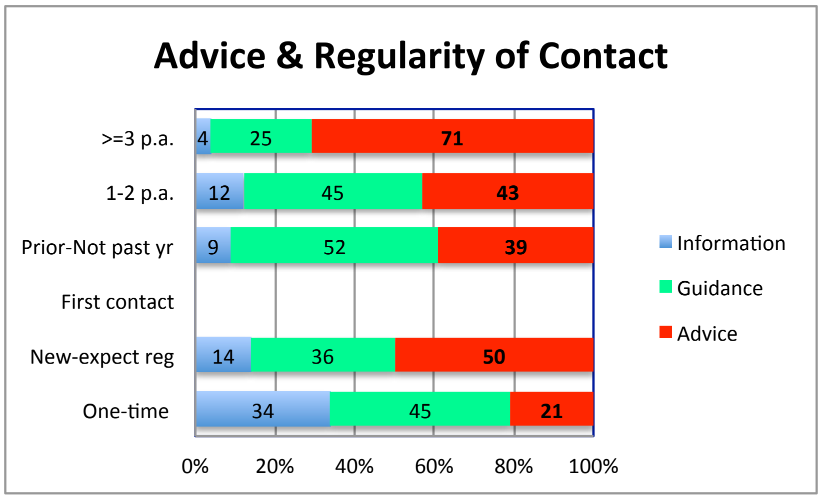
Regularity of Contact

Clients contacting the company in-person and by phone were asked about the person they talked to. We distinguished people they talked to for the first time from people they have talked to before. For familiar contacts, we assessed how often they talked to the person in the past year. For first time contacts, we asked whether they expected this contact person to become a regular contact in the future.

More frequent contact is an important part of perceiving a contact as advice, and when it is a first contact with a person, an expectation of future contact heightens the sense that advice is being delivered.

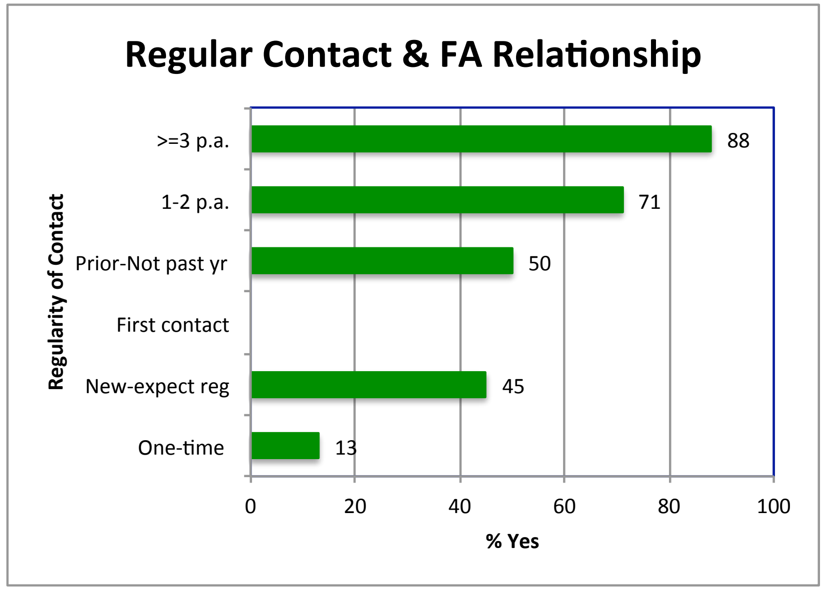
Advice comes from regular contact. When contact is regular (3+ times per year), regardless of the nature of the current contact, 7 out of 10 clients say they got advice. When it is less than that with an ongoing contact, the proportion drops to 4 out of 10.

Equally noteworthy is the assessment of first contacts. When there is an expectation of regular contact in the future, 5 out of 10 clients feel they have gotten advice. This is a big difference from the 2/10 for other first time contacts. The question in our minds is whether the delivery of advice spurs the client to seek out future contact or the prospect of future contact serves to foster more relationship-building in their contact.

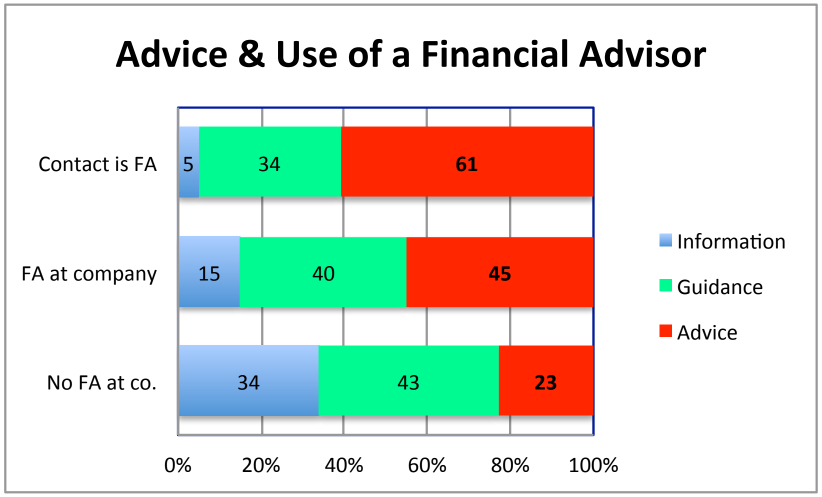


As we see it, these findings tell us that **advice is driven by a sense of personal relationship and the belief that the contact will provide "continuity of care".** This certainly has an implication for "orphan" insurance clients, as well as for clients shifted to different branch-based bank advisors every few years.

A client is unlikely to feel they have a "financial advisor" at the company without actual or expected continuity of care. The perception is in part a measure of reality as the graphic suggests.



Believing they have an advisor at the company increases the likelihood that a person will see the service they get as advice, and that strengthens the opportunity of building business with the client. Even when the current contact is not the financial advisor, half (45%) still feel they got advice.



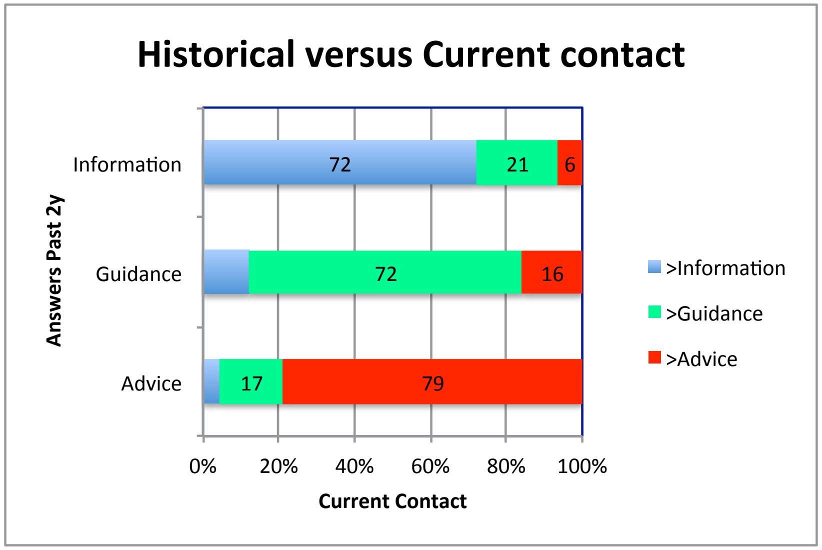
Service delivery is critical and a major factor in judging advice. Adding client-based variables and activity only improves our understanding of influence on judgment slightly.

3.2.3 History of Prior Contact

As we discussed in Chapter 2, we asked respondents about the questions they had over the past two years. **Those who had more questions answered over the past two years were more likely to view their current contact as "advice".** But knowing this adds little or nothing to what we already know from service delivery, activity and demographics. As well, we found that the specific questions a person needed answered did not influence their perception of getting advice nor did it matter whether their questions were strategic or product-related.

While the number of questions answered plays a small role, how well their questions were answered proved to be incredibly important. **When a person felt they got advice on their "common questions", it was the single biggest determinant of judging a recent contact as advice** and increased RSQ massively (RSQ=55%) in combination with other measures. About three-quarters of clients rated their recent contact the same as they rated the answers to their long-term questions, and since the vast majority of clients have extended relationships, we can assume that the answers were typically generated in prior contacts.

Getting good answers to personal questions is a critical part of "getting advice". The perception that this is the heart of advice grows with age and is especially strong for women. When the answers to personal questions were deemed to be advice, it makes it far more likely that subsequent contact of any type will be judged to be advice. **Knowing how common questions were answered plus two demographics (age & gender) is sufficient to provide a very good indication of whether a contact will be perceived as advice (RSQ=52%), whether we know anything about service delivery or not.**



Cross-Sell

The number of product lines a person has bought from an FI is potentially an indicator of breadth of relationship. A broader range of products suggests a more holistic relationship, more aggressive cross selling or both. There is a weak relationship between cross selling and perception of advice (RSQ=7%), but when we dig into the underlying reasons it comes down to relationship. This is to say that **cross-sell is a significant indicator of advice primarily when the cross-sell is based on a desire to use the same financial advisor or at least to maintain a relationship with a known contact.**

3.3 Advisory Scenarios

The UK Financial Conduct Authority (FCA) defines investment advice using five criteria[5].

- Does the service being offered constitute a recommendation?
- Is the recommendation in relation to one or more transactions in financial instruments?
- Is the recommendation presented as "suitable" or based on a consideration of the person's circumstances?
- Is the recommendation issues otherwise than exclusively through distribution channels to the public?
- Is the recommendation made to a person in his capacity as an investor or potential investor (or their agent)?

Table 2 in that report provides some "Example Scenarios" to illustrate whether a contact meets these criteria. Looking at their examples, we identified four variables that distinguish them:

- Method of contact;
- Need of the client;
- The Process used by the provider to gather information about the client including the nature of the information gathered; and
- The Outcomes of the process.

While there are a huge number of variants, we created 72 scenarios with 36 involving personal contact (in-person or phone) and 36 involving interactive technology. Each method had the same scenarios, which were slightly tailored to fit the product line module.

[5] Op. cit. 1

The three Needs went from specific (which exact products to buy) to broad (prepare for the future). The three Process options went from questions solely about products to questions about knowledge and personal circumstances. The four Outcomes ranged from a DIY list to screen your asset allocation to specific investment choices and a comprehensive financial plan.

Each respondent reviewed three randomly generated scenarios for each of the two methods (personal & technology). There were asked to judge the scenario on the same 7-point scale from Information to General Guidance to Personalized Advice. We analyzed their ratings to identify what constituted advice to our respondents.

The clearest finding is that **judgments of advice are far less consistent when presented with hypothetical scenarios than they are when people are judging personal experience.** We find there are good reasons for this. The scenarios are built on variables that regulators used to distinguish information, guidance, and personal advice. They have to do this for a single transaction, but that is not actually the way that consumers think about advice.

From our analysis of real-world experience, it is clear **the predictive power of the scenarios is weak because they omit two of the most critical variables that affect day-to-day judgment of advice**: answering the client's personal questions in a helpful manner; and an expectation of "continuity of care" that underpins client-company communication.

Even though the predictive power is weaker for the hypothetical scenarios, it is worth looking at what they tell us.

- People with a wider range of products and more education are more likely to view what they get as advice. Women are far more likely than men to see a contact as advice.
- Contact related to investment, and to a lesser degree insurance, is more likely to be seen as advice than when borrowing is involved.
- Service delivery via a personal contact (in-person or phone) is more likely to be viewed as advice even when the same services are delivered.
- The stated need in the scenario has no impact. **What matters are the questions the person is asked and the kind of outcome they get.**
- Someone asked solely about products is far less likely to be seen as getting advice than someone asking a broader range of questions. Whether the questions are purely product-related or broader lifestyle questions has no impact.
- An outcome that provides product allocation or specific investment suggestions increases the likelihood of contact being seen as advice, but a comprehensive financial plan has twice the impact.

None of the findings for the hypothetical scenarios contradict what we see when we evaluate real-world experience, but they are different in scope. In fact, virtually everything we find in the hypothetical scenarios is found in real world judgments including the nature of the demographic differences.

3.4 What Is Advice?

Our interpretation of the evidence is based on the survey and a fundamental understanding of psychology**.** Looking at the variables that do and don't influence advice, we learn that from the consumer's point of view **advice is not typically the product of a single transaction or activity.** It is part of an ongoing personalized relationship that the client deems to be "advisory". It is more than information or guidance, in that it helps the client make the complex decisions that circumstances require.

Service delivery is an important part of creating an advisory relationship. How people communicate creates the basis for a personal relationship. The "advisory relationship" is strengthened by a sense of continuity of care that develops from regular contact between a client and their advisor.

The quality of answers to both strategic and product-related questions sets the tone of the relationship between a client and a company and its representatives. **When questions have been answered helpfully in the past, it creates a kind of "halo effect" for viewing subsequent contact in a positive light.** Getting personalized answers to the questions the client has rather than just getting facts/information that a company wants to tell the client is an important distinction for assessing whether an individual is getting advice.

In accord with the UK definitions, advice is based on an implicit assumption of a financial transaction that includes a recommendation to an individual in their capacity as a current or potential client. There is a response to the individual's own questions rather than a "broadcast" of common information. But in addition to the transactional variables identified by the UK regulator, we find there is also an assumption of an ongoing relationship that provides continuity of care.

4. PRODUCT LINES & ADVICE

Now that we have a general understanding of advice and what it means, it is useful to understand whether there are differences in advice by product line. Understanding differences in the nature of advice for investment, insurance and borrowing gives us a more complete understanding of how advice relates to needs.

Highlights

- We expected to see more differentiation of advice across product lines, but that is because we see the complexities of the products and how one needs to think differently about them. It is very clear that clients don't see the complexities that professionals see.

- There is far less differentiation of product lines than we anticipated. The common elements of advice across product lines are far more numerous than the differences. The differences in the meaning of advice tend to be minor and not very consequential.

- Investment differs from other product lines in some ways: people own more varied products; they change their holdings more often; there are more financial plans and account reviews with clients; and there is more regular client contact.

- People generally judge the complexity of insurance decisions to be greater than either investment or borrowing decisions. Investment and borrowing decisions are viewed as comparable to one another in complexity.

- In terms of long-term questions, people tend to have fewer questions about borrowing – they just want the money. Insurance questions are more product-related than investment or borrowing questions.

- Most insurance clients buy only the one product line from the company. Age differences in product sequence suggest that insurers have improved their product reach over time, such that the youngest age group (20-34) is the least likely to solely by insurance from their company.

- Borrowing and investment are unlikely to be the sole product line bought from a company and seldom are they the first purchase. Transaction products (savings/chequing, credit cards) are gateway products for both investment and borrowing.

- We looked at the most common questions that people want answered for each product line and there is certainly an economic focus to the top questions. The single most common question for insurance and borrowing is "How much will this cost". For investment, the focus changes to returns with the top question being "How much will I earn on this compared to other investments".

- The helpful sources for answering common questions are professional personal sources: product specialists, financial planners, and to a lesser extent other FI personnel. Fewer than 1 out of 6 say they got helpful information from independent sources (online/print) or friends and family.

4.1 Revisiting Earlier Findings

4.1.1 Help Making Financial Decisions

Chapter 2 discussed the kinds of help people get when they contact their financial institution. When we presented the information we focused on demographic differences. Without showing those graphics again, it is useful to identify some of the significant product line differences that can be found in the graphics.

The first findings relate to perception of products and activities.

- People own a greater variety of investment products (2.4) compared to insurance and borrowing products (1.9).
- Financial plans are perceived as more common for investment (38%) than for insurance (27%) or borrowing (24%).
- Account reviews are more common for investment (52%) than insurance (44%). Borrowing lags considerably (29%).
- People change the amount of their investments far more often (54%) than the amount of their insurance or borrowing by a 2-to-1 margin.
- Investment-related contact is far more frequent than other product lines. Some 7 out of 10 investors had at least one contact with the person who helped them versus 5 out of 10 for other product lines.

Less obvious is that **people generally judge the complexity of insurance decisions to be greater than either investment or borrowing decisions**. Investment and borrowing decisions are deemed similar overall in complexity. There are three activities that are deemed particularly complex for insurance compared to other product lines: Financial planning; Buying new product; and Changing the amount of product (coverage) held.

Communication methods also differ slightly by product line. Both investment and borrowing (53-54%) involve more in-person communication than insurance (41%), which is offset by correspondingly greater phone contact for insurance activities (not just new product). Online contact is more common for investment (23%) than other product lines (14-16%), but frankly, we thought the difference would be larger. We won't comment on method of online communications because the numbers are too small.

In terms of long-term questions, people tend to have fewer questions about borrowing – they just want the money. Questions about insurance and investment are comparable in number, but insurance questions are more product-related than investment or borrowing questions (70% product-related versus 51-54%).

4.1.2 Influences on Judgments of Advice

Chapter 3 discussed the variables that influence judgments of advice. For the most part, the cross-product description is appropriate, especially since most people buy more than one product line from a company. In this section, we identify some of the significant differences by product line, while commenting on things like product ownership that could not be analyzed overall due to a lack of common products.

Investment

In almost every respect, the findings about investment advice echo the findings in Chapter 3.

Furthermore, perceptions of getting advice are unrelated to the number of investment products owned, the amount invested, or the specific investment products owned.

As with other product lines, those who want to accomplish more activities and make more complex decisions are more likely to feel they got advice. In addition, for investment in particular, when there is a desire to communicate rather than just to buy, the client is more likely to feel the contact was advice.

Service delivery has an impact on judging advice, which is even stronger than other product lines. Generally online contact is weaker than personal or phone contact, but when the individual has a helpful investment advisor, the fact of using online contact for an activity does not have the negative effect it has in general.

Insurance

The findings about insurance advice are generally consistent with the findings in Chapter 3. But there are a few differences.

Demographics play less of a role in judging insurance advice with neither age nor gender having a significant impact. The number of insurance products owned, the specific products owned, and the amount of coverage have no impact on judgments of advice.

But for insurance, when people have more decisions to make, they are more likely to believe they got advice. This may well relate to the perception that insurance decisions are more complex.

Service delivery method has a significant influence on perceptions of advice, but it is less than for other product lines. Frequency of contact still matters, especially when their contact is viewed as a helpful financial planner.

While people who got more questions answered in the past are more likely to perceive the current contact as advice across all product lines, there is a unique finding for insurance. Specifically, clients who got a clear and helpful explanation of permanent versus term insurance were more likely to believe they got advice.

Borrowing

The only demographic that matters for borrowing is age, with older borrowers more likely to perceive they have gotten advice. Amount borrowed, specific products and number of products have no influence.

For activities, the number of activities doesn't matter. In fact, the only thing that really matters is just getting the loan. Decision complexity and other things that affect investment and insurance don't matter for borrowing.

Service delivery has a smaller impact here than any other product line, but it still has a marked influence. Regular contact does enhance the sense of getting advice, even if they have no financial advisor at the company. We note that when borrowing is a subsequent to getting other product lines from a company, the person is more likely to feel they got advice.

Getting common questions answered is a big influence here. This is particularly true when there is a helpful financial planner involved. The involvement of a loans officer does not have the same impact, suggesting that more holistic advice is perceived as adding value.

4.2 Product Line Sequence

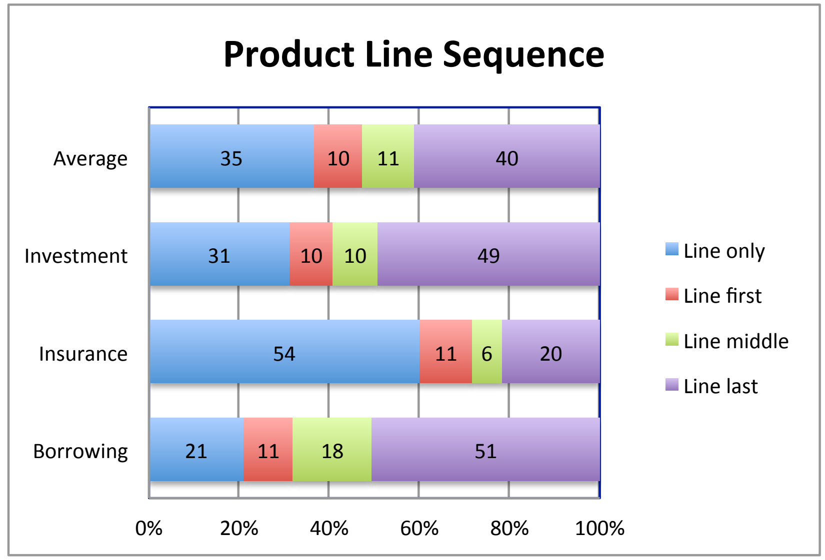
Most people in the study have more than one product line, but they don't necessarily have it from the company they are currently contacting. Whether they have one product line or more may affect their judgment regarding advice. The same may be true if a product was their first with the company or a follow-up. **Note that in this section, transaction products are an added product line.**

Differences in product line sequence are massive. Notwithstanding the display of an "average", there really is no meaningful average.

Most insurance clients (54%) buy only the one product line from the company. Adding in those who bought insurance first, we find that 2/3 of insurance buying (65%) is the start of a relationship with a company and most never progresses. For those buying other products first, it is equally split between investment and transaction products.

By contrast, borrowing is the first (21%) or only product line just one-third of the time. Six out of 10 borrowers bought transaction products (e.g., savings/chequing account or credit card) first, 4/10 bought investments before borrowing and 2/10 bought insurance before borrowing. Overall, we see transaction products as the "gateway product" for borrowing.

Investment is the first (31%) or only product line bought from the company by 4 out of 10 investors. Some 6 out of 10 buy other products from the same company. For the vast majority of these multi-line clients (5/6), transaction products came first. A small portion of multi-line clients bought insurance before investment (1/4). **As with borrowing, transaction products are the gateway products for investment.**



To take the influence of sequence further, we looked at how sequence affected the broad model of advice in Chapter 3. What we found is that even if the person just had a single product line, it did not affect the meaning of advice. The same was true if the product line was bought after other product lines. The model is quite robust in this regard, but there is one exception.

When a product line is the last of 3-4 product lines bought, the meaning of advice is a little harder to assess. Our interpretation is that for investment at least, the big questions were probably answered long ago and no longer relevant to judging advice. Ongoing contact across product lines is what matters most.

Age and Sequence

For investment, the sequence of product line purchases differs very little by age. The only really significant pattern is an increase in using a company solely for investments after age 65. Other than that there is no consistent change.

For insurance, we also find an increase in those who solely buy insurance with age, especially after age 65. Another way of interpreting what we see is that **insurers are cross-selling more of other product lines at progressively earlier ages**, which suggests that the industry has gotten better at broadening their product reach with clients over time.

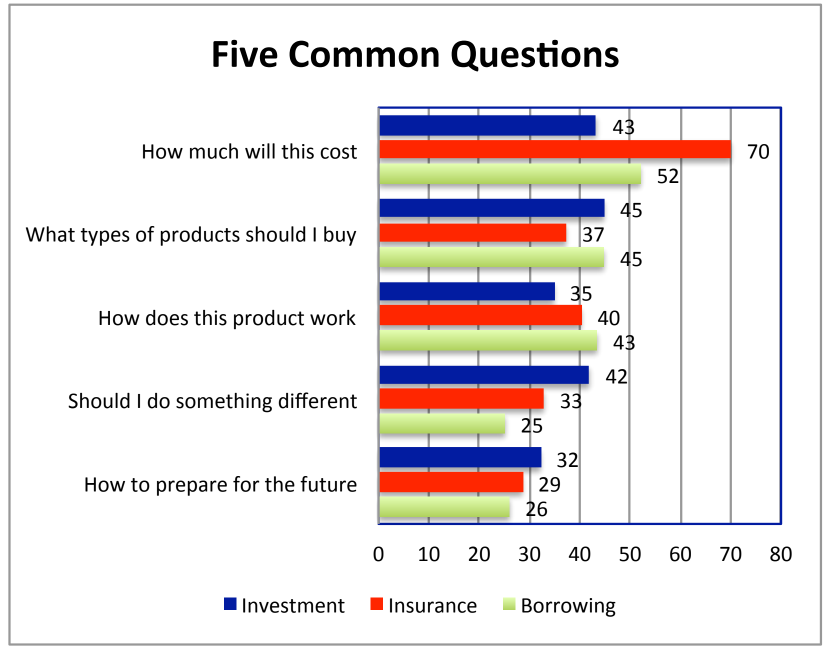
Unlike insurance and investment, there is no significant age difference in product sequence for borrowing.

4.3 Common Questions

While the exact wording of the question may differ, we identified five questions that are commonly asked that cut across product lines. The questions are listed in descending order of overall frequency.

The top five questions are not dramatically different in incidence for investment. Two investment-only questions fall in the same range, "how can I earn more" and "how can I pay less after tax". **But the single most likely question for investment is "How much will I earn on this compared to other investments" (50%).**

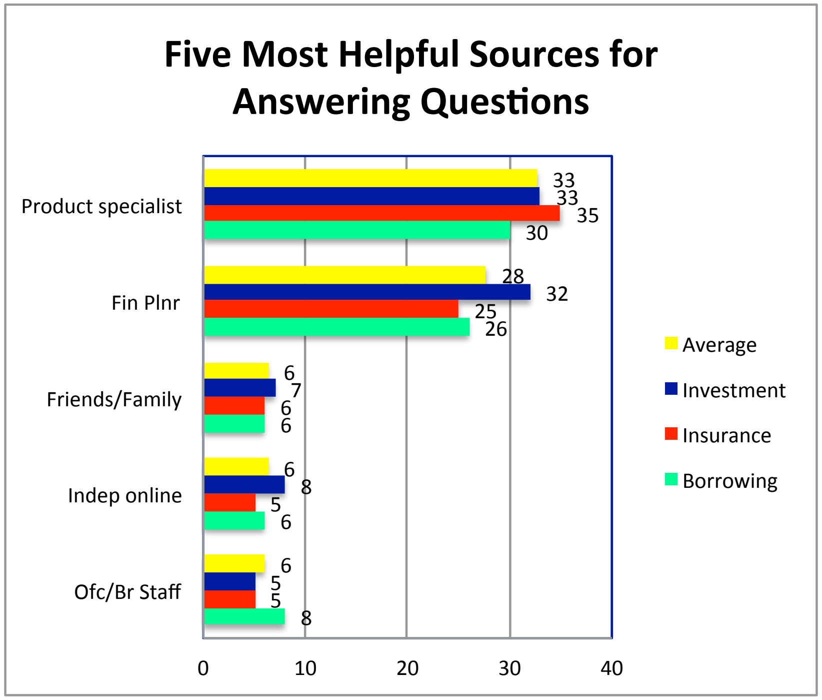
For insurance, the single most commonly asked question is "How much will this cost". Other than that, insurance prods several questions (not shown) that don't apply to other product lines. Two specialized questions asked more often than four of these five common questions are "how much insurance do I need" (44%) and "how long does the insurance last" (41%). People also often ask "Can I make changes in my insurance when I want to" (39%), which is something they don't ask about investments.



Most of the borrowing questions fit into the five most common. Three other questions fall in the same range: "How much can I borrow" (44%); "How can I pay this off faster" (44%); and "How can I pay less" (41%).

As a matter of note, we looked at questions people had within each product line with the aim of finding groups of people that asked a common subset of questions. We could not identify any significant subsets of questions for any product line.

While the questions may differ somewhat by product line, getting them answered in a clear manner creates a sense of getting advice in all product lines. **The helpful sources for answering these questions are professional personal sources**: product specialists, financial planners, and to a lesser extent other FI personnel. Fewer than 1 out of 6 say they got helpful information from independent sources (online/print) or friends and family.



5.0 EVOLUTION OF ADVICE

Before becoming investors, many people have used other product lines including transaction products, insurance and borrowing. We need to understand how the need for advice and the use of advice develop from these experiences. Recognizing that product experience is typically tied to age and income, we also need to understand how advice changes as these things change. Our focus in this chapter will be the evolution of investment advice.

Highlights

- Decisions about what products to buy are mostly made in the early years of a relationship and persist for decades to follow. But a good relationship provides an avenue for extending into other product lines after an initial relationship is built.

- While we anticipated that the nature of advice would evolve with age, what we found is that age-related differences were far less important than relationship fundamentals like ongoing contact and personalized communications.

- Investment ownership grows steadily with age. Insurance and borrowing peak between age 35-49 and drop substantially among seniors. The biggest uptake of new types of products is between ages 20-34, and for investments, the types that people buy remain constant after age 35-40. Household income has a big impact on the amount held in a product line and often the number of products in the line that a household will buy.

- The activities an individual does with their company are not materially related to age or income. Financial planning and account reviews are equally common for investors at all income levels. Those with less than $200k in assets are somewhat less likely to get financial plans, and quite logically, those with less than $50k in assets are less likely to get account reviews.

- Perceived complexity of decisions was not related to income, holdings, or education. Many activities are viewed as simpler with age, but not financial planning or account reviews.

- With the modest exception of younger clients using more online contact, contact method is not related to age, income or holdings. Seniors are likely to have more contact than younger age groups, and correspondingly, those with more assets are likely to have more regular contact.

- Transaction products (e.g., savings/chequing accounts and credit cards) are the gateway for borrowing and investment. Six out of ten investors are people who started with other product lines and subsequently bought investments. Some two-thirds of borrowers started with another product line prior to borrowing. Investment is a gateway for borrowing in later years too.

- Insurance products are more often stand-alone product lines, but that is becoming less common in successive age cohorts. The influence of income and holdings across product lines is quite mixed and differences are related to cross-sell between insurance and other product lines.

5.1 The Influence of Aging

At the start of this section, it is useful to warn the reader of two limitations on our findings. The first limitation is that we only know what a person is doing with one company and we do not know their full circumstances including the range of financial institutions and sources of advice they use.

The second limitation is common to all cross-sectional studies, which is an assumption that younger cohorts will likely change in ways that are similar to cohorts who preceded them, unless there is clear evidence to the contrary. While there are complex strategies for dealing with this limitation (e.g., opinion leader studies, PEST analysis), they are outside the scope of this study.

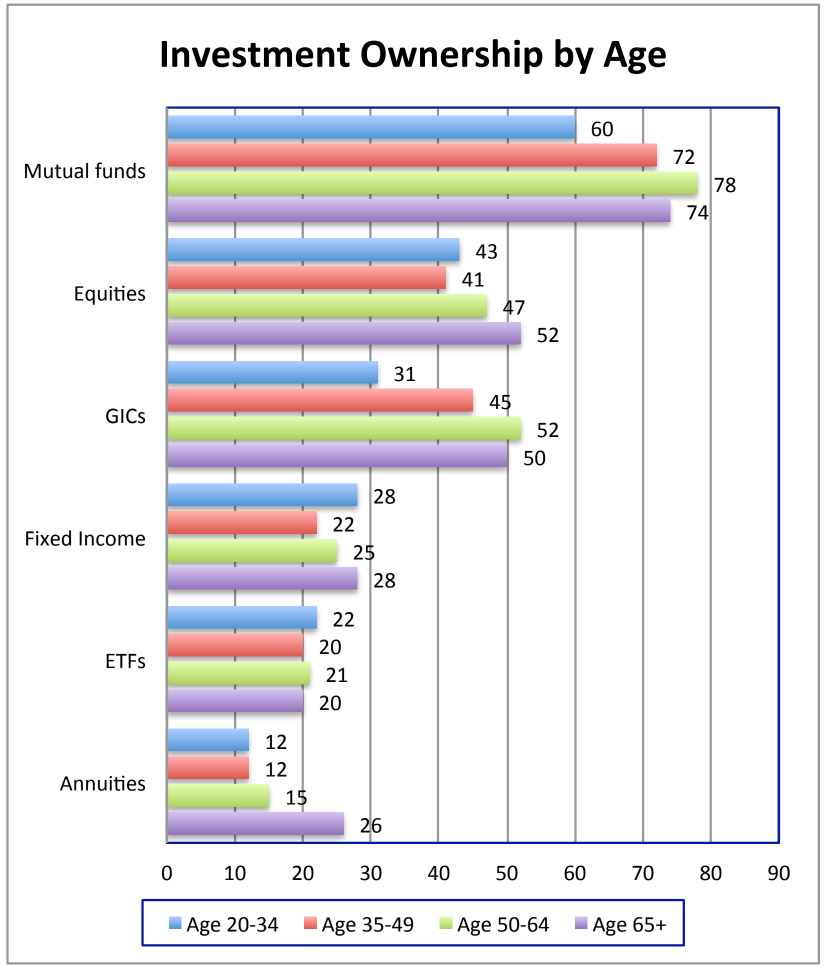
For the purposes of our discussion, we will use four age groups that we have found to be robust and well differentiated over a range of studies. We will use the words and the abbreviations interchangeably.

- Young adults (YA), age 20 to 34;
- Middle years (MY), age 35 to 49;
- Mature (MA), age 50 to 64; and
- Senior Years (SY), age 65 and older.

Product Ownership

Overall, **Investment** ownership grows steadily with age and median investment grows from under $50k (YA) to about $350k (SY). In our sample, which is skewed upwards by income and assets, the proportion of investors with at least $500k is about three times as great above age 50 compared to below.

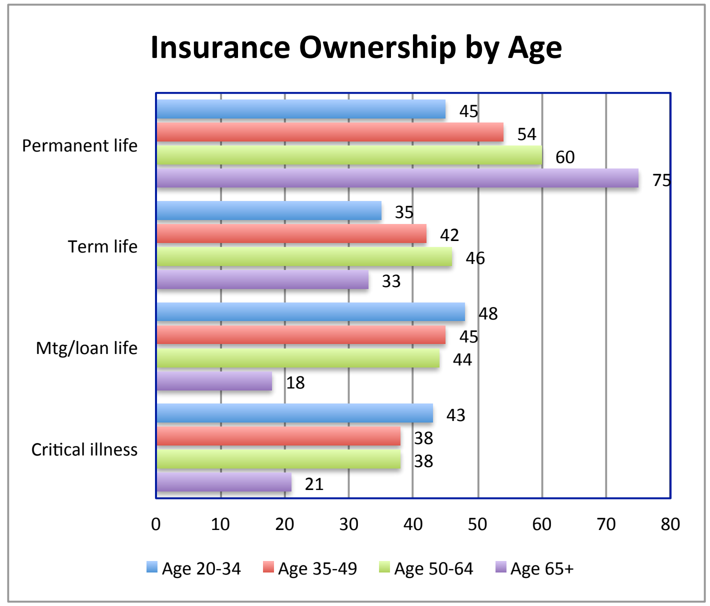
The Mature (MA) years are a big transition in the amount and number of investment products people own before decumulation. By the Middle years (MY), more than two-thirds of investors have more than one product.



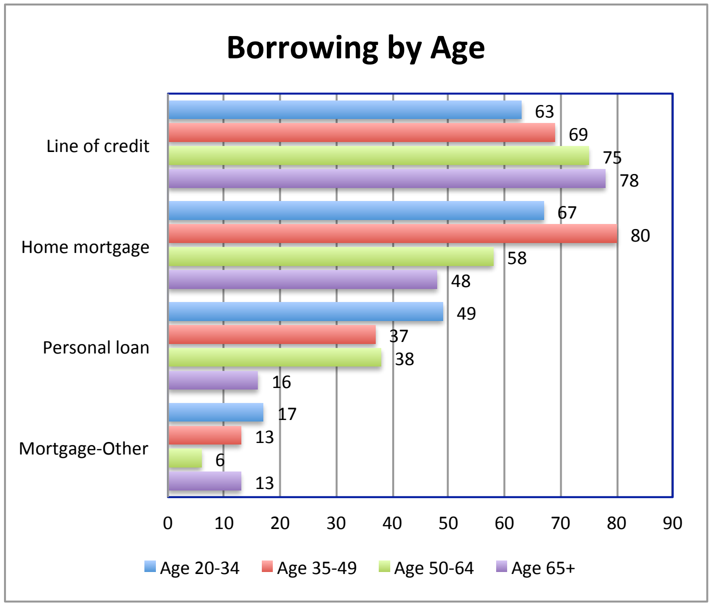
Not to overlook the obvious, but the biggest uptake of new products is among Young Adults. We also know that the number of types of investment products remains constant after age 35-40 [6]. After that, ownership of GICs and mutual funds peaks between age 50-64 and declines slightly thereafter. Unlike GICs and mutual funds, ownership of equities, bonds and ETFs is not significantly related to age. Of course, annuity ownership is predominantly over age 65. At earlier years, especially under age 50, we are unsure whether those reporting ownership have accumulation annuities, special circumstances (e.g., structured disability payout), or whether they are simply mistaken about what they own.

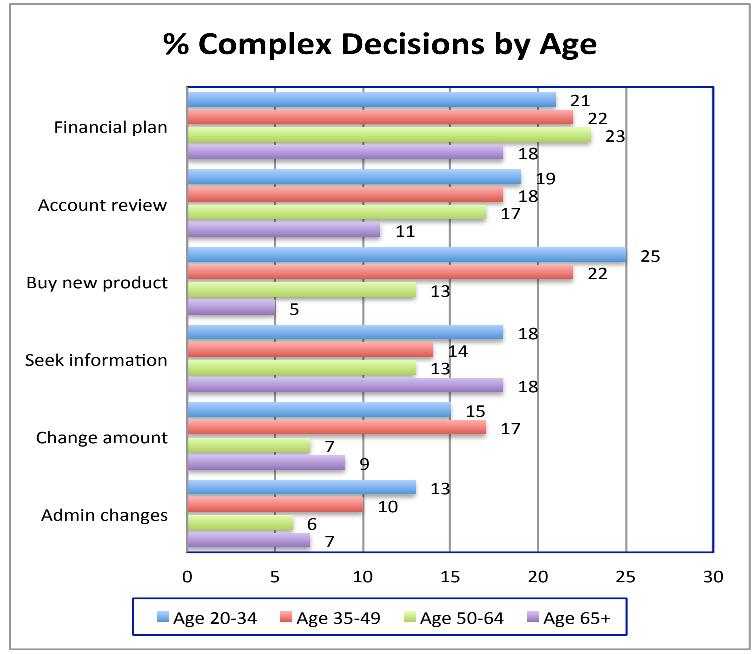
Insurance ownership peaks in MY (82%) and drops by SY (66%). Median coverage is lower for seniors (<$100k) than for other age groups ($100-249k) and seniors have fewer products. The lesser number of products among seniors is not driven by term insurance, but rather there is a much lower incidence of mortgage/loan life insurance (18% for seniors; 45% for others). Critical illness policies are also half as common among seniors, probably reflecting the era when they became more popular. Permanent life policies (i.e., whole life and universal life) are more common in successive cohorts. Term life is not significantly related to age in this sample but appears to fall off in the SY.

Borrowing peaks in MY (81%) and drops substantially among seniors (60%). Home mortgage debt predictably declines with age after peaking in MY. So does the number of borrowing products used. Home mortgages peak in MY (80%) and drop substantially after age 65 (48%). Mortgages on other properties are not significantly related to age, nor is the use of a line of credit (although it appears to be). Personal loan usage declines markedly from 49% among YA to 16% among seniors.



[6] Weinstein, Edwin. “Investor Risk, Behaviour & Beliefs”. Investor Education Fund, 2013.





Activity

While there are some statistically significant differences in the activities that people do with their providers, most of the differences are either small or trivial in their impact. There is a bit more account review from Age 50 onwards and less new buying among seniors, but differences are less than ten percentage points. Admin changes decline with age as life stabilizes, but even there it is just 13 percentage points difference between YA (36) and SY (23).

Activities are steady, but perception of the complexity of decisions they require changes with age. As a general pattern, older clients find decisions less complex. We believe this is a function of their prior experience and having made comparable decisions in the past. **But while many activities appear simpler with age, the perceived complexity of decisions regarding financial plans and account reviews doesn't change with age.**

Contact & Communications

The only statistically significant difference in contact method is that online contact declines moderately with age. It is about 20±2% to age 65 and declines to 13% thereafter. For investing, the numbers are about 3-4% higher in each age group. The numbers are too small to find differences in methods used for online contact, although it looks like website use is relatively constant and other methods are less common in MA and especially SY.

Looking at communications, seniors are more likely to talk with their contact more than twice per year and they are more likely to have a financial advisor at the company they contacted (37% under age 50 and 51% over age 50), thereby creating a lot more total contact with a known person. The likelihood of at least annual communication with an advisor increases with age from 54% under age 50 to 70% in SY. The likelihood of getting "advice" (as the client perceives it) increases steadily with age from 30% for YA to 57% for SY and likely reflects the formation of an advisory relationship over time.

Common Questions

The number of questions people asked over the past two years declined steadily with age. For those under 65, product specialists were most often the most helpful source of answers versus financial planners in SY. Family/friends and online sources were only significant sources of help for YA.

Questions about cost and "how things work" decline most with age. Asking about doing something different usually occurs in the peak ownership years for a product grouping. The age-related questions for each product grouping are listed below.

Investment:

- SY less likely to ask about Preparing for the future;
- YA more likely to ask "How much should I buy"
- "How does this work" and "What is the cost" declined with age (and experience).

Insurance:

- YA less likely to ask "Do I need to do something different";
- "How much do I need" declines with age.

Borrowing:

- "Do I need to do something different" and "How much can I borrow" both decline with age.

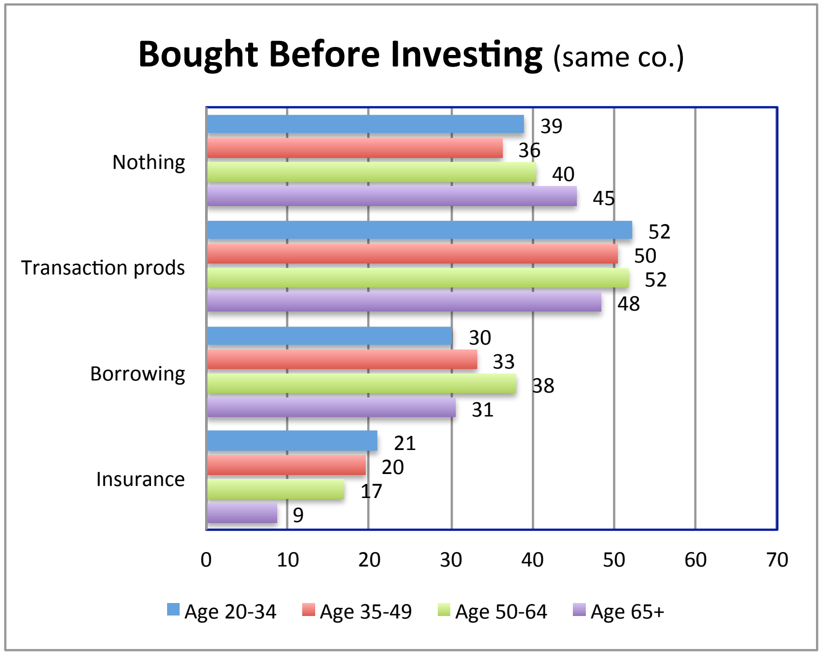
Cross-sell

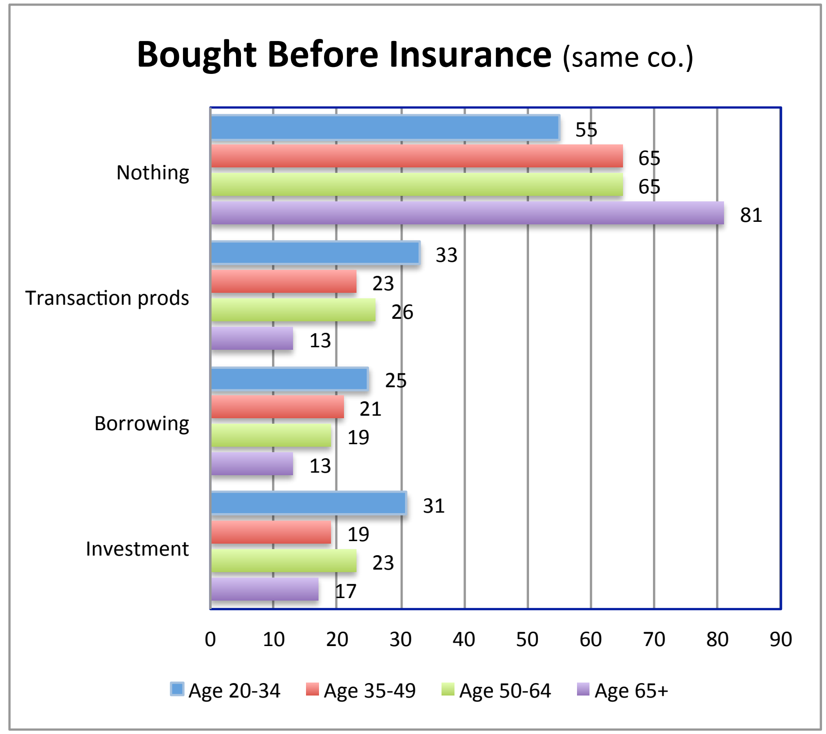
Cross-sell efforts decline with age and Young Adults are the big targets. Among Young Adults, 70% were approached for cross-sell with half being targeted for two or more product lines. By the Senior Years, 50% are approached for cross-sell and only one-quarter of the group for two or more targets. Investment differs a bit from the general pattern in being a bit stronger after age 50. Cross-sell to MY and MA is right in-between and comparable for the two age groups.

When cross-sell is successful, the reasons for buying don't change with age at all.

About 30% of the time, Investment is the only product bought from a company. An additional 10% of the time it is the first product bought with others following[7]. **That means 60% of investors are people who started with other product lines, but subsequently bought investments.** Transaction products precede investment for most people in all age groups and borrowing is also quite common. Given investing activity in the Mature age group, we speculate that some of the borrowing may be investment related.

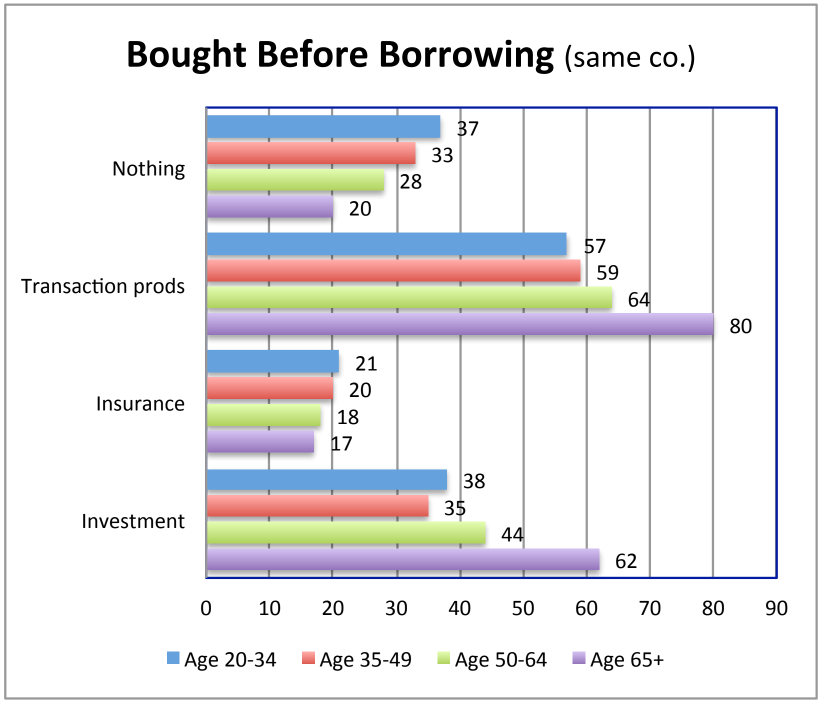
[7] Those who only bought a product line and those who bought a product line first are lumped together under "Nothing" in the graphic.





Insurance is the only product line bought from a company for half of policyholders (54%). An additional 10% of the time it is the first product bought with others following. That means 35% of insurance buyers are people who started with other product lines and subsequently bought insurance. Other product lines are equally likely as precedents. Age-related patterns show less single product lines sales by insurers in younger cohorts. The proportion that only buy insurance (not shown) changes with age from 44% among YA to a little over half in MY/MA to 75% in SY. The pattern suggests that insurers have gotten better at selling additional product lines over time.

Borrowing is the sole product line for only 2 out of 10 (21%). An additional 11% borrow before buying other product lines. This means that 2/3 of borrowers are people who started with other product lines and subsequently borrowed from the company. **Transaction products are the gateway to borrowing at every age, but especially so after Age 65. After age 65, investment is also a very strong lead in to borrowing, and we note that 5 out of 6 seniors who borrow after investing get a line of credit likely secured by the investment.** There is an effort to cross-sell the majority of borrowing clients at every age.



Transaction products are the gateway for borrowing and investment, but investment is a gateway for borrowing in later years too. Insurance products are more often stand-alone product lines, but that is becoming less common in successive cohorts.

5.2 Influence of Income & Holdings

In addition to age, there are three other influences we aimed to assess when we began this study: household income, assets and product experience. Essentially though, product experience and assets are both tightly tied to age and income. Age yield the experience over time and income generally affects the amount of assets and the breadth of products owned. With this in mind, we focus this section on the influence of household income as a complement to the information about age.

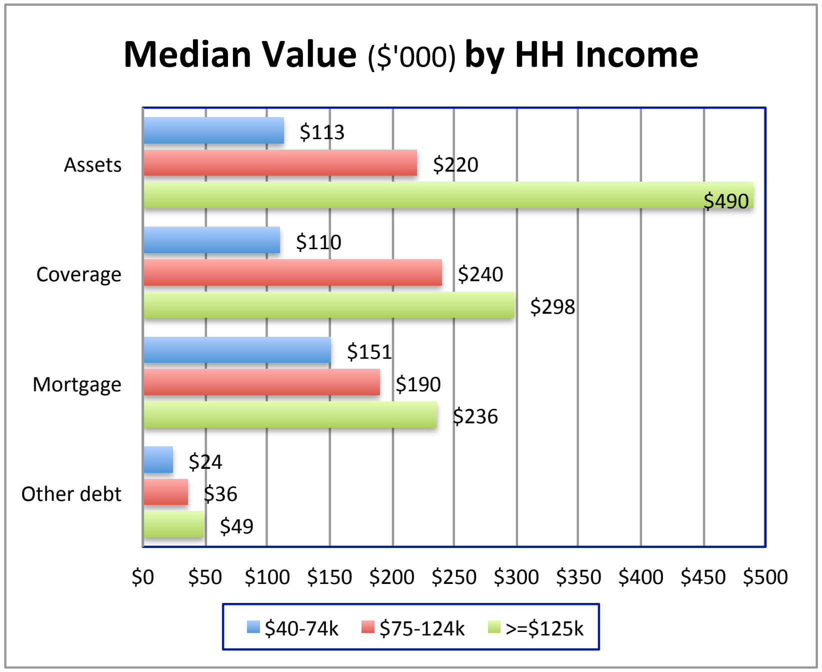
Before we begin discussing the influence of household income, we must note that it is necessarily less apparent in this data than it would be in unrestricted data. By not including the bottom 20% of the household income in our sample, we have weakened the relationship between income and other variables. Nonetheless, there should be more than enough trends to make a look worthwhile.

Product Ownership

Because of our restricted income range and our selection procedure, ownership of any of the three product lines differs by 10% or less between our bottom household income category ($40-74k) and our top household income category (>=$125k).

Household income has a massive impact on investable assets. In our lowest income category, fewer than 1 in 10 households have at least $500k in investment assets and this rises to 5 in 10 households in our top income category. Income also drives the median value of investable assets and the number of investment products owned.

At the level of products, higher income means a greater likelihood of owning equities and ETFs. Annuities are more likely with lower income. Ownership of other products is unrelated to income.

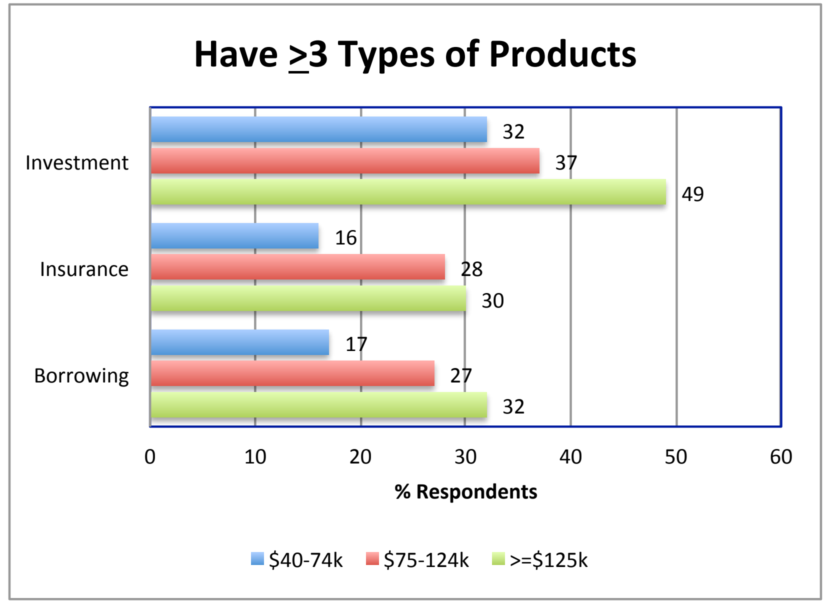


Note that the median values in the graphics exclude those who don't use a product.

Household income significantly impacts insurance coverage too. Those with at least $500k in coverage increase from 1 in 10 to 3 in 10 when we move up through our three income categories. The role of income in product ownership is a bit different in that lower middle income owns fewer products than others. For any single product, ownership is not significantly related to income.

Higher income means that the household is less likely to have a mortgage. But if they do have a mortgage, it is likely to be for a larger amount. Once again, we have to consider how much a bank is willing to lend as a determinant of amount borrowed.

Income has no impact on whether people have non-mortgage debt or not, but it does affect the amount borrowed. **Those with more income borrow larger amounts**, probably because they can. They also use a wider range of borrowing products. Mortgages on a second property (not home) are more likely at higher income levels.



Note that the values in the graphics exclude those who don't use a product line from the company contacted.

Activity

The likelihood of buying a new product recently increases modestly with income from 33% at low-middle income to 44% for households earning $125k or more. Other than that, the nature of the activity the household does with its company is unrelated to income overall. This includes account reviews and financial planning, which were equally common at all income levels. It is worth stating further that **financial planning and account reviews were equally common for investors at all income levels** (above $40k household income).

Having said that, we did find that **account reviews and financial planning were related to investable assets, but the relationship is not linear. Those with the most money did not get the most service.** Financial planning was most common (47%) for those with $200-499k in investable assets and a bit less common for those with $500k or more (41%). Those with less than $200k were less likely to get financial plans (31%). Account reviews were less common for those with less than $50k (38%), but about equally common above that amount (~55%). Coverage was not significantly related to reviews or planning for insurance. For debt, mortgage balance had no impact and the relationship to non-mortgage debt was not clear.

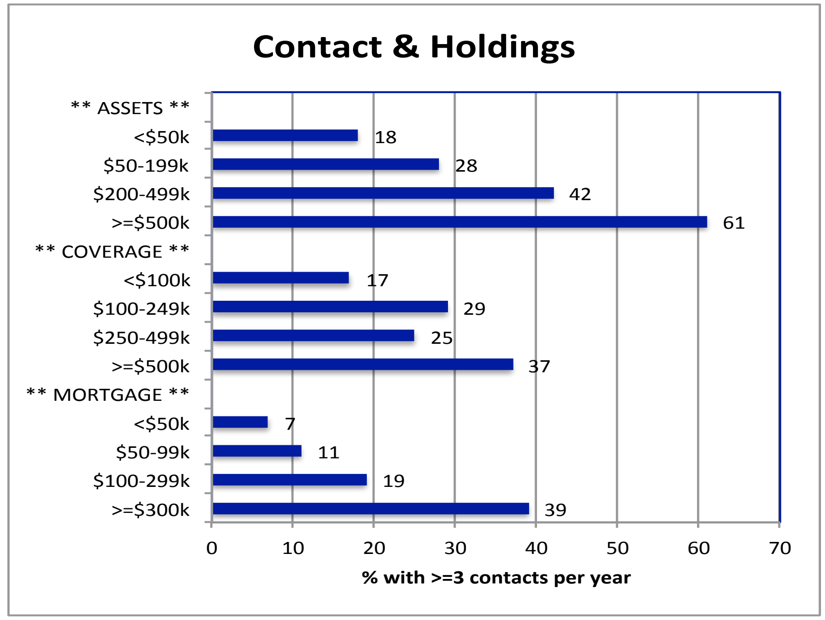
Perceptions of the complexity of decision-making are also unrelated to income. This is somewhat surprising since income is partly driven by education and we would expect education to affect views on complexity. But, a further check on the relationship showed that education did not have a significant impact either. The perception of complexity is quite individual.

Contact & Communications

Contact method is unrelated to household income, whether viewed overall or at the level of the product line. Both overall and by product line, **the nature of the contact person and the amount of contact per year are also unrelated to income.**

Follow-up analysis on investment-related contact did show that **clients with more assets have more regular contact with their company**. Investors having 3 or more contacts per year went from 18% for those with less than $50k to 61% for those with $500k+.

Clients who borrow more also get more regular contact, but it should be remembered that these are also the clients who have the highest income and the most assets. The relationship for insurance is less clear.



The likelihood of a contact being viewed as advice was not significantly related to income. The likelihood of changes in the amount of business with the company as a result of the contact is also not related to income. Income also had no bearing on whether the individual had an ongoing financial advisor.

Holdings do affect advice, even if income doesn't. Looking solely at investment, those with more than $200k in investable assets were more likely to perceive that their contact provided advice (52% versus 38%). For insurance, those with more than $500k in coverage were most likely to get advice in their contact (54%). Those with $250-499k in coverage were more likely to get advice than those with lesser coverage (44% versus 33%). Advice was unrelated to the amount borrowed.

Common Questions

Neither Income nor holdings had an impact on the number of questions a person asked over the past two years, nor did it affect the nature of the questions nor what source was most helpful for answering questions.

Looking at specific questions related to investment, only 2 of 9 questions showed any relationship to income. Investors with lower income were more likely to ask “How does this product work” and “How can I earn more” but the difference among income groups was less than 10% so there is not much practical significance to this. **The one question asked more by people with more investable assets is “How can I pay less tax/keep more of my earnings”.**

There was no significant income relationship for questions related to insurance, but the amount of coverage does have an impact. Those with at least $500k in coverage were more likely to encounter products that prompted them to ask, “How does this product work”. Questions about “How much coverage do I need” are more common with coverage amounts above $250k and asking “How much will it cost” increases steadily as the amount of coverage increases.

Questions about borrowing are not related to income or to the amount of borrowing.

Overall, despite the significant differences we find, it is our sense that **most of the questions a person asks are quite individual and not a function of their “group” membership.**

Cross-sell

Overall, cross-sell efforts are not related to income in terms of the range of product lines or the specific product lines that an advisor aims to cross-sell. The order of product lines bought is not related to income in a predictable manner for any of the three major product lines.

Looking at investment, we can see that those buying insurance first are less likely to have at least $500k in investment, and correspondingly, those with $500k in investment are less likely to buy insurance from the company providing their investment. **This suggests that insurers sell smaller amounts of investment than competitors.**

Looking at insurance though, we see that **the likelihood of buying some investment rises as the amount of insurance coverage rises**, but those who bought investment first are less likely to buy insurance coverage from that company. This does not contradict the earlier finding, but rather says that insurers are more able to cross-sell investment to bigger insurance clients. We suspect that it also indicates smaller insurance purchases when investment was the initial purchase from a company.

6. SUMMARY AND CONCLUSIONS

This final section of the report is our interpretation and comment on the findings. We also identify some next steps for improving our understanding of advice. A lot of the findings turn out to be "common sense" in hindsight, but there are also some surprises.

Advice is discussed as important for the client, but it is also important for the financial institution. Advice drives business growth. When a client feels they are getting advice, they are twice as likely to increase the amount of business they do with a company. Correspondingly, when they don't feel they are getting advice it weakens their persistence.

Advice is a personalized communication between a client and a provider that is built on a few expectations:

- There is a financial transaction between the parties – past, present and/or future.
- The client has an ongoing relationship with the advisor.
- The advisor's communications to the client respond explicitly to the client's concerns and questions.
- There is an underlying sense that the advisor cares about the client's welfare.

The advisor behaviours that underpin these expectations begin with answering a client's own questions and not by providing the client with generic financial education, legal disclosure or promotional material. The answers must be provided in a form that conveys person-to-person communication, be it a face-to-face meeting, a phone call, or an exchange of e-mail messages. The sense of continuity in the relationship is maintained either by regular contact, or in many cases, by a sense that the advisor will be available when needed.

The fact that two-thirds of the clients in our sample saw themselves as part of an ongoing advisory relationship points to the sense of continuity as an underpinning of trust. The notion of "continuity of care" is further extended by talking to the client about their future through the medium of an account review or financial plan. Past, present and future are built into the relationship or it isn't a true advisory relationship.

It is often said that interviewers make up their mind about a job applicant in the first two minutes of an interview. In a similar vein, early contacts between a client and their financial institution create a sense of what the financial institution and its representative will deliver. If the potential client decides the contact person delivers "advice", then that judgment "frames" subsequent contact as advice and views it in a favourable manner. It increases the likelihood of future business, as well as retention of existing business.

The perception of getting advice is not the only thing that gels early. Decisions about what products to buy are mostly made in the early years of a relationship and persist for decades to follow. But a good relationship provides an avenue for extending into other product lines after an initial relationship is built.

One reason an advisor can extend to other product lines is that advice is viewed in much the same way across product lines. Despite differences in products and expectations, the nature of advice is more similar across product lines than different. The client inherently believes that someone who can truly advise them about one product line can advise them about another.

We expected to see more differentiation of advice across product lines, but that is because we see the complexities of the products and how one needs to think differently about them. It is very clear that **clients don't see the complexities that professionals see**. As behavioural finance teaches us, people faced with complex decisions find ways to simplify them. As we learned from numerous research projects for the Investor Education Fund[8], "Canadian investors want to know just enough to make a decision they must make due to a life event --- and they want to be comfortable with their choice."

Having said that, there are some product line differences. Investment clients at all levels of income (above $40k) are more likely to have an account review or get financial planning than clients using other product lines. In part this is a function of what the products themselves demand. Once a loan is in place, regular payments are generally all that the product requires. Insurance is typically put in place for a considerable time with changes to coverage quite infrequent. By contrast, investments require monitoring in a constantly shifting market and monies constantly move into and out of investment accounts. Unlike other products, the key concern about an investment is its return rather than its cost. Once bought, **investment products themselves demand more regular attention and decision-making than other product lines and we believe this is why investors get more personal attention.** The products themselves create the demands.

With advice so bound up with personal relationship, we are left to address a finding that seemingly contradicts this. If relationship is the key, why do most people begin an investment relationship with a financial institution based on prior experience with transaction products like a current account or credit card? There are three answers to this. The first is that these are the products that people need to have first, so they necessarily precede other products. The second is the convenience of using the same financial institution. The third answer is more complex.

In Industrial Psychology we often talk about "hygiene factors". To put it simply, these are the things you have to do well before you can prove your value in other ways. Transaction accounts must provide quick and accurate processing, ideally with easy dispute resolution if something does go wrong. If a financial institution provides this, then the foundations of trust are built through their operations. It is evidence that the institution is "trustworthy". Without this experience, building a base of trust is far more difficult.

Just as we expected to see more differentiation of advice across product lines, we expected to see more differences in the nature of advice by age, income and education. While there are differences, they are minor and trivial compared to the overwhelming commonalities in what turns communications into advice for most people.

When it comes to defining advice, the importance of personalized communication in a relationship based on trust and continuity of care cuts across all groups and products.

The personalized nature of communications that define advice poses some challenges for the growth of robo-advisors. Our work would suggest that robo-advisors might be a starting point but that the lack of a personal relationship means the business will not persist. It is likely that most firms offering robo-advice will move to a hybrid approach involving personal contact to build and maintain relationships and perhaps to provide customized answers to investors personal questions.

[8] The Brondesbury Group, "Demand-Based Investor Education: What Investors Want to Know and How They Want to Learn It", Investor Education Fund, November 2010.

We anticipate that there will be a small group of experienced investors who don't feel they need advice, who will use robo-advisors as an alternative or a supplement to a personal financial advisor. We suspect that within this group, robo-advice will cannibalize discount brokerage more than full service brokerage.

Next Steps

After completing any research project, there are always more questions. Here are the two most useful next steps that come to mind based on questions raised by this research. The first study focuses on how new relationships are built and develop in their early stages. The second study looks at the psychological value of advisory relationships, bypassing the traditional economic arguments that we believe miss people's real motivation.

- **Trace the evolution of new relationships with a financial institution for ages 25-39**, tracking its evolution through changes in products and advisors over the time when relationship patterns are formed. What did the organization or person do to create the initial relationship? What happens when a trusted advisor leaves an FI? What happens when they lose trust in an advisor? This gets at the respective role of the organization and the individual advisor and broadens the notion of relationship value.

  We suggest a two-phase study for this project, beginning with either twenty one-on-one interviews or four focus groups. The information from these sessions would be used to build an online survey. An online survey is desirable because you can more cost-effectively screen candidates. Those recently forming new relationships will be a small number so screening is imperative.

- **Assess the psychological value of advisory relationships.** Most views of advisory relationships have focused on their economic value. Yet it is our sense that the psychological value is quite different and perhaps primary. To list just a few of several considerations that aren't directly economic: simplifying decision-making demands, spending time on more enjoyable activities, peace of mind by leaving things to the professionals, and not having to watch investments every day. Perhaps these drive the use of advisors far more than economics.

  The first study on evolution of new relationships would provide information to complement the research literature, making it possible to build a comprehensive online survey on psychological value. But in addition, we would suggest interviews with advisors to get their views on the psychological value of the relationship and build their insights into the work. We have done this in past work with the Investor Education Fund and it proved to be quite useful. It would also be useful to do follow-up phone interviews with a sample of respondents to add depth to the analysis of survey responses.

There are additional questions that can be answered with the existing data, but those questions must be suggested and the data tested to ensure that it can reliably used.