Consumers really DO value expert advice

Tony Vidler | Strictly Business | 11 March 2013

As an industry – sorry...profession – we continue to grapple with explaining and demonstrating the value that advice can create. There is a tendency for consumers (and, very often, advisers themselves) to commoditise financial advice and assess the worth of advice in some simplistic numerate form. Naturally, the value of financial advice can often be given a definitive score:

- the degree of outperformance in a portfolio can perhaps be attributed to the advice component; or;
- the tangible service components from an advisory practice can be given a dollar value; or;
- the improvement in customer net worth or cash flow from advice intervention.

Such areas become relatively easy ways of determining that advice presented some form of value to a consumer.

Of course, the reverse is equally true: negative value can be attributed to advice – often very unfairly. e.g. Dollars lost from an investment portfolio, insurance premiums paid for a product that doesn't perform at claim time, mounting debt levels from poorly advised borrowing strategies.

The problem with assessing the value of advice from this one-dimensional perspective is that it ignores entirely the many positive emotional and behavioural impacts that cannot be readily quantified.

What triggered this line of thought was a recent online debate with a detractor who was essentially arguing that an adviser's value should be judged on the basis of portfolio outperformance. The adviser asserting this seemed quite oblivious to the fact that there are financial advisers who are not just investment focused. At the time I wrote:

> “Now I am sure that advisers provide enormous value in any number of ways, and
>
> suggesting that the value of advice is centred upon average weight of return seems to miss the point of what the adviser delivers in most cases”.
>
> His response? “These are ridiculous claims by Mr Vidler”.

Are they? I didn't think they were ridiculous claims at all. In fact, I began researching the topic to determine what evidence there was for or against the value that financial advice delivers.

The bad news, unfortunately, is that there really is not an abundance of research on this issue yet. There is sufficient evidence, however, to make a good case that expert professional advice does add value. And that is the key point that had eluded the detractor and myself! It is incorrect to assert that *financial advice* adds value – clearly some does, and some does not. However *professional expert advice* does definitely add value in the eyes of the consumer.

It became obvious that before attempting to assess the impact (positive or negative) of the financial advice component, we need to understand how expert professional advice influences behaviour and is assessed by the consumer. Do they see value in it?

I came across a very interesting piece of research – [How Expert Advice Influences Decision Making] – examining this particular issue.

Overlaying the experiment was the implicit understanding that quality of advice is highly variable. The range of expertise and advice that can be given to people with the same fundamental issues and the same facts can vary, or be deemed to be different by the consumers fundamental issues and the same facts can vary, or be deemed to be different by the consumers themselves. That is - the same knowledge can be delivered differently and the same knowledge can be received differently.

Perhaps most important was the finding that the perception of adviser expertise was in itself a decisive factor in the creation of "value" to the consumer. People were more likely to act upon advice given by someone they considered to be an expert - even when the advice from someone they considered to be a novice was precisely the same. People are more likely use the advice of the expert.

The research subjects were given the same facts and information from the advisers. Some advisers were positioned as experts, some as novices. The facts and information delivered to the test group was the same however. On completion, not only did the research subjects use the experts' advice more, but also they rated it as being more valuable than the advice provided by the novices. Yet, the advice was exactly the same.

In part, it seems that the difference can be explained by what the researchers termed "opinion difference". In plain English, the consumer has an opinion before advice is given. If the advice given is close to the consumer's own opinion, they are likely to follow the advice. If the opinion difference is large, they are unlikely to follow the advice. Expert status however, appeared to close that gap, meaning that even if the opinion difference was large, subjects were more willing to follow the advice.

So, if the opinion difference is fairly small plus the consumer is receiving the advice from an expert, then the consumer is VERY likely to follow the advice.

Another interesting observation from the study was the speed of response to advice from experts. Perhaps as expected, the consumers responded more quickly to what they perceived to be expert advice. Unexpectedly (for me, anyway), when the opinion difference between consumer and expert was high, the consumer's speed of response was faster than when there was little opinion difference.

From a practitioner's perspective, there are several quick takeouts from this:

1. There is value in being, and being perceived to be, an expert. Anything less than being an expert relegates you largely to "novice" in reality.

2. It pays to know what the consumer's opinion is, prior to giving advice. The difference between your opinion and theirs has an impact on the likelihood of them acting upon advice, and the speed with which they do so.

3. Expert professional advice does change consumer behaviour. It can also change it very quickly. The consumer sees it as being more valuable, too.

So there you have it - professional financial advice can definitely change a consumer's behaviour and circumstances, and do it more quickly than would otherwise have occurred (if, indeed, it would have occurred at all).

In the question of whether there is value in expert advice, I would contend that the increased likelihood of creating positive behavioural and circumstantial change for consumers is perhaps the greatest value of all.

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