



PERCEPTION OF ADVICE STILL A RISK

In spite of steps taken towards uplifting the professionalism of the financial advice industry during the past few years, there is still much work to be done to address misconceptions about the industry and change the public's awareness and perceptions of the delivery of financial advice.

"Recent research commissioned by Masthead, South Africa's largest independent broker organisation, amongst a number of its members' customers, reveals that most customers rate trust and competence highly amongst their brokers," said Ian Middleton, Masthead MD. "However, there are still investors who are not convinced that brokers meet the standards of some other professions and therefore question what they are paying for. One customer, questioning the amount of commission being charged, believed he was paying for his adviser simply to fill in an application form."

He continued, "To challenge this perception, it is ever more important for financial advisers to establish a rapport with their customers and not only build up a relationship of trust, but also an understanding among customers so they know exactly what they're getting, what they're paying and why. This can be accomplished by following internationally

accepted steps of financial planning." These steps follow a process similar to that followed by medical doctors in providing medical advice, said Middleton. The financial adviser starts by examining the customer's situation, his needs and future objectives, not dissimilar to the process a doctor follows with a patient. This examination involves an in-depth discussion with the customer, eliciting a range of information including a diagnosis of the current situation, an understanding of the customer's time frame for results and how the customer feels about risk.

"This is an important part of the whole advice process, but one that is often not given enough credit for its true value," said Middleton. "Our job, and that of advisers, is to make customers aware of the benefits of this process."

After diagnosis of the current situation and by applying their experience, expertise and resources, advisers are in a position to offer a financial prescription or recommended action plan to achieve the objectives. "Where alternatives are proposed, advisers can highlight and/or minimise the negative side-effects or risks of the recommended plans. Once the suggestions have been implemented, it is important to follow-up or monitor the plan, and to tweak the 'treatment' if necessary."

He believes financial advice has a value and therefore it is reasonable that financial advisers should receive fair compensation for their advice. Likewise, customers must feel they are getting value in return. However, there are still many misconceptions about commissions, fees and the cost of advice, with customers not knowing the options available to them.

"To avoid any misunderstanding and potential breakdown of trust, customers and advisers must agree up-front on what will and will not be delivered; what will and what will not be paid; and how and when the payment will take place."

"While there are customers who are sceptical about the value of financial advice, they will question the need to pay for it," said Middleton. "If we all play our role in promoting awareness about financial advice, we believe customers will increasingly see the value of forming long-term relationships with advisers and this will significantly contribute to improving the general perception of the profession."

