J.D. POWER & ASSOCIATES
McGRAW HILL FINANCIAL

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Insights

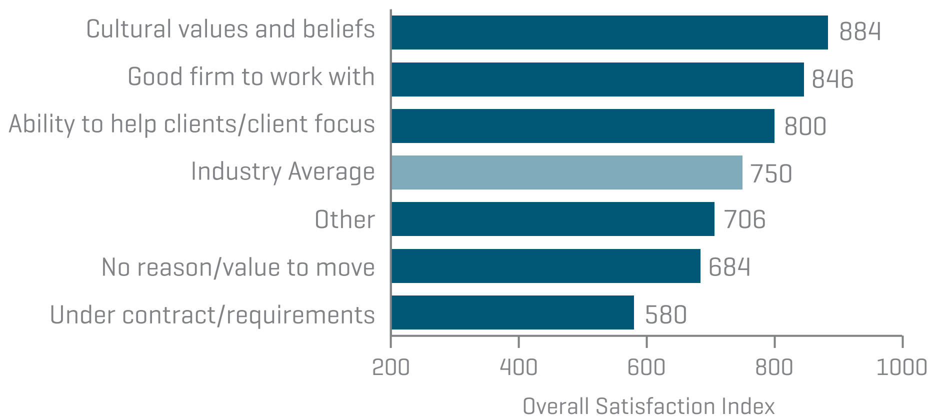
Advisor Satisfaction and its Impact on Advisor Retention and Recruitment

While the majority of financial advisors in the *2013 Financial Advisor Satisfaction Study* do not expect to leave their current firm in the next year, analysis shows that the decision not to switch firms is based on two very different principal reasons, which are observed in advisors' responses to the survey question, *What is the main reason you are likely to remain with your firm over the next year?*

Dedicated advisors plan to stay due to a positive relationship with their firm (ability to help clients/client focus; cultural values and beliefs; and good firm to work with). **Indifferent advisors** plan to stay with their current firm due to less lofty reasons: under contract/requirement; compensation; and no reason/value to leave.

> "While advisor attrition remains relatively low, a significant portion of advisors lack loyalty to their current firm, posing a risk for switching."

PRIMARY REASON TO REMAIN WITH FIRM DURING THE NEXT YEAR AND IMPACT ON OVERALL SATISFACTION



Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study* SM

Overall satisfaction among indifferent advisors is dramatically lower than among dedicated advisors. While indifferent advisors may not plan to leave in the next year, the relationship with their current firm is tenuous at best. The impact and importance of attrition is amplified with financial advisors due to the potential loss of clients, and therefore, assets under management. In the *J.D. Power & Associates 2013 U.S. Full Service Investor Satisfaction Study,* SM 52% of investors say they "definitely will" or "probably will" follow their investment advisor to a new financial services firm. To limit this loss of talent and clients, firms are continually struggling to find the right combination of culture, technology, products, and compensation that generates high levels of satisfaction among their advisors.

The *2013 Financial Advisor Satisfaction Study* indicates that certain actions may offer firms an opportunity to differentiate themselves beyond financial compensation. By understanding drivers of a positive work culture most important to advisors, firms may be well-positioned to create an environment that elicits advisor dedication rather than indifference.

TOP FIVE DRIVERS OF A POSITIVE CULTURE

Employee Advisors	Independent Advisors
Firm cares more about the customer	Firm cares more about the customer
Firm is honest	Firm is the best place for me and my clients
Firm is entrepreneurial	Most recent problem, question or change resolved
Firm has leaders whose actions support my firm's mission and values	No problems experienced in the past 12 months
Firm is the best place for me and my clients	Advisor has an appropriate work/life balance

Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study*SM

Based on the above drivers of a positive culture, J.D. Power and Associates recommends focusing on the following areas to help ensure the culture and environment created promotes true advisor dedication:

- **Management quality:** Advisors want to know they are providing value to their clients and that the relationships they have developed with clients will be further strengthened through their relationship with the firm and management. A key area of focus should be on actions that support this expectation.
- **Problem prevention and handling:** A key foundational focus for investment firms should be problem prevention. Firms that effectively manage and address problems demonstrate the value they place on removing obstacles and issues that impede the success of their advisors.
- **Value-added support:** Advisors expect firms to provide the structure and support that will help them effectively service their clients. Firms that offer their advisors tools, knowledge, and resources that add value to their relationships with clients engender high levels of satisfaction.

Management Quality

Because putting clients first is pivotal to a positive culture from the perspective of advisors, firms must clearly communicate and demonstrate how their actions accomplish that expectation as they strive to deliver on these KPIs.

Removing Barriers to Client Interaction

One way to demonstrate this focus is ensuring that advisors have enough time to spend with their clients. Fully 52% of indifferent Employee advisors indicate they do not have enough time to spend with their clients, compared with the 78% of dedicated advisors who indicate the same. So, what is preventing advisors from spending time with their clients? The most-frequently cited reason among both Employee and Independent advisors as to why they don't have enough time to spend with clients is the time they must spend on administrative and compliance-related tasks. While compliance and administrative tasks are a function in the investment business, setting the right expectations and influencing perceptions related to non-client work are imperative.

TOP THREE REASONS FOR NOT ENOUGH TIME TO SPEND WITH CLIENTS

Employee Advisors		Independent Advisors	
Spend too much time on home office required administrative tasks	65%	Spend too much time on compliance-related tasks	49%
Spend too much time on compliance-related tasks	62%	Spend too much time on home office required administrative tasks	43%
Do not have enough support	50%	Spend too much time preparing materials for client meetings; Have too many clients	27%; 27%

Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study*[SM]

Focus on Problem Prevention and Prompt Resolution

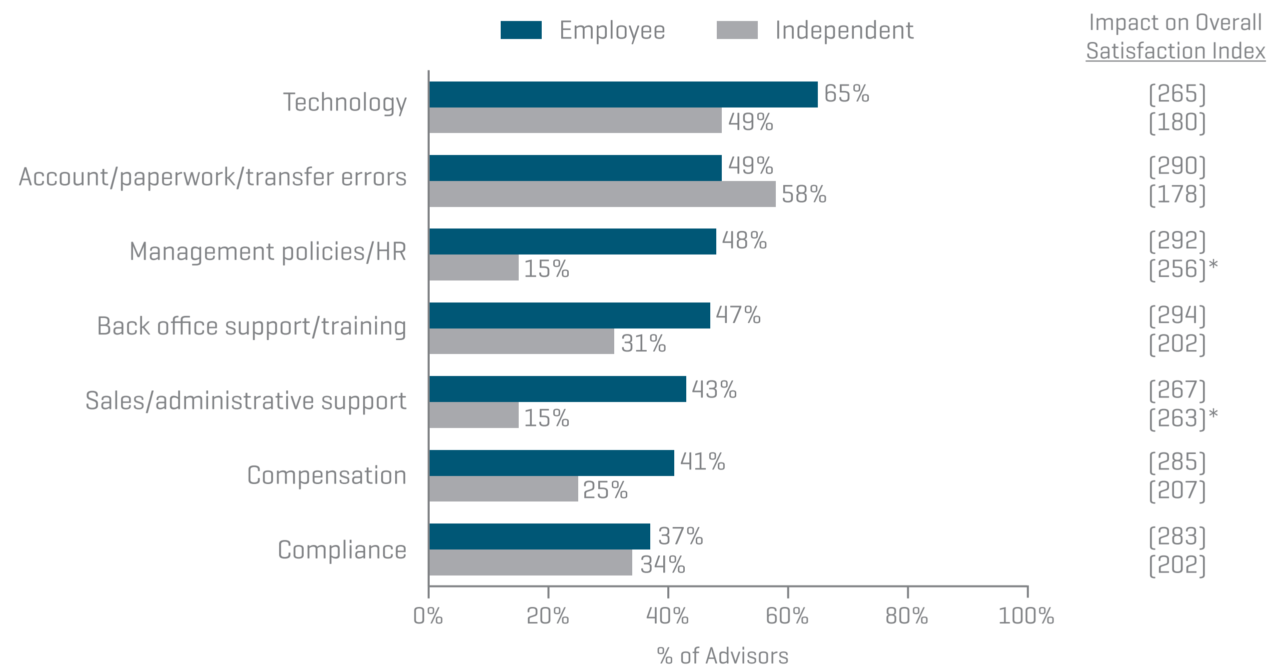
Another area of focus that supports a strong corporate culture and demonstrates a commitment to advisors is problem prevention and resolution. The impact of not meeting problem-related KPIs—Employee advisor satisfaction declines by 237 points (on a 1,000-point scale), and Independent advisor satisfaction declines by 146 points—underscores the significant effect that preventing and efficiently resolving advisor issues may have.

Eradicate Problems

For each of the past 3 years, more than 40% of both Employee and Independent advisors have indicated experiencing at least one problem during the prior 12 months,and only 51% of Employee advisors in the 2013 study indicate that their most recent issue was resolved. While eliminating all problems is not possible, management must clearly communicate their commitment to reducing problem incidence and demonstrate the actions they are taking to tackle the most frequent and impactful issues for advisors.

The two most-frequently cited problems among both Employee and Independent advisors are technology and account/paperwork/transfer errors. However, the relatively high incidence of all categories of problems and the large impact they have on overall satisfaction indicate that experiencing multiple problems is more central to the issue than the specific nature of the problem.

PROBLEM TYPES AND IMPACT ON OVERALL SATISFACTION



*Caution: Small sample size (n=30-99)
Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study* SM

Given the potentially expansive and varied nature of problems that investment firms face, the most prudent course of action is to implement a robust problem management process in concert with regular updates regarding how the issues most often experienced are being addressed.

Value-Added Support

At the heart of the relationship between advisors and their firm is the need for structure and support to help advisors effectively service their clients. While there are trade-offs in any relationship, advisors' perceptions of the value added by having a relationship with a firm may have a considerable impact on their overall satisfaction and employment choices.

Focus Efforts on Limiting Non-Client Service Work

As discussed earlier, activities taking away from time spent on client-focused work is often perceived negatively, which is reflected in the Key Performance Indicator related to asking advisors if they do too much non-client service work. When firms do not meet this KPI, overall satisfaction among Employee and Independent advisors declines by 183 points and 118 points, respectively. Determining which type of non-client work is taking up advisors' time and how it impacts their workday is the first step in addressing this issue.

ASKED TO DO TOO MUCH NON-CLIENT SERVICE WORK KPI

	Employee Advisors		Independent Advisors	
	Doing Too Much	Not Doing Too Much	Doing Too Much	Not Doing Too Much
Mean percentage of hours spent on compliance-related tasks	12.5	6.7	14.4	9.3
Mean percentage of hours spent on current client-related activities	64.4	67.3	53.8	59.0
Mean percentage of hours spent on new business growth	19.9	24.1	19.3	18.8

Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study*SM

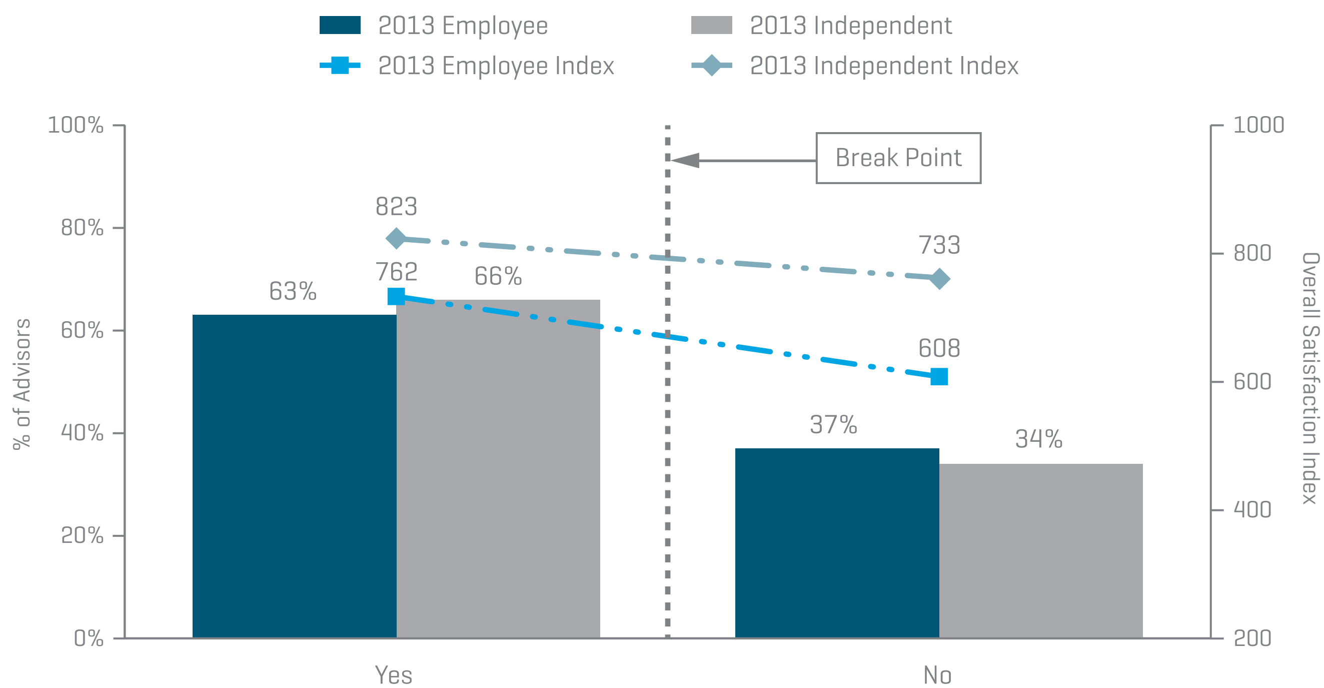
The key difference between advisors who have too much non-client work and those who do not is the time spent on compliance-related tasks. Following are two options that may help offset the negative impact of satisfaction of spending too much time on non-client work:

1. The first option is to provide advisors with a dedicated administrative and/or compliance officer. While having this type of defined and dedicated support will not eliminate compliance-related tasks altogether, it communicates to advisors that their firm is making every effort to limit the impact these required activities have on the time spent with clients.
2. Providing dedicated support and compliance officers for advisors may not be economically feasible for all firms; however, other opportunities exist that may decrease the actual and perceived negative effects of non-client work by using technology that aligns with advisors' daily workflow and providing effective communication and support that ensures timely responses to questions and minimizes the efforts required to complete non-client work.

Ensure the Availability of an Internal Support Network

Providing advisors with mentoring programs is another value-added support that investment firms should consider implementing. Offering a mentoring program demonstrates a firm's commitment to their advisors, while also helping new advisors learn how to perform their job more efficiently without having to spend excess time learning the process on their own. Even for experienced advisors, a mentor who is able to help them avoid common problems, pitfalls, and issues that would otherwise negatively impact satisfaction may be an invaluable asset.

FIRM OFFERS A MENTORING PROGRAM KPI



Source: *J.D. Power & Associates 2013 Financial Advisor Satisfaction Study* SM

Eliminating the Drivers of Indifference

As long as clients continue to have a higher degree of loyalty to advisors than to firms, there will always be a competitive market for talent in the wealth management industry. Firms that are able to attract the most talented advisors and turn them into dedicated team members do so by providing them with a superior experience, which includes:

- Preventing and removing organizational barriers to effective client interaction
- Allocating appropriate resources to eradicate problems
- Structuring problem management systems and processes to ensure prompt and complete problem resolution
- Investing in efforts to limit non-client service work
- Ensuring the internal support network is structured to help advisors acclimate to their firm's culture

Firms that are able to implement the components of a superior advisor experience may benefit from higher levels of advisor retention, advocacy, and loyalty. Increased retention reduces the cost of recruiting, while improved perceptions of a firm's brand image among existing advisors may translate into more recommendations to assist in future recruiting efforts. Further, firms that retain their advisors may also experience higher rates of client retention due to their loyalty to their advisor. The highest performing firms in the *2013 Financial Advisor Satisfaction Study* ensure that management's actions support a client-focused culture by removing barriers to meaningful client interaction, aggressively preventing and resolving advisor problems and providing the tools and resources to make daily work life easier and more productive.

For more information, please contact:

information@jdpa.com or
888-JDPOWER (888-537-6937)