

# Australians severely undervalue the cost of financial advice

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Research reveals that prospective clients undervalue the cost of advice by as much as 80 per cent.

Appearing on a Netwealth webinar, The Lab Insight & Strategy's co-founder and chief executive, Neale Cotton, and group strategy director, behavioural science, Jonny Hanratty, discussed the perceived value of financial advice among prospective clients.

The research, conducted by The Lab, in partnership with Netwealth and made up of 15 qualitative interviews and 450 quantitative surveys from three key demographic groups – emerging affluent, established affluent, and established mass – sought to understand how clients think about value and value for money.

Cotton explained that the current economic environment is making Australians reconsider how they value their money and the services they engage with.

“We’re living in a cost-of-living crisis. We’ve got rising inflation, increased borrowing costs, soaring prices, and households are feeling the pinch more than ever, and you could argue that in times like these, the need for sound financial advice has never been more important,” Cotton said.

“However, at the same time, it’s this financial strain that’s also changing how Australians perceive value and how they’re prioritising how they spend their money.

“And what we found through our research is that despite the expertise of financial advisers, prospects are significantly undervaluing financial advice, with their willingness to pay for financial advice being much less than the actual market value, and what we call the value gap.”

As part of the research, prospective clients were given three advice package options. The first offered a one-time plan and implementation service covering mainstream investment advice, access to digital tools, and a five-year cash flow plan, valued at \$5,500 p.a.

The second included ongoing holistic advice and support, giving clients access to complex investment options, annual reviews, educational content and more, valued at \$7,500 p.a.

The third and most comprehensive package offered concierge wealth with exclusive opportunities, such as detailed tax planning and debt management, access to new investment opportunities, and quarterly reviews, among other things, valued at \$12,500 p.a.

“What was absolutely fantastic to see is that the significant percentage of your prospects found each of these packages suitable in that these packages met the financial needs of your prospects,” Cotton said.

“However, what was alarming is the majority of prospects who found these packages suitable weren’t willing to pay for them.”

The study found that clients were overwhelmingly unwilling to pay the market value of any of these packages, despite seeing the real value they would provide.

This was made startlingly clear as respondents on average said that \$1,000 was too expensive for the first package, less than 20 per cent (18.2 per cent) of the market value, and 56 per cent said they were not at all willing to pay the full value for the service.

In consideration of the second package, 63 per cent said they were unwilling to pay the market value, with \$5,000 deemed too expensive, reaching 66 per cent of the real cost.

The third package, with a market value of \$12,500, left 70 per cent of respondents unwilling to pay, with \$8,000, 64 per cent of the actual market value, considered too expensive.

Cotton said: “What these numbers clearly illustrate is there’s a value gap in financial advice. But the question is, why? What are the barriers, effectively, that are creating this value gap?”

“One of the major insights our research found is that a lot of our prospects feel like they’re not right for financial advice. They don’t feel like it’s for them. They might think it’s for them but they don’t feel like they’re right for it,” he said.

“Our prospects said things like, ‘Financial advice is too costly’, or there is this widespread belief that financial advice is only for the wealthy or those with complex financial needs. This sense that financial advice is not right for them is something that we need to overcome.”

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