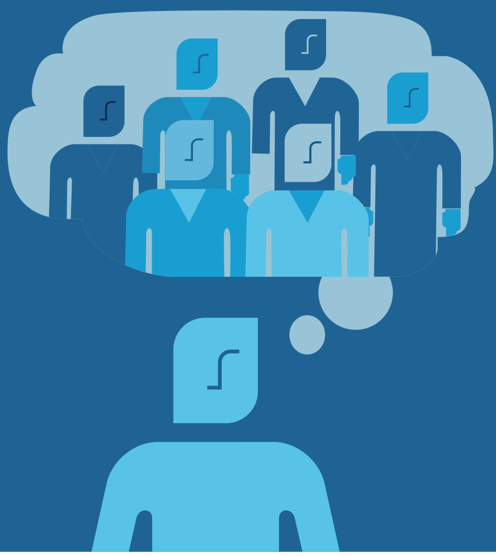

REFERRALS:
A MATTER OF TRUST

Insights from the client perspective

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WHEN IS THE RIGHT TIME TO ASK FOR A REFERRAL?

As financial advisors know, receiving referrals from current clients can be a very effective way to build their practices. Advisors are frequently taught to ask for referrals, and many articles and practice management guides have been written on the topic of why and how to do so.

However, what is really known about the *client* view of providing referrals? For example, is a client more comfortable providing referrals at one point in time versus another? What particular aspects of a given client's experience in working with an advisor influence his or her likelihood to provide referrals?

This paper explores the client perspective on referrals, and provides financial advisors with insights that can help them grow their practice by increasing the number of referrals they receive.

THE RESEARCH

Prudential conducted a survey among 800 decision-makers of American households regarding trust and referrals.[1] Each survey participant was a client of a financial advisor for at least five years. Half of the participants were within five years of retiring, while the other half had retired within the last five years.

Prudential also conducted a survey of 398 financial advisors regarding trust and referrals.[2] While these advisors were not necessarily providing services to the individual clients surveyed, comparing the results may allow advisors to better understand what clients are thinking and what motivates them to make referrals.

Factors that lead to referrals

A two-step process was undertaken to analyze the factors that may lead to an increased likelihood of client referrals. Each survey respondent was asked:

1. Overall, how likely are you to recommend your financial advisor? Clients responded on a scale of 0 to 10, with 10 representing "Extremely likely" and 0 representing "Extremely unlikely" to refer. Clients who answered 8, 9 or 10 were deemed "Likely to refer" their advisor. Those who answered 7 or below were deemed "Not likely to refer."

2. How well their advisors performed relative to a number of various attributes or services. The percentage of advisors rated "Very good" or "Excellent" was identified for both the "Likely to refer" and "Not likely to refer" groups.

THE RESULTS

The research found that recommending a financial advisor comes with a high degree of social risk for clients. In this context, "social risk" is the concern that providing a recommendation would backfire and the client would regret providing it. Client survey respondents ranked recommending a financial advisor as having higher social risk than recommending many other professional service providers, including accountants, primary care physicians and dentists. For their part, financial advisors also ranked these recommendations as having among the highest levels of social risk for clients.

Despite clients' sensitivity to providing recommendations, the data indicate that under the right circumstances, if a proper level of trust exists, clients are willing to recommend their advisor and provide more referrals when asked.

Clients were asked whether they had referred their advisor, and, if so, whether they had done so within the last year. More than half of the clients (56%) had provided referrals, and another 36% would consider doing so. While it is certainly positive news that fully 92% of the clients surveyed had either provided a referral in the past or would consider doing so, it is important to understand which factors are likely to influence their decision.

[1] The online survey was held in November 2011 with participants between the ages of 45 – 75 and a household income of over $100,000 if working, or $50,000 if retired. Each participant had at least $100,000 of investable assets and was either the primary or joint decision-maker on household financial decisions.

[2] Financial advisor survey participants were employed by national firms, independent broker/dealers, or banks, and each maintained a client base with at least 25% of their clients within five years of retirement. The advisors may or may not have received client referrals within the past year.

SO, WHAT'S MOST IMPORTANT TO CLIENTS?

1. Be accessible, listen, and take action based on their needs

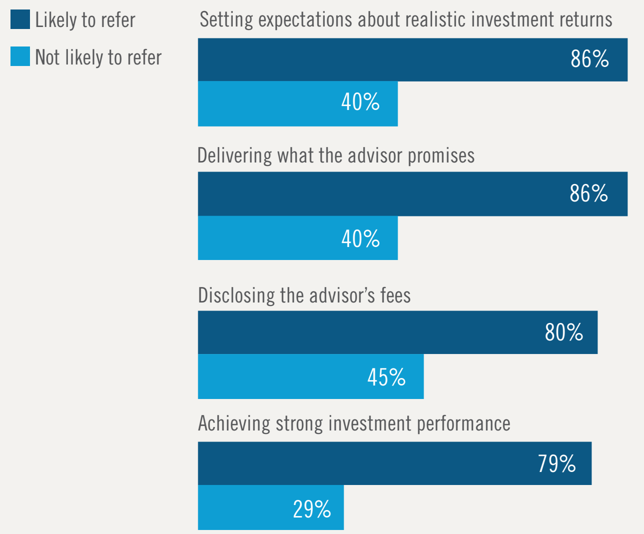
Clients are significantly more likely to provide referrals to advisors with strong relationship management skills: advisors who are accessible, listen carefully, take time to fully understand their clients' financial needs, and take actions based on what they have learned.

Accessibility is one of the most important factors clients consider in referring their advisor.

2. Set realistic expectations and be transparent

Clients are significantly more likely to refer advisors who set realistic expectations about investment returns, are fully transparent about fees, and who ultimately deliver on their promises. Clients are also much more likely to refer advisors who achieve strong investment performance.

Clients who rated their advisor either "very good" or "excellent" when it came to investing and disclosing fees



3. Provide a written financial plan, income certainty, and asset protection

Clients are also more likely to refer advisors who provide a broad set of services beyond generating investment returns.

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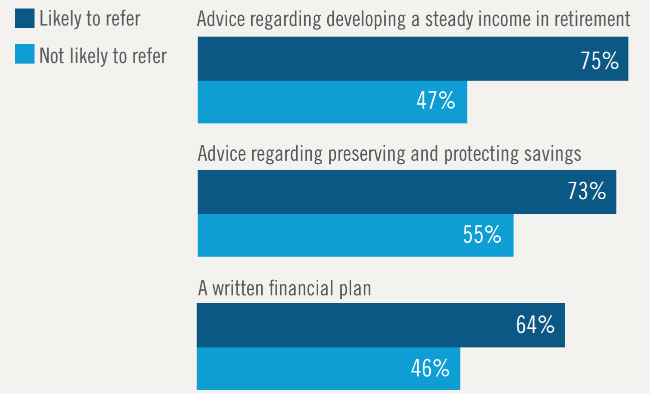
For example, a much higher percentage of clients who are likely to refer (64%) were provided a written financial plan compared to those who were not likely to refer (46%). A similar finding was made by LIMRA in a 2012 study of pre-retirees, which indicated that written financial plans are highly valued.[3]

Clients were asked whether they received the following services from their advisors. The percentages responding "yes" are listed below



Receiving advice related to generating steady retirement income was also a key driver of referral likelihood. In addition, clients who received advice about preserving and protecting savings are more likely to refer than clients who did not.

Overall, the more services offered, the higher the likelihood that clients will refer their friends and family.

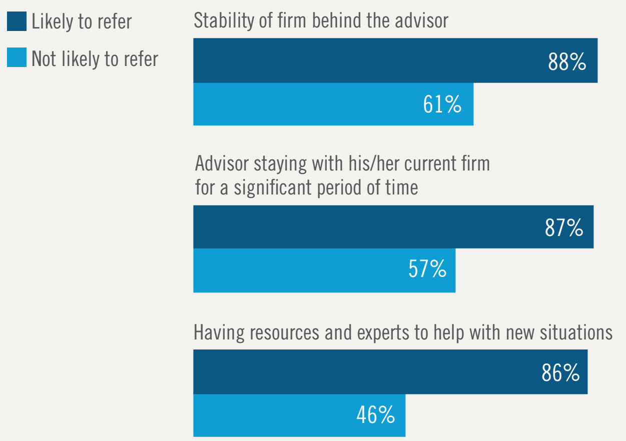
All references to income certainty and guarantees are backed by the claims-paying ability of the issuing company.

[3]LIMRA, "The Pre-Retiree Market: Surveying the Landscape," p. 65, November, 2012

4. Firm stability and expertise

The perception of an advisor's firm also drives referrals. Clients value the stability of the advisor's firm, and are also more likely to refer advisors who have been with their current firm for a significant period of time. Further, the data suggest that having resources and expertise "in-house" to partner with the advisor, such as a tax attorney or health insurance specialist, also helps to generate referrals.

Clients who awarded a rating of either "very good" or "excellent" when it came to evaluating the advisor's firm



SUCCESS CAN TAKE MORE TIME

To feel comfortable providing referrals, clients must have a certain level of trust in their financial advisor, which develops over time as relationships grow stronger.

When asked how long it takes to be comfortable recommending their advisor to others, clients responded that it takes 4.8 years on average – more than *twice* as long as advisors thought it would take (2.1 years).

CONCLUSION

Advisors should be able to increase the frequency of referrals by knowing the appropriate time to ask, and by recognizing that certain advisor attributes and services result in a higher level of referral activity. The checklist on the next page will help in the process.

Advisors may wish to consider systematically tracking where clients are along a "referral curve" and addressing any areas where they currently fall short. If integrated with client relationship management software, such a system could remind advisors when to follow up on certain services or activities, measure when the client has received the right services, and build the trust necessary to feel more comfortable making referrals.

An understanding and appreciation of the client perspective can help advisors identify a set of actions to improve the likelihood of receiving referrals from their clients.

Checklist to increase the likelihood a client will provide referrals

Relationship management

- [ ] Remained accessible to the client
- [ ] Listened well and asked questions
- [ ] Took action based on what was learned
- [ ] Knew the products the client owns (including those outside the advisor's firm)

Investment performance and fees

- [ ] Set realistic expectations about investment returns
- [ ] Disclosed fees
- [ ] Achieved strong investment performance
- [ ] Delivered on promises

Breadth of services provided

- [ ] Provided a written financial plan
- [ ] Advised on preserving and protecting savings
- [ ] Advised on generating steady retirement income

Stability and expertise

- [ ] Employed by same firm for a significant period of time
- [ ] Employed by a firm considered stable by client
- [ ] Provided access to in-house specialists and resources

Timing

- [ ] Provided advisory services for more than four years

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