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EXECUTIVE SUMMARY
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The value of professional financial advice for consumers in a crisis:
Experiences of financial advisers during the COVID-19 pandemic

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Background

The value of financial advice is often argued to be demonstrated by long-term benefits, such as advice improving the likelihood of achieving financial and personal goals and protecting against downside risks and other ills. There is no better time to put these assertions to the test than in a global crisis like the COVID-19 pandemic.

A crisis is a stressful or hazardous event or series of events that leads to considerable upset and disruption to the extent that familiar coping strategies may be ineffective. Individuals' perceptions of and ability to manage their situation, including their access to resources, means that some may cope effectively, while others enter a state of crisis. Resources can include professional advice which is particularly useful when task complexity increases. However, the decision-making literature shows that decision-makers often conduct their own information search on the decision task and expert before engaging their services or trusting their advice (Schrah et al., 2006). Thus, in a crisis situation where emotions and stress levels are elevated and critical decisions need to be made, those who have an existing relationship with a trusted professional are more likely to have the ability to react swiftly and appropriately when faced with decision-making under increased uncertainty.

Crisis intervention reduces harm by removing vulnerabilities, building or rebuilding coping and problem-solving abilities, providing emotional support and developing an action plan to buffer against similar future situations (Roberts, 2005), thus we can interpret the role of the financial adviser as a crisis intervention role. The design of crisis intervention varies with differences in the levels of intensity and duration of various crises, the individuals' reactions to a crisis, and those providing the crisis intervention. Financial advisers regularly find themselves working with clients experiencing multiple crises simultaneously (both personal and market-wide), and often multiple times over the course of their client-adviser relationship. Their role is complex, particularly when financial advisers may not be trained to face health crises like nurses, doctors and first responders, or social crises such as divorce, death of a loved one or loss of employment, like psychiatrists, psychologists, counsellors, and social workers.

Scope

The significant economic, health and personal impacts across the community of the COVID-19 pandemic offers the opportunity to examine the nature of professional financial advice in a crisis compared to non-crisis norms and the financial and non-financial outcomes for consumers. This report investigates:

- how financial advisers respond to new and existing client demands during a crisis;
- the role of the client-adviser relationship in enhancing value for the client in a crisis situation and whether an established relationship better prepares clients for a crisis; and
- whether financial advisers perceive the value of advice to clients to be different during times of crisis, and, if so, how.

This research provides insights into the value of professional financial advice to consumers experiencing crisis, as perceived by 21 Australian financial advisers surveyed and interviewed at the height of the first wave of the COVID-19 pandemic in 2020. This is the second stage of a broader study investigating the value of professional financial advice to clients which will be extended in the future to explore clients' perspectives and their financial data.

This research highlights that the COVID-19 pandemic was not as impactful a crisis for long-term advised clients compared to other crises or to non-advised clients because they were prepared to avoid emotionally driven decisions and to stay on track to achieve their financial and lifestyle goals. Forced changes to operations during COVID-19 through adoption or extension of technology posed challenges to establishing new relationships and providing in-person comfort when clients most needed it, but technology offers significant opportunity in terms of time and cost savings beyond the current crisis.

References

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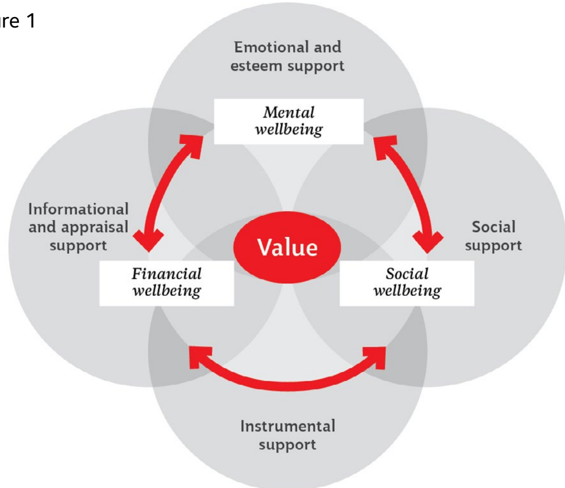
Key findings

- The value of advice was perceived to be greater during a crisis due to the comfort provided by having a financial adviser to provide reassurance and strategic advice to support better decision-making.
- The provision of emotional and esteem support was considered a vital first step in the advice process, to further build trust and reinforce connection with clients to provide them with the mental space to deal with the decisions to be made.
- It was generally agreed that extra emotional support was required during personal crises, such as loss of a loved one or job loss, rather than a public or global crisis, such as the COVID-19 pandemic, where everyone is experiencing a similar financial phenomenon.
- As part of a continual education process, proactive client engagement during the COVID-19 pandemic was used to convey the normality of market fluctuations and outline information or policy changes specific to the pandemic. Clients were reported to feel more informed and reassured and were observed to panic less and maintain behaviours consistent with their long-term goals, such as investing to take advantage of the downturn.
- Financial advisers providing secondary services, such as liaising with Centrelink and insurance companies, was reported to reduce the mental load carried by clients in a crisis and free up clients' time, providing them space to grieve and heal. Stronger client relationships were also reported to enhance an adviser's ability to identify the need for a third-party referral.
- Strategic advice during a crisis was valuable in and of itself, but trust within the client-adviser relationship had a significant impact on the application, conveyance and assimilation of that technical knowledge.
- New clients seeking advice for the first time or returning to an adviser after a period of no advice were perceived as more anxious during the current crisis and requiring more support than long-term advised clients, especially compared to clients that had previous exposure to the advice process with their adviser during previous crises.
- The relationship long-term advised clients have with their adviser was reported to increase the value of advice through reducing stress and increasing resilience associated with regular maintenance of a financial plan, prior education and behavioural coaching, and reassurance during a crisis.
- The social support associated with strong client-adviser relationships was beneficial for clients because financial advisers reported they better understood long-term clients' needs and objectives and were better able to identify changes in their behaviour and risk tolerance.
- The lack of in person contact with clients during the pandemic presented additional challenges in terms of building relationships and securing agreements with new clients; however, technology provided efficiencies in terms of cost to serve and ability to provide timely advice.

New conceptual framework

Personal finance is an emerging profession and the body of knowledge to support the profession also requires development. Thus, without an existing framework established in the literature for financial advice in a crisis, a key outcome of this project is a conceptual framework of financial adviser actions and client outcomes (see Figure 1). This framework was developed through the iterative process of coding and analysis of participants' responses to interview and survey questions and the identification of themes closely related to the constructs featured in social support theory. We argue that financial advisers' support can moderate a client's perception of general life or financial stresses and reduce or eliminate the client's adverse reaction to the situation and in turn impact the interconnected financial, mental, physical and social outcomes of client wellbeing. While not all types of support are necessary, clients receive the greatest value from professional financial advice when financial adviser actions across all social support domains align to address the holistic wellbeing of the client.

Figure 1



Conclusions

Financial advisers play an important role during periods of crisis. The long-term value of advice for clients in ongoing advice relationships was demonstrated with both a lesser crisis response and more confidence in goal achievement. Advised clients were reported to be in a better financial and behavioural position to buffer stress or to take advantage of the adverse events. While advisers engaged with new clients where possible, the ability of some previously unadvised clients to obtain assistance in the middle of a crisis was challenging. The COVID-19 pandemic highlighted a lack of preparedness for such situations and the difficulty some consumers have in effectively self-managing their financial affairs in the long run. This reinforces the need to continue to pursue the agenda set out by government and the sector of rebuilding consumer trust and confidence in the financial advice profession as this may lead to more consumers accessing advice in a more timely manner. Despite the substantial personal and economic costs of the COVID-19 crisis, the silver lining for the financial advice profession (and their clients) is the apparent increase in recognition of non-advised consumers of the need to seek support and the advances made in terms of business practices regarding uptake of technology to provide access and efficiency.

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