Summary

This case study is conducted for a local Dutch commercial bank. The bank doubts whether it is wisely to allocate more internal resources to the sales of the their current financial advice proposition. These doubts are fueled by two events: 1. Bank employees experience resistance against advisory fees and 2. The sales figures of the current advice proposition are disappointing. This study provides scientific as well as empirical insights in the causes of these events and ultimately provides recommendations for the local bank as well as for the bank headquarters.
Colofon

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This is a redacted version of the conducted study. Name of the bank, as well as competition-sensitive information are removed. The author can be contacted for more information.
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1. Context

On January 1, 2013 new regulations for the financial sector were set in the Netherlands. These new regulations were a response to some major global abuses in the financial sector which, according to many, lead for example to the world wide financial crisis. The new laws and rules are set in order to create a more equal playground in which consumers are better protected against financial institutions. In order achieve this; Dutch policymakers felt that the financial sector should be more open and transparent towards consumers.

Among other things, this lead to a commission ban and transparency requirements with regards to providing advice on complex financial products. In concrete terms, this means that from January 1, 2013 financial institutions can only be compensated for providing financial advice by presenting the bill directly to the consumer. Besides, the costs for advice should be specified explicitly on the bill and may no longer be included in the price of the financial product. This made it hard for consumers to see how much they actually paid or had to pay for financial advice. Policymakers hope that these measures will empower consumers and force financial institutions to compete more with each other and ultimately handle more in favor of consumers.

As a consequence of the new regulations, a commercial Dutch bank was partly forced to renew its advice proposition. They decided to offer three different types of advice:

- **Execution only**: The consumer obtains no advice and closes the product itself by the internet
- **Compact advice**: This type of advice is only suitable for consumers who already know what financial product they want to close. The consumer only obtains advice from an advisor on the characteristics and risk of the corresponding product.
- **Comprehensive/Integral advice**: Comprehensive and Integral advice are suitable for consumers who want to understand their current and future financial situation. Besides they are not yet sure which financial products suit them the best. There are four comprehensive/integral advice directions:
  
  * **Care for bereaved (CB)**: Comprehensive advice in which ultimately the height of a term life insurance is set. Costs: 550 euro
  
  * **Future Income (FI)**: Comprehensive advice on the retirement of a consumer. The consumer gets advice on the amount of money he has to start saving right now in order to fulfill his dreams (for example: maintaining the same standard of living). Costs: 550 euro
  
  * **Financial planning (FP)**: Integral advice, only available for wealthy customers. Within this advice all the customer’s goals are analyzed. Next the achievability of the goals are examined. Finally recommendations are made on how to achieve the plans and goals. Costs: 1750 - 2250 euro

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1 Complex financial products are: term life insurances, mortgages, investment products, individual disability insurances and bank saving products (AFM, 2014).
2. Research problem

Some local banks are convinced that the sale of financial advice will be an important and significant component of the daily business of banks. Therefore these banks are willing to allocate more internal resources to the sale of financial advice. However, management at one local bank has doubts if banks will be able to successfully sell financial advice. These doubts are fueled by two problems that arose since the introduction of the new regulations and the new advice directions.

1. Resistance against advisory fees
Since the introduction of the new regulations financial advisors encounter resistance from consumers against the advisory fees. Many consumers undertake debate with financial advisors about the fact that they have to pay for advice. According to the management of the bank, resistance was at least displayed against the cost of financial advice on mortgages, but probably in others cases as well.

2. Disappointing sales figures of CfB, FI and FP.
The sales figures of the advice directions CfB, FI en FP are very disappointing throughout all the local banks.

Before allocating more internal resources to the sale of financial advice, this local bank wants to know more about the causes of both problems. They wonder if consumers actually want to pay for financial advice from banks. This results in the following research question:

What factors influence consumer resistance against advisory fees at banks and the low sales figures of comprehensive/integral advice, to what extent are local banks able to influence these factors and how does this influence the revenue model of the bank?

The main goal of the study is to identify the relevant factors that influence resistance against advisory fees and the disappointing sales figures of comprehensive/integral advice. Besides, the extent to which the bank can influence these factors will be determined in order to ultimately provide more insights in the extent in which banks will be able to sell (comprehensive/integral) financial advice.
3. Research Design

At the beginning of this study little is known about the causes of both of the problems outlined. Therefore this study mainly has an exploratory nature.

Literature study
In order to determine what factors cause both the problems outlined a literature study is conducted. However, it seemed that little research has been done on this specific topic so far. Subsequently there has been looked at factors whose influence on resistance/adoption already has been proven in different services contexts. Because it was uncertain whether or not these factors influence resistance and adoption in this specific context as well the factors where not used as input for the interviews. Instead, in a later stadium the factors obtained from the literature where linked to the empirical results from this study.

Qualitative interviews and questionnaires
After the literature study both bank employees and consumers have been questioned about the factors that possibly influence resistance/disappointing adoption. This holistic approach is chosen because of the uncertainty at the beginning of the study about whether the causes of resistance/disappointing adoption where related to consumers, the bank or both.

Bank employees are questioned through open interviews. This enables the researcher to create a broader and deeper understanding about a certain phenomenon compared to other research methods (Babbie, 2007).

Consumers are questioned through semi-open questionnaires (send by mail). Ideally, these consumers where also questioned by interviews but this was not feasible because the respondents lived all over the Netherlands. This has negative influence on the validity of these results (Babbie, 2007).

Respondents
First of all, ten randomly selected bank employees where interviewed. All of them had a function closely related to advising. Four of them were assistant financial advisors (AFA), responsible for the initial contact with customers. Four others were financial advisors (FA), who are responsible for the provision of advice. The last two were account managers private banking (PBA), responsible for providing advice (including FP) to wealthy customers.

Firstly, these bank employees were asked whether or not they recognized the presence of resistance against advisory fees and in what scenarios resistance was displayed. Secondly they were asked whether they could explain why the sales figures of comprehensive advice where that disappointing.

In order to determine the causes of resistance against advisory fees also a questionnaire was send to consumers who recently closed a mortgage or who were planning to close a mortgage in the near future. In a perfect scenario, questionnaires would have been sent to consumers showed resistance advisory fees in other scenarios. However, these consumers were not available.
Another questionnaire was sent to thirteen couples in the age between 29 – 60 years who are the owner of a house. According the bank’s national headquarters, this audience holds many potential purchasers of the advice directions CfB and FI. The goal of the questionnaire was to get an insight in the attitude of this audience towards CfB and FI, as well as to the bank as a source for paid financial advice in general.

4. Literature

4.1 Resistance versus adoption

According to the literature, there is a distinction between resistance against a new product and the adoption/rejection of a new product, despite not many researchers reckon this (Kleijnen, Lee, & Wetzels, 2009; Kuisma, Laukkanen, & Hiltunen, 2007). Resistance can be described as an active type of behavior in the form of resistance against a new product or service. Adoption/rejection can be described as a passive form of behavior, resulting in a decision (not) to adopt a new product or service (Kuisma et al., 2007). Ultimately, resistance doesn’t necessarily lead to the decision not to buy a new product.

4.2 Factors influencing resistance and adoption

Some authors believe that the factors influencing adoption of new services don’t necessarily are the same factors influencing resistance (Molesworth & Suortti, 2002). However at the same time some authors state that the factors influencing adoption of new services can provide useful insights to the emergence of resistance (Ram, 1987). Therefore, no distinction has been made at the beginning of the study between factors influencing adoption and resistance. In a later stadium factors obtained from the literature are linked to the actual factors that cause resistance and/or disappointing adoption in this specific context.

Factors related to consumers

* Uncertainty, perception of risk of the new service and trust in the service provider

New products entail uncertainty (Kleijnen et al., 2009). Uncertainty refers to the unpredictability of the outcomes of the adoption of a new product and thus to a lack of information (Rogers, 2003). According to Rogers (2003) uncertainty causes that the consumer perceives (financial) risks, which again is an important factor in obstructing adoption. Risk can be described as the probability that the adoption of the new service causes negative consequences (like a loss of money) (Kleijnen et al., 2009).

Trust in the provider of the service is the most important mechanism to reduce uncertainty and perceived risks (Maas & Graf, 2008). Among other things, trust is affected by reputation (Malaga, 2001) and the relationship/experience from the consumer with the service provider (Valtakoski, 2014).

* Perceived value of innovation

The perceived value of a new product by consumers is considered as the most important motive to adopt this new product (Sheth, Newman, & Gross, 1991). Perceived value can be described as the ratio between
the perceived advantages of the new product (economical/functional/psychological) and the required resources to adopt to new product (money and time for example) (Schiffman, Hansen, & Kanuk, 2008). Perceived advantages should be higher than the costs to adopt the new product. In case of financial advice consumers seem to have needs for advice in case they are highly involved in the adoption process of a new financial product, but the outcomes of the outcomes of the product are uncertain because of the complexity (Mortgages) (Beckett, Hewer, & Howcroft, 2000).

In case the consumers are highly involved in the adoption process, and the outcomes of the adoption of a financial product are clear they likely don’t need financial advice, because they are able to make a rational decision by themselves (for example with insurances) (Beckett et al., 2000). In this case the consumer probably doesn’t perceive many advantages of financial advice.

* Perceived relative advantage
Besides value, Consumers need to perceive advantage of a new product or service compared to the product it replaces (Rogers, 2003) and to existing alternatives on the market (Valdani & Arbore, 2013). According to Rogers (2003) this is a necessary aspect to drop a new product successfully in the market.

Factors related to the bank

* Superiority of the new service
As mentioned, consumers need to see the advantage of a new service compared to the service it replaces and the available alternatives on the market. The other side of the same coin dictates that the organization should create a service that effectively is better than competitive alternatives (Cooper, Easingwood, Edgett, Kleinschmidt, & Storey, 1994). In order to create such a service it’s important to understand the needs of consumers and the way they adopt new products. (Cooper et al., 1994).

* Sufficient preparation and training of employees
According to Cooper et al. (1994) the most important phase in creating a successful, new service is the preparation phase. In this stage marketing activities should be aimed at creating commitment and believe in the new service among first line employees (AFA’s, FA’s and PBA’s) (Cooper et al., 1994).
In addition to commitment and faith it is essential that first line employees are well trained to provide the new service. Cooper et al. (1994) argue that a new financial service will not generate the anticipated profit when frontline employees who have contact with customers are not trained well enough. When new products are intangible, such as financial services, it is very important that employees believe in the product and are well trained, because the provision of financial services is inextricably linked to these workers: they are almost the product (Cooper et al., 1994).

* Effective communication of the innovation
According to Cooper et al. (1994), it is important that service providers with a new service apply an effective communication strategy. An effective communication strategy is one that succeeds to bring the
new service to the attention of the intended audience. In addition, an effective communication strategy includes that the advantages of the innovation are made visible to the consumer (Cooper et al., 1994).
5. Outcomes of the interviews and questionnaires, linked to the literature

5.1 Resistance against advisory fees

In contrast to the expectation at the beginning of this study, the empirical findings make clear bank employees (AFA’s, FA’s and PBA’s) do not perceive any resistance to the advisory fees related to new mortgages. Among other factors this appears to be so because consumers start to get used to the fees, the consumer doesn’t have to use his own money to pay the fees and ultimately the consumer doesn’t have any other choice if he wants to close a mortgage. Nevertheless, bank employees still perceive some resistance to advisory fees in certain situation and with certain products\(^2\). The main causes of resistance against advisory fees are:

- Older consumers (>35 years) are sometimes still used to the old situation wherein they had the feeling that they didn’t had to pay for advice.
- Older consumers who shut a financial product in the past. They believe they have paid for the advice in the past. Now that their product expires they need to pay again for advice, which gives them the feeling they have to pay twice for the same product.
- The height of the advisory fees compared to:
  - the amount of work the advisor have to carry out in order to provide the advice
  - the increase in mortgage
  - the premium of a life insurance fee (BfG)
  - The amount of money they are able to save each year (FI)
  - Compared to the uncertain outcomes of the advice (BfG and FI)

According to bank employees the resistance against advisory fees has been declined since the introduction of the new regulations. The main reasons for this are that consumer are getting used more and more to the advisory fees. Besides this, less and less consumers are used to the old situation in which the consumer had the idea that he didn’t had to pay for advice. Bank employees can counter some of the existing resistance. Resistance, related to the height of the advisory fees can be countered less. Even many of the bank employees think the advisory fees are too high.

Does resistance lead to the disappointing sale of comprehensive advice?

The research findings indicate that consumers do show resistance against the advisory fees of comprehensive advice (mainly CfB and Fi). This resistance is often coupled with the rejection of these advice routes. However research findings indicate that resistance on itself isn’t a factor that influences the disappointing sales of comprehensive advice. Some factors (like the height of the advisory fees) lead to both resistance and disappointing sales. Though, there are also factors that don’t lead to resistance but do affect the disappointing sales of comprehensive advice.

\(^2\) In case: life insurance policies expire, people want to shut individual life insurances, people want to increase their mortgage with a small amount and in case they are confronted with the advisory fees related to CfB and Fi.
5.2 Disappointing sales of comprehensive/integral advice

The outcomes of the interviews and questionnaires indicate that the disappointing sales figures of different advice routes are partly caused by different factors. All these factors and the way they are linked to the literature are summarized in figure 1. An outline of these factors will be given below, including the advice routes that they influence. At last the extent to which the bank is able to influence these factors will be mentioned.

* Uncertainty about the new service and perception of risk
As mentioned, uncertainty and perception of risk are a major obstruction for the adoption of new product. Especially financial advice is perceived as risky because it is an intangible, heterogeneous service that is established in cooperation with the financial advisor (Hoffmann, Franken, & Broekhuizen, 2012). Besides this, financial services are infrequently purchased and consumer seem to have little interest in and knowledge of the subject (Hoffmann et al., 2012). This causes that it is hard for consumers to judge up front whether the advice provides advantages for them. Even after the advice is given it may not be sure whether the advice was good since the true advantages of the advice often only get visible when a certain event occurs (death of relatives (CfB) or reaching the age of retirement (FI)). Neither the local bank nor the bank headquarters are able to influence this.

* Perceived trust in service provider
Trust can function as the mechanism to reduce the perception of risks (Maas & Graf, 2008). The results of this study indicate that trust in the banks is among the lowest of all sectors. Among other factors trust is arises from ‘reputation’ (Malaga, 2001) and ‘the relationship/past experiences with the provider of the service (Guenzi & Georges, 2010). First of all the reputation of banks is bad according to many studies (Edelman, 2014; KPMG, 2013). Secondly, trust arises from the relationship and experiences of consumers with the service provider. However, a growing segment of consumers less and less personally connected with the bank (employees) since more and more bank affairs are dealt with online. This means that the necessary trust based relationship (for providing paid, F2F financial advice) between the bank (employees) and a growing segment of consumers is lacking. Neither the local bank nor the bank headquarters can influence this in the short-term. Is is even more likely that the personal relationship between consumers and bank employees will be missing more and more.

* Perceived value of the new services
According to Shet et al. (1991) perceived value of a new product is the main motive to adopt it or reject it. As mentioned before perceived value is the ratio between the advantages of the new service and the costs to acquire the new product. The obtained empirical results of this study indicate that there are several factors that negatively influence the perceived advantages.
Factors that influence the adoption of new services
(obtained from literature)

Factors that influence the adoption of new services
(obtained through this study)

Are local banks able to
influence these factors?

Are bank headquarters able to
influence these factors?

Recommendations

Bank headquarters:

Stop offering the advice route CIB
and/or their current turn-,
over ratio route if the
advantage of offering
them is very
negligible.

Local Bank:

1. Don’t allocate more resources
   to boost the advice rate of CIB
   and/or.
2. Treat PMAs - be prepared for
   the advice route if IF not.
3. To ensure that the advice
   route is available to
   customers who may
   benefit from increased
   communication with clients, in
   order to avoid the cost of
   a better way.

Figure 1: Generic model - from research problem to recommendations
First of all, there is lack of trust in the bank (employees). Secondly banks are considered subjective since they only provide advice on their own products. Therefore banks have an incentive to give advice into a certain direction in order to sell more financial products. This might not necessarily be in the interest of the consumer. This together makes that consumers don’t consider banks as the most important party when it comes to acquiring financial advice.

Third consumers don’t seem to have a need for comprehensive advice, especially when it comes to closing a life insurance. These financial products are pretty easy to understand and besides that they are easy to compare. This enables consumers to make rational choices about what product suits their needs the best without advice. Bank employees state that consumers often want to secure 100,000 or 200,000 as a life insurance, or want to place their yearly savings at the bank. There is hardly ever the need for comprehensive advice, especially not down to the last euro since the future is uncertain. It makes no sense to calculate how much to save right now since infinitely events may take place that make the calculation inaccurate again.

Above factors influence the benefit side of the advice (especially of CfB and FI). The costs of advice are considered as high in general but even more when the uncertain outcomes are taken into consideration. Also consumers believe that advisors only have a few hours work on the advice, which makes them consider the price of comprehensive advice high as well.

* Perceived relative advantage

New products or services should be better than the things they replace and also better than the exciting alternatives on the market. This study makes clear that for each advice route there are some external substitutes that might influence the sales.

- **CfB:** As already mentioned, consumers often don’t need advice when they want to close a life insurance. Instead they ‘just want to secure a certain amount’ and therefore they do not need advice. All competitors offer execution only variants which connect better to this need.

- **FI:** Salaried Consumers yearly obtain a pension overview. This clarifies the amount of money the consumer will receive when he retires. This makes FI unnecessary. Non-salaried consumers probably don’t build a pension. According to bank employees FI might offer a bit more value for them but when they do need advice they might consider their/a accountant as a more appropriate source of advice (trust/relationship).

- **FP:** The same counts for FP. Wealthy consumers often have their own company and accountant. They might consider him as a more appropriate source of advice as well.

Neither the local bank nor the bank headquarters can change the presence of these alternatives. It also seems to be unlikely that the advice routes can be differentiated in a way that consumers don’t consider the mentioned alternatives as substitutes anymore.

* Superiority of the new innovations

Organizations should create a service that is effectively better than competitive alternatives (Cooper et al., 1994). Bank employees don’t consider the advice routes as superior. From as consumer perspective the
bank employees agree that the advice routes don’t suit the consumers’ needs best. Along other things, they consider the advisory fees too high because of this.

Besides, bank employees consider the use of the advice tools as too complex and too devious for them to use. The advice routes don’t provide the most effective and efficient tools to serve the consumers needs. Besides that there are internal substitutes available for bank employees to use.

The most important substitute is the advice route used to close mortgages (Living). This is the most used advice route because most customers come to the bank with a question related to mortgages. Therefore Advisors have a lot of experience with the advice tools belonging to this advice route (in contrast to the advisory tools belonging to CIB and FI). ‘Living’ covers the subjects ‘death an retirement’ quit intensively according to bank employees. Because of this, they rather deploy this advice route which makes it most of the time unnecessary to use CIB or FI (it is not a substitute for FP). On top of this, the use of the advice route FP is cheaper and in some cases even free of charge for the consumer. The fact that bank employees consider the advice routes (especially CIB and FI) as inferior is caused by many factors of which many cannot be influenced. This prevents local banks or bank headquarters to adjust this view.

* Sufficient preparation and training of new employees

One of the most important phases when introducing a new product is the preparation phase, in which awareness and belief under employees must be created. Also first line employees need to be trained well since they are almost the service itself.

Bank employees state that they don’t control the advisory tools, associated with the advice route well. Also they experienced many errors in the advisory tools, which negatively influence their trust in these tools. Also there have been made many inimitable assumptions in the advice tool, which often lead to incorrect output. Due to the lack of control over the advice tools it takes a lot of time to correct these errors according to the bank employees.

All together, this stops bank employees from actively offering the new service to consumers.

Finally some bank employees hint that some advisors lack the capabilities to have a strategic conversation with consumers in which they identify (latent) needs and match one of the advice routes with these needs.

Local banks as well as bank headquarters can influence most of these factors.

* Effective communication of innovation

An effective communication strategy is one that succeeds to bring the new service to the attention of the intended audience. In addition, an effective communication strategy includes that the advantages of the innovation are made visible to the consumer (Cooper et al., 1994). Actually all of the described factors related to the bank cause that bank employees do not actively offer the advice routes to consumers. Since the bank employees should be the major force to make consumers aware of the advice routes, consumers are often not actively confronted with the advice routes and therefore do not even consider them. When taking all factors into consideration it should be noted that it might not even be a bad thing that consumers are not confronted with the advice routes (especially CIB and FI).
6. Conclusions & Recommendations

At the beginning of the study, it has been questioned whether consumers are willing to pay for financial advice at a bank. The management of the local bank questioned whether it was wisely to allocate more resources to the sales of financial advice. In order to answer this question we studied the factors influencing both resistance against advisory fees and disappointing sales of comprehensive/integral advice.

Resistance against advisory fees still seems to exist, but only in certain situations (not for new mortgages). As stated in the literature, this is partly normal when things change in the perception of consumers (Kuisma et al., 2007). In 2015, resistance has decreased substantially compared to the resistance shortly after the introduction of the new regulations. According to bank employees this is caused due to the fact that more and more people are getting used to the new situation in which consumers have to pay for financial advice. Besides as time passes by less and less consumers are aware of the old situation where advisory fees were included in the cost of the product or paid by other parties as commissions. The resistance that still is exhibited by consumers mainly has to do with the height of the advisory fees. It has not been demonstrated that consumers don’t want to pay for advice only because it’s a bank.

This research has shown that the disappointing sales of comprehensive and integral advice are caused by twelve factors related to both the consumer and the bank itself. Two of these factors (trust and objectivity) seem to cause structural disadvantages compared to some competitors in the market of financial advice in the future. The other factors are mainly applicable to the current advice proposition and do not necessary have to play a role when the bank offers other types of financial advice in the future. This leads to policy implications for the local banks and the bank headquarters.

Recommendation for the bank headquarters

1. Stop offering CfB and Fl.
   According to this study, twelve factors cause the disappointing sales figures of these services of which eight cannot be influenced by nor the local bank nor the bank headquarters. In the literature it is stated that factors that negatively influence adoption of a new service cannot simply be compensated by adding factors that positively influence adoption (Fortin & Renton, 2003). Disappoenting sales figures of these advice routes are a problem along all local banks. Despite the causes are identified only at one local bank, it seems to be unlikely that the disappointing sales of these advice routes are caused by different factors at different banks.

2. Come up with alternative service concepts
   If seems to be useful to look at alternative ways to provide financial advice (instead of F2F). Especially execution only variants (to close life insurances) and variants wherein consumers can provide input
themselves via internet seem to be attractive. This is because consumers use the internet more and more to seek financial advice. Either way, the bank should focus on ‘the needs of consumers’ when developing new types of financial advice in the future instead of focusing on ‘what the bank thinks the consumer needs’.

Recommendation for the local bank(s)

1. Don’t allocate more resources to the sales of CfB and FI.
   As shown in figure 1, twelve factors influence the disappointing sales of CfB and FI of which the local bank is only capable to influence only three. It is not likely that improving these three factors alone will boost the sales figures of these advice routes significantly.

2. Train PBA’s
   The disappointing sales of FP seem to be caused more by factors related to the bank. The local bank can influence some of these factors. According to PBA’s (who are responsible for the sales of FP), there is a latent need for FP among wealthy consumers. Disappointing sales figures are cause because PBA’s are not used to fuel these latent needs. Besides, PBA’s don’t offer FP actively to consumers because they feel insecure working with the advice route and advice tools. Therefore local banks should:

   - Train PBA’s more in the use of the FP advice tools. This will boost the confidence of PBA’s to actively offer FP to consumers
   - Train PBA’s more in conducting strategic conversation with customers. PBA’s should be able to identify the latent needs of the consumer and make the consumer aware of them. This will make it easier for PBA’s to sell FP
7. bibliography


