

## **Client perceptions of independent living annuity advice**

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by Albert Moroeroe  
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Study leader: Dr. Liezel Alsemgeest

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## **Declaration**

I declare that the field study hereby submitted for the Masters in Business Administration at the School of Management, University of the Free State, is my own independent work and that I have not previously submitted this work for a qualification either as a whole or in part, for a qualification at another university or at another faculty at this university.

Albert Moroeroe – 2008132025

## **Abstract**

Most working South Africans retire with only their retirement savings to draw an income from. Choosing the appropriate investment vehicle to provide an income is critical, considering that only 6% of South Africans retire independently. A living annuity is a good investment vehicle for retirement income, but is a complex product and retirees should seek advice from a financial planner before investing their retirement savings in this investment vehicle. This study focuses on perceptions of affluent clients about the advice that they receive concerning their living annuities. The client participants are living annuity clients of a wealth management firm in central South Africa.

National Treasury is of the view that living annuities are complex and expensive and is seeking to reform the living annuity industry in an attempt to secure better outcomes for retirees. The proposed reforms will, amongst other things, affect the fees that financial planners can earn for giving advice on living annuities, which will potentially impact the revenue streams of financial planners and the wealth management firms that they represent. It is, therefore, important to determine whether the advice retirees receive is adding value to their financial well-being and whether the advice fees charged are justified.

A major objective of the study is, therefore, to assess whether clients are satisfied with the advice they receive as well as whether they are satisfied paying for the advice. This is important for financial planners and wealth management firms to understand in order to service the needs of their clients. It is also important, because it will enable wealth management firms to employ the most appropriate strategies to grow their businesses sustainably and improve profitability.

The study combines a literature review, a client perception survey and a financial planner survey. The results of the two surveys are compared and analysed and findings are discussed. Recommendations are then based on the findings as well as the literature review.

The study shows that the financial planners of the firm are adding value to the financial well-being of their clients and that the majority of the clients were satisfied with the advice that they received, but that less than half of the clients were satisfied paying for advice. The advice given should be continuously adding value that can be understood by clients. The findings of the study also show that customer relationship management should be the tool used to improve clients' levels of satisfaction and that it has the potential to improve client loyalty and profitability.

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## **Chapter 1 - Introduction**

### **1.1 Introduction**

During retirement, the largest source of income for the average worker is their retirement savings, and yet most South Africans do not save enough for retirement. Coupled with not saving enough, premature retirement erodes financial security at retirement (National Treasury 2012b: 3). The South African government is committed to increasing the financial security of all citizens and this makes sense, considering that only 6% of South Africans can retire independently; 16% fully depend on state pensions; 31% have to keep on working after normal retirement age and 41% of retirees depend on family to support them financially. There is also a strong link between economic growth and investment, and domestic saving needs to be encouraged to finance economic growth (National Treasury 2012b: 7,13; Esterhuizen 2013: 2). After retirement, legislation places limitations on what can be done with retirement savings. If pre-retirement savings were invested in a provident fund, the full retirement benefit can be withdrawn. If pre-retirement savings were made in a pension fund or retirement annuity, a maximum of one third of the retirement benefit can be accessed as a lump sum and the other two thirds must be invested as a compulsory purchase. There are two types of products that qualify to be used for this compulsory purchase, namely conventional life annuities and living annuities (National Treasury 2012a: 9).

A life annuity is simply an income paid in fixed intervals to a person (annuitant) over a certain period of time or for the rest of the person's life. It is normally bought from a life insurance company who, in exchange for a lump sum, pays the annuity. Various options of structuring the income might be available and the amount of income is determined by market conditions at the time of investing, current and expected interest rates, as well as life expectancy of the annuitant (Rudman 2009:5). Variations include inflation-linked annuities that might start lower but increase with inflation every year; annuities that continue until the death of a nominated spouse; as well as annuities guaranteed for a

specific term. A living annuity can be described as a compulsory purchase product, issued under a life licence that provides an investment account. The annuitant can withdraw an income of between 2.5% and 17.5% per annum from the account. It does not provide protection against longevity risk; it provides no guarantees; and the performance of the product is linked to the performance of the underlying assets. Living annuities offer flexibility with a choice of underlying investment portfolios and income levels (drawdown rates) can be chosen yearly (Rudman 2009:7).

In 2013, the National Treasury stated in a discussion paper that retirees face a complex choice between life annuities that provide an income for the rest of their lives and living annuities that are subject to potentially poor investment performance. It is stated that it appears that after retirement, employees seem to be left to the retail market without any proper guidance (National Treasury 2013:10). Looking at the product definition of living annuities in particular, perhaps the National Treasury is correct in stating that living annuities are complex and that they require financial advice and regular reviews. However, living annuities seem to be the proposed post-retirement vehicle that will be the default choice of retirement funds, subject to certain requirements that have to be met (National Treasury 2012a: 2 -6). Not only is it the vehicle of choice, but a comparative study presented in May 2013 indicated the superiority of a living annuity, specifically in the South African context (De-Villiers-Strijdom 2013: iv).

In the 2013 Budget Speech, the Minister of Finance, Mr Pravin Gordhan, announced proposals to reform the retirement industry. The proposed reforms most applicable to this study are that upon retirement; living annuities will be the default product for retirement savings after retirement, subject to the product meeting certain requirements including charges, draw-down rates and investment choice (National Treasury 2013: 2). This could mean that at retirement, members of pension funds and retirement annuities will be encouraged to invest in a default living annuity that could have a lower maximum income rate, with possibly fewer investment choices to bring down costs. Furthermore, other suppliers, not only life insurers, may also be allowed to design and sell living annuities. The Financial Services Board (FSB) is currently concerned with two

processes that may lower the costs of living annuities. The first is the Retail Distribution Review (RDR), which is investigating commissions on investment business, including living annuities. The second is the Treating the Customer Fairly (TCF) initiative - which requires that firms display their treatment of customers during the entire product life-cycle, including the design, marketing, point-of-sale and after-sales stages (National Treasury 2013: 11).

The future of living annuities and the changes that might come into force are relevant to living annuity product providers and distribution networks alike. The living annuity market was worth an estimated R26.5 billion in 2011 and affected financial services companies that are watching the developments carefully and coming up with their own strategies to be ready for the proposed reforms and to position themselves accordingly (National Treasury 2012a: 11; Private Client Holdings 2013: 1; Glacier by Sanlam 2013: 1). Some of the reasons that clients favour living annuities include the flexibility of the income that can be withdrawn, as well as the preservation of capital at death. It will, fortunately, take a while for the National Treasury's proposals to be turned into law and between now and then the industry will debate the proposed changes vigorously (Lester 2013: 2 - 5).

Living annuities were also designed for specific types of clients who have more than sufficient capital at retirement and advisors can therefore not use a one-size-fits-all approach (Fisher–French 2012: 3). Each client should have a tailor-made option available to him or her after an analysis of the client's financial position and identification of certain needs and objectives had been made through a financial planning process; identifying appropriate financial products where applicable; and explaining the benefits. The ultimate result is when the client buys the best-suited product for his/her needs, which could mean buying a living annuity. However, the financial planning process is about much more than just the selling of products. The advice given maps out a course of action that will suit the needs of the individual, taking into account present and future needs. Following this process should lead to long-term relationships with clients (Botha, Rossini, Geach, Goodall, Du Preez & Rabenowitz 2011: 1 - 4). The Financial Advisory

and Intermediary Services Act 37 of 2002 provides a definition for advice, namely: “Advice means any recommendation, guidance or proposal of a financial nature, furnished by any means or medium to any client or group of clients in respect of:

- The purchase of, or investment in, any financial product
- The conclusion of any other transaction aimed at incurring any right or benefit or liability in respect of any financial product (this includes a loan or a cession)
- The variation, replacement or termination of any financial product” (RSA 2002).

Consumer protection is a central theme in the proposed reforms, but somehow solutions have to be found that is positive for the consumer as well as the industry. As mentioned, investing in living annuities should be accompanied by an advice process. This study will focus on client perceptions as it relates to living annuity advice, the importance of relationship management to improve the client’s experience, as well as customer loyalty. It will look at pre- and post-retirement planning in the context of financial planning, the changing regulatory environment as well as the importance of businesses to take note of all of these changes during strategy development. It is important to understand what client perceptions are in order to build customer relationship management strategies that will foster loyalty, improve sustainability and ultimately lead to increased profitability.

Part of the changes that can be applicable to living annuities are advice fees paid to intermediaries. This study seeks to establish how comfortable clients are paying for advice on the most appropriate product to buy, and in the case of a living annuity, on-going advice and reviews. Unlike other consumer goods and products, financial products and services are essentially intangible. Tangible goods and products provide the clients with more “physical information” on which they base a purchasing decision as they can be seen, felt or touched, which is not the case with financial products (Botha *et al.* 2011:1). If clients are sufficiently equipped to distinguish between good or bad financial products, the services of a financial planner may not be necessary as the client would then be able to make an informed decision and buy the product

themselves. In the event that they do make use of a financial planner, they should understand that advice fees might be payable.

This study will focus specifically on affluent clients who already own a living annuity and who have sufficient assets available to maintain their standard of living. The study will focus on the client's understanding of the products available at retirement, the advantages and disadvantages of the products, their level of financial education/literacy and their perception of the value being added to their portfolios by their financial advisor. The study will also look at the potential impact that the proposed retirement reform might have on the industry, including financial advisors and brokerages, as well as the potential impact on clients. The rest of the chapter will provide the problem statement, the objectives of the study, the methodology that will be employed in the study and a demarcation of the study. Lastly, concluding remarks will be made.

## **1.2 Problem statement**

Financial planning in South Africa is constantly evolving and has moved from being mainly a sales-orientated industry to being a fully-fledged profession where appropriate financial advice is given to clients. The regulatory framework in the form of the Financial Advisory and Intermediary Services Act 37 of 2002 (FAIS) started this process (Botha *et al.* 2011: 1). The proposed RDR and TCF are initiatives intended to build on what FAIS started. Consumers wanting to buy living annuities or other financial products should ideally go through, but are not limited to, a financial planning process. The Financial Planning Standards Board developed a six-step financial planning process that financial planners should follow. This process, as well as the financial planning practice standards developed by the Financial Planning Standards Board, is widely considered to be "best practice" with regard to financial planning (Financial Planning Standards Board 2013: 1). The problem with financial planning in general is that many people are not aware that financial planning is not just about being sold a financial product, but also about the development of a non-static financial plan that will assist them in achieving

their lifestyle and financial goals. Unfortunately, financial planning is of low priority to many people who do not understand the benefits of having a proper financial plan. This could be the result of ignorance, previous bad experiences with financial planners or even lack of education about financial products (Botha *et al.* 2011:5). In addition, financial literacy from a young age and general education on financial matters is not very high. These challenges must be overcome to improve public confidence in financial products and services and also increase clarity, simplicity, transparency and understanding of financial products and services (Botha *et al.* 2011:1 - 2). Quality financial advice has the potential to improve financial outcomes and can help create confidence in the financial planning profession over time (KPMG Econtech. 2011: 6). It can, therefore, be inferred from Botha *et al.* (2011: 1 - 5) that it is of critical importance to find ways to overcome the mentioned barriers in order for clients to prioritise financial planning, but also so that they can experience the benefits of financial planning; such as greater peace of mind, greater control over finances, potential avoidance of bad investments, enhancing the ability to save, as well as the improved prospect of a comfortable retirement.

The financial services industry should continue to engage clients, make them aware of their needs and implement solutions to satisfy their needs. Before clients' needs can be addressed, the financial services industry must not just overcome the mentioned barriers, but also have a firm understanding of client perceptions and how such perceptions relate to the sustainability of an organisation. The problem is that not enough is known about how the industry is perceived by clients and what can be done to improve on that, particularly in the wealth management environment.

National Treasury is considering reforms to the very lucrative R26.5 billion living annuity industry; positioning for the potential future changes is therefore of utmost importance. Wealth management firms charge fees to advise clients on products like living annuities. Some of the proposed reforms from the National Treasury relate to the lowering of fees. This could potentially have a major impact on wealth management firms and could force them to revise their business models (National Treasury: 2012a:

45 - 44). In general, firms can do little other than adapt to legislative changes. However, there are aspects that can and should be controlled to ensure that firms remain sustainable and profitable - like customer relationship management, which deals with customer perceptions, satisfaction and loyalty. Satisfied customers are loyal customers, which lead to higher profitability for firms (Strachan & Roberts-Lombard 2010: 3488-3489). Understanding the mind of the client is therefore of utmost importance and this study seeks to build on the current knowledge relating to living annuity clients.

This study will seek to address some of the stated challenges and help build the knowledge base and understanding of client perceptions that is important for strategy development.

### **1.3 Objectives**

#### Primary objective

To gain more insight into client perceptions and preferences in the upper-middle and affluent market regarding advice on living annuities and so enable managers to employ the most appropriate strategies to service the needs identified.

In order to achieve the primary objective, the following secondary objectives are stated:

- To provide an overview of living annuity characteristics, possible National Treasury reforms pertaining to living annuities, and the possible impact thereof.
- To provide a theoretical discussion on the need for retirement planning and customer perceptions about the value added to their financial well-being.
- To establish how much clients know about their options available at retirement.
- To establish how often investment reviews are done for clients with existing living annuities.

- To establish how clients feel about the fees applicable to living annuities in relation to the advice they receive, the value added by the financial planner and the benefits of the product.
- To establish if there is a need to educate clients more about financial products and living annuities in particular.
- To contribute to the body of knowledge regarding clients' needs and perceptions regarding advice and engagement models, and finally make some suggestions that will improve the quality of advice.

#### **1.4 Research Methodology**

The study is quantitative in nature and combines a literature review with a questionnaire containing mostly closed-ended questions that were distributed to clients with existing living annuities. In addition, a number of open-ended questions were asked and participants could also elaborate on some of the closed-ended questions. A similarly styled questionnaire was also distributed to the financial planners in a wealth management business that sells living annuities, amongst an array of other products. Quantitative research is a formal, objective, systematic process in which numerical data are used to obtain information about the world. This research method is used to describe variables; to examine relationships among variables; to determine cause-and-effect interactions between variables' (Burns & Grove 2005: 23). The data gathered are therefore mathematically analysed to determine certain relationships.

The participants in this study are clients in a national wealth management business. The business has a regional office in Bloemfontein that covers the geographic regions of the Free State, Northern Cape and North-West Provinces. The regional office has four financial planners and the participants are clients of the firm, linked to these financial planners. The financial planner questionnaires were used to assess what the financial

planners consider to be their contribution to the financial well-being of clients. All four financial planners participated in the study.

Participants were prepared and briefed about the purpose of the study, the format as well as ethical considerations. Probability sampling was used, specifically simple random sampling, meaning that each client that owns a living annuity in the region had an equal chance of being chosen to participate in the study. There are two types of clients in the wealth management firm, namely high net worth clients and ultra-high net worth clients. High net worth clients have a minimum net asset value of R15 million with investable assets worth minimum R7 million. Ultra-high net worth clients have a minimum net asset value of R30 million and investable assets worth minimum R15 million. Only ultra-high net worth clients participated in the study. The wealth management firm set specific requirements that had to be met when approaching clients and the logistics around approaching high net worth clients proved to be too difficult.

The researcher, after adhering to all requirements, had obtained permission from the Head of the wealth management firm as well as the Heads of the legal and compliance functions in the business to do the study. Client and wealth manager respondents were not in any way forced to participate in the study. Each individual participating in the study gave consent out of free will. Participants' information will be kept confidential.

The researcher is aware of the fact that personal background, perceived knowledge on the subject matter and values of the researcher can influence what is observed. However, the researcher endeavoured to remain objective throughout the research.

## **1.5 Demarcation of the study**

The focus of the study is advice as part of a financial planning process, with the emphasis on post-retirement investment advice. Very important concepts like customer relationship management, client-centricity, retirement reform and consumer perceptions are also discussed. The questionnaires were distributed to a set number of respondents and combined with a literature review on the mentioned topics, including regulation and legislation. As mentioned, the study was conducted in the geographic region of the Free State, Northern Cape and North-West.

## **1.6 Conclusion**

This chapter is an introduction to the study. It gives background on the topic whilst introducing the reader to the options available for clients to invest their pension or retirement benefits, in particularly living annuities and the advice that goes with buying a living annuity. The chapter also gives a brief overview of the proposed National Treasury retirement reforms and touches on the potential implications of the reforms. This chapter gives the reader the problem statement as well as the objectives of the study. A broad overview of the research methodology and demarcation is also contained in this chapter. Chapter 2 will provide a theoretical overview of the study.

## **Chapter 2 – Literature Review**

### **2.1 Introduction**

The first chapter started with an introduction; the problem was stated, the primary and secondary objectives were discussed and a brief overview of the research methodology was provided and lastly, concluding remarks were made. This chapter is a theoretical discussion of various concepts relating to client perceptions of living annuity advice. The purpose of the literature review is mainly to provide background on the subject matter and to achieve some of the secondary objectives. This is done by making use of various materials including scholarly articles, journals, reports, books and Internet sources. Throughout this section, the product being referred to is a living annuity and the service provided is advice. It has been stated that the selling of living annuities should go hand in hand with an advice process and in this section it will be treated as such. The words “customer” and “client” are used interchangeably. This section is divided into three main topics that form the basis of this study, namely the regulatory environment, retirement planning and customer relationship management.

### **2.2 Regulatory Environment**

The regulatory environment section will cover the most relevant legislation, regulations and proposed retirement reforms applicable to living annuities in South Africa. Each of these will be discussed in more detail.

#### **2.2.1 Financial Advisory and Intermediary Services Act no 37 of 2002 (FAIS) and the General Code of Conduct**

FAIS is a very important piece of legislation that governs the activities of Financial Service Providers (FSPs), which is defined in the Act as: “...any person, other than a

representative, who as a regular feature of the business of such person-(a) furnishes advice; or(b) furnishes advice and renders any intermediary service; or(c) renders an intermediary service.” FAIS should be read together with the General Code of Conduct for Authorised Financial Services Providers and Representatives (General Code of Conduct), which was published in the Board Notice 80 of 2003 and subsequently amended in 2008. It is not the only piece of legislation applicable to FSPs and should be read with other legislation applicable to a specific industry. The objectives of the FAIS Act are to protect consumers against improper conduct of authorised FSPs or their representatives, to protect intermediaries and also to protect the financial services industry (Sanlam nd: 1 - 5). This is of particular importance since the business in which this research is conducted is a FSP, and as such has to comply with FAIS.

Section 2 of the General Code of Conduct imposes a general duty on FSPs to “render financial services honestly, fairly, with due skill, care and diligence, and in the interests of clients and the integrity of the financial services industry.” It also imposes many specific duties, but the most relevant ones for this study are summarised below:

- Representations and information given to clients must be factually correct, adequate and appropriate, in plain language, and must take into account the level of knowledge of the client.
- All costs applicable to any particular product must be disclosed to the client, services must be rendered within the contractual relationship and records must be kept in the appropriate formats.

From the above requirements of the General Code of Conduct it is clear that there is a big responsibility placed on FSPs and their representatives, which in this specific study is the financial planner, when they advise clients or provide financial services. Advice is defined in the Act as “Any recommendation, guidance or proposal of a financial nature furnished by any means or medium, to any client or group of clients –

- in respect of the purchase of any financial product; or
- in respect of the investment in any financial product; or

- on the conclusion of any other transaction, including a loan or cession, aimed at the incurring of any liability or the acquisition of any right or benefit in respect of any financial product; or
- on the variation of any term or condition applying to a financial product on the replacement of any such product, or on the termination of any purchase of or investment in any such product,

And irrespective of whether or not such advice –

- is furnished in the course of or incidental to financial planning in connection with the affairs of the client; or
- results in any such purchase, investment, transaction, variation, replacement or termination, as the case may be, being affected.”

From this definition of advice it is clear that recommendations made to clients to purchase living annuities would be classified as advice and in accordance with the General Code of Conduct will have to be suitable. Section 8 (1) to (4) of the General Code of Conduct deals with suitability of advice and the most relevant factors in the rendering of advice that have to be kept in mind in this study are listed below:

- The financial advisor/planner/wealth manager must ensure that relevant product and client information is used ;and
- Do an analysis based on the information provided and identify the most appropriate products that will satisfy the needs of the client.
- Reasonable steps must be taken to ensure that the client understands the advice that was given.

A well-known process for determining the suitability of advice is the Financial Planning Standards Board's Six Step Financial Planning process that have already been mentioned in Chapter 1 and discussed under retirement planning (Financial Planning Standards Board 2013: 1 - 6).

### **2.2.2 Income Tax Act no 58 of 1962 and Pension Funds Act no 24 of 1954**

The Income Tax Act is important for this study not only because it explains how the income received from the living annuity is taxed, but also how retirement fund benefits are taxed. These are important considerations within the client's retirement plan. The Income Tax Act also contains a definition for a living annuity, which is, "The right of a member (or former member, dependant, nominee, or subsequent nominee) of a retirement fund, to an annuity purchased from a person on or after retirement date of that member in respect of which:

- i. the value of the annuity is determined solely by reference to the value of the assets, which are specified in the annuity agreement, and are held by or on behalf of that person for purposes of providing the annuity
- ii. the amount of the annuity is determined in accordance with a method or formula prescribed by Minister in a notice in the Gazette
- iii. the full remaining value of the assets contemplated in (i) above may be paid as a lump sum when the value of those assets become, at any time, less than the amount prescribed by the Minister by notice in the Gazette
- iv. the amount of the annuity is not guaranteed by that person
- v. on the death of the member or former member, the value of the assets referred to in (i) above may be paid to a dependent or nominee of the member or former member as an annuity or lump sum or as an annuity and a lump sum, or, in the absence of a dependent or nominee, to the deceased's estate as a lump sum; and
- vi. further requirements regarding the annuity may be prescribed by the Minister by notice in the Gazette."

This is a very important definition and it describes how a living annuity works. It is important to note that the person who sells the living annuity is not specified in this definition and at the moment it is being sold by life insurers (RSA 1962: Section 1). However, the definition provides that the Minister of Finance can at any point make

changes to the requirements of living annuities, including who is allowed to sell it. It is also important to note from the definition that living annuities can only be sold to members, former members, dependants of members and former members, nominees of members and former members, of a retirement fund (National Treasury 2012a: 4, 9-11, 36). The Pension Funds Act no 24 of 1956 actually only provides a definition for a pension fund in Section (1) of the Act. However, retirement annuity funds and provident funds are also governed by the Pension Funds Act and its subsequent amendments, as they are also established to provide a retirement benefit to its members in the form of an annuity or a lump sum. Section (1) of the Income Tax Act contains a definition of a retirement annuity as well as a provident fund. The main differences between the three types of retirement funds (pension, retirement annuity and provident funds) are summarised below:

- At retirement, members of pension funds and retirement annuity funds can only receive one third of the pension benefit as a lump sum, whilst members of provident funds can receive the full benefit. The two thirds that cannot be taken as a lump sum has to be commuted to an annuity, including a living annuity.
- Contributions made by members of pension funds and retirement annuity funds are tax deductible in terms of Section 11(k) and Section 11(n) of the Income Tax Act. Member contributions to provident funds are not tax deductible in terms of Section 11(l).

These differences and definitions are important for both pre-and post-retirement planning (Botha *et al.* 2011:846). The financial advisor will have to take it into account, as lump sum benefits are included in the client's gross income in terms of paragraph (e) of Section 1 of the Income Tax Act, and the income from living annuities are also included in the client's gross income in terms of paragraph (a) of Section 1.

### **2.2.3 Treating Customers Fairly (TCF)**

In April 2010, a discussion paper entitled: "Treating the Customer Fairly" was published by the Financial Services Board (FSB). The report stated that the FSB was interested in

seeking a Treating Customers Fairly (TCF) programme similar to the one implemented in the United Kingdom (Feasibility 2010: 1). The paper explained that the intention of the TCF programme is that firms will be required to display their treatment of customers during the entire product life-cycle, including the design, marketing, point-of-sale and after sale stages. The outcomes should be more optimal in terms of treating customers fairly, from the point of view of the regulator, the consumer and ultimately firms as well (Feasibility 2010:4-6).

On 31 March 2011, the FSB published another paper, entitled: “Treating Customers Fairly – The road map”. In this document the FSB states that they are implementing a programme for regulating market conduct of financial services firms, entitled “Treating Customers Fairly” (TCF). What was once a proposal had become a reality and according to the paper, the purpose of the programme is to ensure that fair treatment of customers is embedded within the culture of financial firms. The suggested enforcement date for TCF implementation was 1 January 2014.

There are six fairness outcomes positioned from the perspective of the client that needs to be achieved, namely that:

- 1) Customers must be confident that they are being treated fairly when dealing with the firm and that fair treatment of customers is central to the firm’s culture.
- 2) Retail products and services are designed to meet the needs of identified customer groups and are targeted accordingly.
- 3) Information given to customers must be clear and clients are kept informed before, during and after the time of contracting.
- 4) Advice given is suitable and considers the clients’ circumstances.
- 5) The products customers buy must do what they have been led to believe, associated services must be of an acceptable standard and what the client has been led to expect.
- 6) Customers must not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint (Financial Services Board 2011: 7).

The launch date for TCF implementation has been scrapped and, instead, the FSB will now gradually phase in the TCF into its supervisory and regulatory framework. The FSB stated in December 2013 that to a large extent they are already implementing TCF and will continue to embed these principles going forward (Financial Services Board 2013: 3-4). Looking at the TCF principles, they seem to be client-centric and it is safe to assume that they might have positive implications for client satisfaction, as well as long-term benefits for the financial services industry. If it does lead to more satisfied customers, it can be demonstrated that it improves efficiencies and profitability (Kotler 2000: 48). Client satisfaction will be discussed in more detail later on.

Lastly, TCF has implications for FSPs and financial planners. Financial planners are representatives of FSPs and must ensure that they adhere to all TCF principles, particularly 1, 3 and 4 above (Financial Services Board 2013: 9). Another important regulatory topic to consider is the proposed reforms of the retirement industry by the National Treasury, which will be discussed next.

#### **2.2.4 Retirement Reform**

Proposals to reform the retirement industry as well as the purpose of the reforms have already been mentioned in Chapter 1 (National Treasury 2013a: 2). The first announcement of retirement reforms came in the Minister of Finance's 2012 budget speech through a paper entitled "Strengthening retirement savings: An overview of proposals announced in the 2012 Budget." Since then, a number of discussion papers have been released by the National Treasury for public consultation and much progress have been made with some proposals been signed into legislation (National Treasury 2014: 3). Most of the proposals relate to retirement funds and therefore has a direct impact in the pre-retirement phase. Living annuities sit within the post-retirement phase, but the pre-retirement reforms will inevitably have an impact on post-retirement well-being of the members of retirement funds (National Treasury 2004: 4). In 2014, the National Treasury released a document entitled "2014 Budget update on retirement reforms." In this document, the broad policy goals for the intended reforms were

discussed. A broad overview of the most relevant policy goals are briefly discussed below:

- The first policy goal relates to the improvement of pre-retirement preservation of retirement benefits. The challenge here is to have more people preserve their retirement savings when they, for instance, switch employers. This will lead to less financial vulnerability of individuals after retirement (National Treasury 2014: 3).
- The next policy goals relate to improving fund disclosure, getting the right default options and consolidating funds. These are all intended to ensure that the members of funds get value for money, improve fund outcomes and improving efficiencies of funds (National Treasury 2014: 4).
- Another policy goal relates to simplifying retirement savings products and ensuring portability of benefits between providers. This should hopefully lead to more providers competing on the basis of value for money instead of complexity of products. The increased competition and simplicity should reduce costs. Reduction of costs has been highlighted by the National Treasury, who wants to do away with unnecessary costs (Bennett 2014: 1 - 5; National Treasury 2014: 4).
- The last few goals relate to intermediary remuneration, regulation and supervision. According to the National Treasury, product design is influenced by the way intermediaries (financial planners / brokers / wealth managers / financial advisors / etc.) are remunerated. Treasury states that there should be no conflict of interest in the way intermediaries are remunerated and what is best for the client. It is a policy goal that the savings and retirement industry must be more effectively regulated to ensure proper market conduct, as well as protecting members (National Treasury 2014: 4).

These broad reforms should have a positive impact on the retirement industry and better outcomes for members' post-retirement planning. It has already been stated that the post-retirement proposal relates to living annuities being the default product that

members of retirement funds can choose, subject to certain requirements (National Treasury 2013: 2). This is significant because if the proposed reforms do improve retirement outcomes and the default living annuity proves to provide more value for money for members, this puts members in a much better position during retirement (National Treasury 2014: 3-5,).

Although living annuities is said to be the product of choice, the National Treasury has pointed out that they do find problems with living annuities which they also want to address. According to the National Treasury (2013: 11), the costs on living annuities are generally too high; they are too complex and include advice fees, asset management fees, platform fees and administration fees. The consequence of the high fees is that it significantly reduces the available post-retirement income. An in-depth discussion on all the costs and a comparison of costs between different providers fall outside the scope of this study. However, for the readers' benefit, a brief overview is necessary in order to understand how these costs are allocated. The advice fee generally goes to the financial advisor who gives the advice. It could also go to the FSP where the financial planner might be a representative. The platform fees goes to the linked service provider (LISP) company from whom the living annuity is bought, under a life licence. The LISP provides a single platform through which various unit trusts and share portfolios can be accessed. The LISP company is an administration company. The asset management fee is paid to the asset manager (collective investment scheme), who manages the funds in the unit trust, on behalf of clients. The collective investment scheme may also ask other charges such as administration charges or performance fees (National Treasury 2012a: 16-17).

It is important to note that there are proposals from the National Treasury that could have an impact on the living annuity industry and these have to be taken into account. The first proposal is to design living annuities in such a way that they are simpler and require less advice as well as fewer costs. The second proposal is to build a new investment vehicle based on unit trusts out of which retirement income can be paid, without investment choice and strictly regulated commissions (Treasury 2012a: 37-44).

More providers of living annuities might be a reality in the future, as well as an environment where revenue is generated per living annuity for companies and less advice fees (National Treasury 2012a: 36-37). All these potential changes will hopefully not have the unintended consequence of reducing access to advice (Huystek 2013: 1-18) and limiting options for clients who want larger flexibility on their living annuities and are willing to pay for that, as well as quality advice. The quality of advice is related to the quality of financial and retirement planning. In the next section, retirement planning will be discussed.

### **2.3 Retirement Planning**

The life expectancy of South Africans is increasing and this makes proper retirement planning essential. Because of the increased longevity, clients need to save more for retirement. The capital requirements of each client at retirement depend entirely on the client's financial situation at retirement as well as the client's retirement needs and objectives. The sooner the client starts contributing towards a retirement fund, the better. The client gets to benefit from compound interest (Ehret 2010: 2 - 3).

Financial planning in South Africa is constantly evolving and has moved from being mainly a sales-orientated industry to being a fully-fledged profession where appropriate financial advice is given to clients (Botha *et al.* 2011: 1). As mentioned before, the Financial Planning Standards Board developed a six-step financial planning process that all financial planners must follow. This process, as well as the financial planning practice standards developed by the Financial Planning Standards Board, is widely considered to be "best practice" with regard to financial planning (Financial Planning Standards Board 2013: 1).

In this section, pre- and post-retirement planning, as part of financial planning, are discussed. Firstly, the implementation of a retirement plan during the client's working life, when retirement provision should be made, is dealt with; thereafter, the post-

retirement phase when retirement provisions are consumed and ideally should be sustained, is discussed. Living annuities are again discussed under post-retirement planning. Retirement planning is a part of financial planning, which is a “process of developing strategies to assist clients in managing their financial affairs to meet their life goals.” The knowledge required to do retirement planning includes tax law, compound interest and time value of money calculations, as well as investment strategy (Botha *et al.* 2011:3, 843). The financial planning professional needs to have all of these skills to service a client effectively.

### **2.3.1 Pre-Retirement Retirement Planning**

It is important to realise that retirement planning should happen as soon as possible and throughout the working life of a client. Choosing the right products or investment vehicles are crucial and should be done prior to looking at the appropriate underlying assets and the appropriate product/vehicle may differ for different clients. Once the client’s risk profile has been established, underlying assets can be aligned with the client’s risk profile (Ehret 2010: 1-16). In the pre-retirement phase, the steps to be taken (according to Botha *et al.* 2011: 40, 844-849) are:

- Firstly, determine what the client’s retirement objectives are; for example, how much monthly income the client wants to receive post-retirement. This can be informed by current and expected future income requirements. It is important to consider and take into account possible changes in circumstances; for example - less debt, but maybe higher medical expenses. It is also important to determine how much of the available capital at retirement will be needed to pay off debt, if applicable, as well as other lump sum requirements like a new car or overseas trips.
- Secondly, the financial planner needs to establish how much retirement provision has been made; for example, how much money is currently saved up and is currently being saved in a retirement fund, such as a retirement annuity, pension or provident fund. The future value of these can be projected at the current

inflation rate and compared to the capital needs determined from the objectives. Any shortfalls should be addressed by determining how much additional money has to be saved and savings should commence as soon as possible.

- Thirdly, the financial planner needs to look at what assumptions have to be made and the impact any changes will have on financial projections. For example, what the expected inflation rate, possible salary increases, rates of return of invested funds, tax rates on retirement fund lump sums and escalation rate of post-retirement income will have. Potential changes in tax deductibility of retirement fund contributions according to Section 11 (n) of the Income Tax Act 58 of 1962 also have to be taken into account. All other tax considerations should be taken into account.
- The financial planner then needs to determine the capital that will be needed at retirement and the possible shortfall. Having the information in the steps above, the financial planning professional can calculate what the client's capital needs are.
- Lastly, in the case of a shortfall, determine what trade-offs the client will have to accept in order to ensure that the client reaches the said objectives; for example, how much money the client will have to start saving monthly or annually.

The financial planning professional should revisit the retirement plan with the client on a regular basis and make the necessary adjustments to ensure that it remains realistic and is kept on track. Clients might also want to make provision for retirement by making use of other vehicles like collective investment schemes, direct property investments for income, etc. (Old Mutual 2014a: 1-10) However, in this study the focus is on funds saved in retirement funds, but generally the financial planning professional will take all these into consideration as well when developing the financial plan. The financial planner must also have knowledge about all the legislation discussed in 2.1.

Five years before a client's normal retirement date, a client should start transitioning his/her savings into more conservative funds. This requires a more balanced type of

portfolio that limits exposure to the riskier asset classes. Again, this will differ from client to client, as some clients can still take on risk even after retirement (Ehret 2010: 1-16).

At retirement, the financial planner needs to discuss all the options available, such as a living annuity or a life annuity. The benefits and disadvantages of each of these types of annuity need to be explained to the client (Ehret 2010: 5).

### **2.3.2 Post–Retirement Planning**

As retirees, clients want to balance safety with the need for growth, while maintaining their lifestyles. For an effective post-retirement strategy, a financial planner should consider the following:

- Manage longevity risk by hedging essential expenses with sources of lifetime income.
- Manage inflation risk by growing the investment portfolio to provide a measure of relief from the impact of inflation. Manage the size and frequency of withdrawals from the fund. Transfer a portion of the fund into a life annuity, thereby increasing their life annuitisation, and minimising the impact of longevity.
- Manage withdrawal risk, which may have the impact of lowering discretionary expenses needed in downward markets.
- Manage market risk by making use of a guaranteed income to cover essential expenses. This would remove the urgency and necessity of removing portfolio assets.
- Manage asset allocation risk by ensuring that spending towards discretionary expenses is optional. This allows clients to remain with more aggressive asset allocations during market downturns (Ehret 2010: 1-16).

It is critical that financial advisors assess clients' complete retirement savings needs, and needs after retirement, to ensure that their specific retirement strategy is appropriately structured, taking all the above factors into consideration.(Ehret 2010: 5 - 6).

There are certain limitations on what can be done with retirement fund savings, pertaining to how much can be withdrawn and from what type of fund. In the post-retirement phase, the client will have an option to purchase either a life annuity or a living annuity with the compulsory portion of his/her retirement fund value (National Treasury 2012a: 9). This study focuses specifically on higher income earners. According to the Sanlam 2013 Benchmark Survey high income pensioners need 80% of their income prior to retirement available at retirement to sustain their living standard. Most pensioners will have less debt and their overall expenses decreases, except for medical expenses, which increases (Sanlam 2013b: 43 - 44). Capital preservation is important for pre-and post-retirement planning and longevity considerations have to be taken into account (Sanlam 2013a: 1 - 2).

The two products are now discussed in more detail. In Chapter 1, a conventional life annuity was defined as income paid in fixed intervals to a person (annuitant) over a certain period of time or for the rest of the person's life. It is normally bought from a life insurance company who, in exchange for a lump sum, pays the annuity income. Various options of structuring the income might be available and the amount of income is determined by market conditions at the time of investing, current and expected interest rates, as well as life expectancy of the annuitant (Rudman 2009: 5). Variations include inflation-linked annuities that might start lower, but increase with inflation every year and annuities that continue until the death of a nominated spouse, as well as annuities guaranteed for a specific term. Insurance packaged with the annuity are sometimes used to guarantee the capital back upon the death of the annuitant. In this case it would be packaged in such a way that the annuitant will use some of the annuity to pay for the policy (Botha *et al.* 2013: 952).

Rudman (2009: 7) describes a living annuity as a compulsory purchase product, issued under a life licence that provides an investment account. The annuitant can withdraw an income of between 2.5% and 17.5% per annum from the account. It does not provide protection against longevity risk; it provides no guarantees; and the performance of the

product is linked to the performance of the underlying assets. Living annuities offer flexibility with a choice of underlying investment portfolios and income levels (drawdown rates) can be chosen yearly. The annuitant can nominate a beneficiary upon death, but if no beneficiary is nominated, the capitalised value of the annuity goes to the deceased estate.

The fact that income draw-down rates can only be chosen once per year, makes it a very important decision. Furthermore, the money in the investment account gets reduced by the income the client receives. However, the money is also invested in, for example, collective investment schemes and/or direct share portfolios and has the potential for growth. Choosing the appropriate underlying assets whilst taking costs, the client's financial objectives, risk tolerance, knowledge about financial products, the term of the investment, income tax, estate duty, and so on into account, requires certain skills which clients normally do not have and therefore need professional assistance with. A financial advisor supporting clients' needs should have the necessary skills to assist clients to ensure their financial sustainability (RSA 2003: 3 - 5, 11- 13).

According to Old Mutual (2014b: 1), it is important that at retirement, products that provide capital growth whilst income is received should be considered when making a decision about annuity income.

### **2.3.3 Benefits of living annuities**

Botha *et al.* (2011: 861-862) list a number of benefits of living annuities as a tool during retirement planning that will be briefly summarised below:

- a) By starting with lower drawdown rates earlier on, the value of capital in the investment account can potentially grow faster, so that later on higher income levels can be taken within the allowed maximum.
- b) On death, the value of the balance of the capital in the investment account is not lost. The annuity can be paid to a nominee or beneficiary or it can be capitalised. If no beneficiary was nominated, it can be paid to the deceased estate. If the

nominee opts to continue receiving the annuity, it does not form part of the deceased estate.

- c) Living annuities are fully transparent. The underlying investments are generally in collective investment schemes, the values of which are easily attainable. Investment performances of these collective investment schemes are quoted daily in newspapers. Costs such as fees and commissions are fully disclosed.
- d) Living annuities offer flexibility in it that a wide range of investment portfolios are available to choose from and clients can switch portfolios if the portfolio is no longer suitable for the clients' goals or when the clients' circumstances change.
- e) Living annuities can be changed to conventional life annuities.
- f) It is tax effective, as the fund itself is not subject to income tax.

#### **2.3.4 ASISA Standards on Living Annuities**

A paper called "The Standard of Living annuities" was published by the Association for Savings and Investment South Africa (ASISA), formerly known as the Life Offices Association (LOA). The objective was to set industry standards that would ensure that ASISA members administer and market living annuities responsibly (ASISA 2010: 1). ASISA set out four product standards that their members had to implement, effective from the 31<sup>st</sup> of March 2010. These are briefly summarised below:

##### **Standard 1: Appropriate drawdown rates**

Each ASISA member who sells living annuities should provide guidance to its clients, specifically so that clients can ascertain whether their income selection places their capital at risk or not. Clients should be encouraged to contact their financial advisors to advise them on longevity risk (ASISA 2010: 2). The table in Figure 1 below have been given to ASISA members as a guideline to give an indication how long the client's capital will be sustained at certain levels of income.

		<i>Investment return per annum (before inflation &amp; after all fees)</i>				
		<i>2.50%</i>	<i>5.00%</i>	<i>7.50%</i>	<i>10.00%</i>	<i>12.50%</i>
Annual income rate selected at inception	<i>2.50%</i>	21	30	50+	50+	50+
	<i>5.00%</i>	11	14	19	33	50+
	<i>7.50%</i>	6	8	10	13	22
	<i>10.00%</i>	4	5	6	7	9
	<i>12.50%</i>	2	3	3	4	5
	<i>15.00%</i>	1	1	2	2	2
	<i>17.50%</i>	1	1	1	1	1

Figure 1: How long a client's capital will be sustained at certain levels of income (guideline) - Source: ASISA (2010: 2)

Each row in the table represents a particular level of annual income and each column represents the investment return of the underlying assets. For example, if the investment grew at 7.5% and an income of 10% is drawn, the client will start losing capital within 6 years. This is clearly very dangerous, for should the client live too long, he or she could lose large parts of his income, or even all of it.

#### Standard 2: Appropriate investments

Member offices must make clients aware at inception, as well as annually, about the risks involved in the different underlying asset classes that make up a living annuity. Member offices and their advisors are reminded to carefully consider the client's exposure to various asset classes. If the risk related to a particular asset class is very high, careful consideration must be given to how much exposure the client should have in order to minimise the risk of losing capital.

#### Standard 3: Asset composition information

Member offices are also required to not only communicate asset composition at inception, but also annually, to assist clients and advisors to assess the suitability of the composition as required in Standard 2 above.

#### Standard 4: Industry-based analysis and monitoring

Member offices are required to report to ASISA on the status of living annuities for scrutiny by the applicable regulatory bodies. The reports will detail the drawdown rates per age group. The reports should give an indication of how well living annuities are being managed (ASISA 2010: 4).

In summation, from the literature review on retirement planning it can be seen that there are actions that can be taken to ensure a more comfortable retirement. For instance, to start saving towards retirement as soon as possible and preserve capital in the pre-retirement phase. It matters what type of savings vehicle is used; for example a retirement fund or saving directly in a unit trust investment. Tax efficiency should be considered, but the idea is still to save as much as possible by increasing contributions to a pension fund or a retirement annuity. In the post-retirement phase, much consideration should be given to the post-retirement investment vehicle employed and the role of the wealth manager is then critical. The following section will examine customer relationship management in more detail.

## **2.4 Customer Relationship Management**

### **2.4.1 Client perceptions, customer loyalty and customer relationship management (CRM)**

Positive customer perceptions are important for companies, because many companies depend on repeat purchases from customers for sustenance, as well as growth. Companies therefore focus on keeping customers loyal and satisfied in order to ensure

repeat purchases, which is only possible if they understand their customer needs well. This can be achieved through research and customer relationship management, which firms can use to gain competitive advantage (Amoako, Arthur, Bandoh C. & Katah. 2012: 17 – 18; Madan & Gargh 2012: 71). This study focuses on customer satisfaction of advice as it relates to living annuities, the price attached to the advice, the product itself, the quality of advice and other financial services of the financial planning professional. These factors are tested in the client survey and could drive overall customer satisfaction and affect the profitability of a business.

At this point it is important to define client perceptions, client satisfaction, customer loyalty as well as customer relationship management to see how they are related to one another.

#### **2.4.1.1 Customer Satisfaction**

A useful definition of client satisfaction from Oliver (1997: 13) is the following:

“Satisfaction is the consumer’s fulfilment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under- or over-fulfilment”.

There are a number of different definitions for customer satisfaction; most of the research indicates that there are 3 elements that are present in most customer satisfaction definitions, namely:

- Customer satisfaction is an emotional or cognitive response.
- There is a particular focus, which could be consumer expectations, product or services, or consumption experience.
- It relates to a particular time i.e. the response is either after the consumption experience, after a choice has been made or it can also be based on accumulated experience (Giese & Cote 2000: 14).

Based on the discussion above, it can be expected that customer satisfaction for the participants in the study will take place when they are happy with the performance of

their living annuity, as well as the initial and continuous advice that they receive from their financial planner.

#### **2.4.1.2 Customer Relationship Management**

Customer relationship management (CRM) can be described as strategies and processes used by companies to improve relationships with clients (Krasnikov, Jayachandran & Kumar 2009: 61 - 62). It can thus be seen as a tool to improve client perceptions, which leads to improved customer satisfaction and loyalty (Kumar & Shah 2004, cited by Krasnikov *et al* 2009: 61).

Customer relationship management deals with establishing, maintaining, and enhancing relationships between customers and business. This is done in a profitable, mutually beneficial manner where client and company objectives are met. It integrates various functions to improve efficiencies in the organization that ultimately creates value (Parvatiyar & Sheth 2001: 5).

It is not a once-off event, but rather a process of collaboration between various business functions. CRM also looks at the selection of clients, because not all loyal clients are equally profitable. It is a client-centric activity within a business that is becoming more and more relevant (Parvatiyar & Sheth 2001: 5 - 28).

#### **2.4.1.3 Customer Loyalty**

Customer loyalty, on the other hand, can be defined as “a deeply held commitment to re-buy or repatronise a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour” (Oliver 1997: 392).

#### **2.4.1.4 Client Perceptions**

Client perceptions are slightly more difficult to define, but it relates to how customers perceive the company, the product and service that they receive, which in this case is advice. In essence it refers to how the client evaluated the wealth management firm, the living annuity itself and the advice, taking into account the various alternatives (real or perceived) available, past experiences and costs (Madan, & Gargh 2012:70 -71). The client is not necessarily obliged to buy the product or service from the company in order to have a perception. Oliver (2009: 15) explains that if a customer buys a product or service more than once from a business, the customer is more likely to form an opinion or attitude about the business, which can be positive or negative. This attitude then forms the basis of the customer's expectation with the next encounter with the business. This too relates to customer perceptions. There are some methods to measure client perceptions and these will be dealt with a bit later on (Oliver 2009: 15).

#### **2.4.1.5 Relationship between CRM, client perceptions, client satisfaction and client loyalty**

There is a relationship between CRM, client perceptions, client satisfaction and client loyalty. The results of good customer relationship management are customer satisfaction and loyalty (Krasnikov, *et al.*, 2009: 61 - 62). Acquiring new clients are more costly than retaining existing ones; this makes it necessary for companies to ensure that satisfaction does lead to loyalty (Reichheld, 1996 cited by Bodet 2008: 156). Customer relationship management can give companies a competitive advantage over peers (Torres, Akridge, Gray, Boehlje & Widdows 2007: 2).

It is stated that the perception of fair pricing relates positively to client satisfaction (Martin-Consuegra, Molina & Esteban, 2007: 464). Further to this, satisfied clients are loyal clients, which account for the majority of company profits, because they are likely to buy more of the companies' products (Kotler 2000: 48). One of the strategies used by companies to ensure sustained profitability is customer relationship management (Cant,

Brink & Brijball, 2006: 9). Repeat purchases are attributed to either client satisfaction or lack of alternative (Gustafsson, Johnson & Roos 2005: 215). Therefore, higher cash flows as well as higher profits can be achieved (Luo & Bhattacharya 2006: 4).

Figure 2 below was designed as a graphical depiction of how the abovementioned factors relate to one another, as discussed. This field study specifically deals with client perceptions of the advice they receive. By using figure 1 as a tool, it can be said that:

- Customer perceptions of advice can be positively influenced through customer relationship management (CRM).
- Positive customer perceptions of advice can eventually lead to satisfied customers, who can in turn become loyal customers.
- Loyalty should not be taken for granted and CRM can be used to ensure that customers remain loyal. Acquiring new clients is more costly than maintaining existing ones. Further to this, because loyalty is a deeply held commitment, occasional failure can sometimes be tolerated.
- Loyal customers are more profitable in the long run and CRM is one of the tools used to sustain profitability.

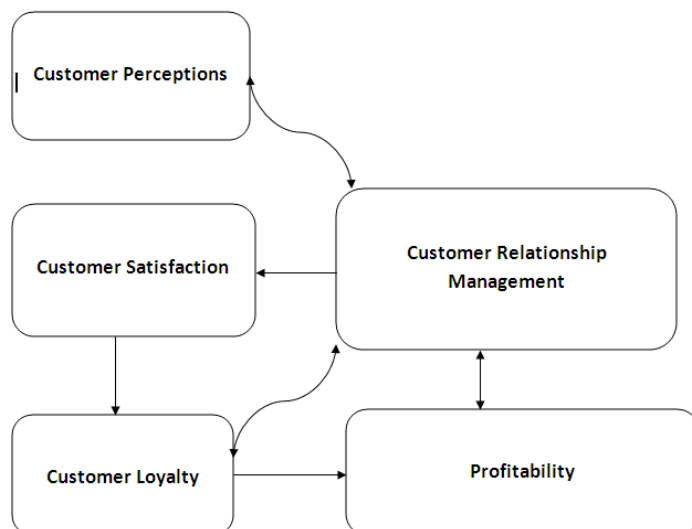


Figure 2: Interrelation of CRM factor (source: compiled by researcher)

One of the things that customers expect is adequate service, which is the level of service that they would deem to be acceptable. In this case, the service is the advice that they receive from the financial advisor. Clients may desire a higher level of service and when their expectations are not met, they may start to cut down spending. In this case, if the quality of advice does not live up to the client's expectations, it may lead to a reduction in future business from the client (Zeithaml, Bitner and Gremler, 2009: 77). This makes it important for financial advisors and firms to firstly understand the clients' exact expectations and secondly, to fulfil these expectations. Clients' expectations can be fulfilled through customer relationship management by adapting the manner in which products and services are presented to clients (Hardeep & Amandeep, 2011:166). In this case it would mean that the financial advisors should manage clients' expectations and ensure that advice is given in a way that exceeds the clients' expectations.

It has already been said that CRM is a tool that can be used to improve client perceptions. Furthermore, CRM enables firms to customise their services and products for individual customers, increase customer perceptions of quality of products and services, as well as improve the reliability of the client experience by ensuring that requests are dealt with timeously and accurately (Mithas, Krishnan & Fornell 2005: 202).

#### **2.4.1.6 Price Fairness**

A few important factors need to be in place to ensure positive client perception of value and satisfaction. It is important to note that perceptions can be either objective or subjective. Be that as it may, companies need to find ways to influence perceptions positively. The first factor to be in place to ensure positive client perception of value and satisfaction is price fairness. In general, when the client perceives the price to be fair compared to other products in the market, the client might want to repurchase the product or service. The price is what the client is sacrificing to obtain the product or service and if the client feels that they sacrificed too much, they will perceive the price to be unfair even if they were initially satisfied with the product or service (Martin-Consuegra, *et al.* 2007: 463).

Once again, in this case, advice should accompany the purchase of living annuities and clients need to perceive the price of advice to be fair in order for them to be satisfied (Martin-Consuegra et al. 2007: 463). This means that price fairness relates to the price being equal in value to the advice given.

#### **2.4.1.7 Product / Service Quality**

The second factor that has to be present for clients to have a positive perception of value and satisfaction is actually a combination that relates to quality. A company can create value by ensuring product quality, service quality and value-based prices (fair prices). These relate to performance and increases satisfaction (Du, Jiao & Tseng 2006: 397). It can be deduced from Kang and James (2004: 267 – 269) and Lien and Kao (2008: 522) that it is not that easy to determine the quality of the advice, but two things can be tested: technical advice quality and functional advice quality. Technical advice quality would refer to aspects such as tax implications, fund selection, risk profiling and accuracy. Functional quality of advice refers to the manner in which it was given and relates to aspects of friendliness, trustworthiness, courtesy and display of emotions.

#### **2.4.1.8 Employee Satisfaction**

The third factor to be in place to ensure positive client perceptions is employee satisfaction, which relates positively to customer satisfaction. Happier employees tend to provide higher quality of service to clients and this intangible asset has a positive impact on client satisfaction. As mentioned client satisfaction improves loyalty, increases firm revenue as well as profitability (Aksoy, Cooil, Groening, Keiningham & Yalçin 2008: 106 -107).

In the context of this paper it can therefore be inferred that a financial advisor that enjoys his/her work should also have a positive impact on customer satisfaction.

## 2.5 Conclusion

This section started off with a discussion of the regulatory environment under which FSPs and their representatives must operate. The regulation provides guidelines for the activities of FSPs, and the relevant legislation pertaining to living annuities was discussed. It is evident from the literature that protection of consumers as well as the industry is important, but that “Treating Customers Fairly” intends to improve the industry further. The impact of retirement reforms, which triggered the initial interest in this research, was also unpacked. Companies and representatives have to position themselves to remain profitable and sustain their growth in this new environment. The applicable definitions were discussed and set the scene for the discussion on retirement planning that was to follow.

It is clear from the literature that pre- and post-retirement planning is a structured and continuous process and has a definite impact on retirement outcomes. The advice that goes with retirement planning is informed by the client’s objectives and goals. It is essential that clients make informed decisions in both the pre- and post -retirement phases, as they both have a significant impact at retirement.

It is clear from the research that CRM, client loyalty and client perceptions are all related to one another. By making use of CRM strategies and processes, companies can improve relationships with their clients; manage clients’ expectations and perceptions; and increase client loyalty as well as profitability.

## Chapter 3 - Research Methodology

### 3.1 Introduction

This chapter is specifically focussed on the research methodology used in this study. The full research study consists of information gathered from the literature review combined with the methodology used in this chapter.

Research can be defined as a scientific method of objectively and accurately looking for the truth about a certain subject, problem or phenomena (Zikmund, Babin, Carr & Griffen 2010: 5). According to Zikmund *et al.* (2010: 6) the scientific method is the way researchers go about conducting research that ensures objective conclusions. The definition implies that there is a scientific process that is followed and the aim would be to increase knowledge about the subject and/or find solutions to a stated problem. The research conducted in this study endeavours to find answers to the problem stated in Chapter 1; it also seeks to increase knowledge about client perceptions, as it relates to living annuity advice.

Research methodology refers to a systematic method to solve research problems, including specific steps to follow, as well as the research methods used to conduct the research (Kothari 2004:7-8). In this chapter, the methods used to gather and analyse the data will be discussed, as well as the rationale for using these techniques. This chapter starts off with an introduction, which is then followed by discussions on research design, research methodology, sampling design, the research sample, data collection, data analysis, statistical tests applied, research ethics; and, lastly, concluding remarks are made.

### 3.2 Research Design

Research design is a strategy used to provide answers to the problems identified that prompted the research in the first place (Pinsonneault & Kraemer 1993: 11). It follows the development of a theoretical framework and it is a framework used to guide the collection and analysis of data to find a solution to the identified problem. It relates to issues regarding the purpose, type of investigation, extent of researcher interference, location, sampling design, data collection, data measurement and data analysis. Careful choices have to be made regarding each element in the framework, taking into account the purpose of the research (Sekaran & Bougie 2009: 102 - 103).

From the literature review it can be seen that extensive research has been done about client perceptions, retirement planning and the advice that accompanies it. There is also much information available about living annuities. Therefore, some facts are known that relate to the topic of research and a quantitative approach might allow for focus on these variables. To the best of the researcher's knowledge, so far no South African study had been done about client perceptions of living annuity advice. This would make this study an exploratory study because not much is known about the particular topic of this research project at the outset (Sekaran & Bougie 2009: 103 - 123).

The participants in this study were clients in a national wealth management business. The business offers holistic personal financial planning services, which include retirement planning and advice. The clients were all living annuity clients of different backgrounds, different levels of financial knowledge, different post-retirement needs, different financial objectives as well as different circumstances. The participants in the research are discussed in more depth further into this chapter. The next section will describe the specific methodology that was used to conduct the research.

### 3.3 Research Methodology

It can be seen from the previous section that research design refers more to the planning of the research that will provide answers to the stated problem. Research methodology, on the other hand, refers more to the methods used to gather and analyse the data. The planning part of research studies are similar for different disciplines, but methods used may differ (Leedy & Ormrod 2001: 93). This study is a quantitative scientific study, and as such, certain logical steps are followed. The data gathering, analysis and concluding processes are organised and rigorous. A scientific study has a definite purpose; it is rigorous; certain statistical tests can be performed on the data; it is replicable; it is precise with a certain confidence level; and finally, the findings can be generalised (Sekaran & Bougie 2009: 18 - 23).

For this study, the quantitative research method was chosen, which can be defined as a formal, objective, systematic process in which numerical data are used to obtain information about the world. This research method is used to describe variables; to examine relationships among variables and to determine cause-and-effect interactions between variables (Burns & Grove 2005: 23). The data gathered can therefore be mathematically analysed to determine certain relationships. In this study, structured and semi-structured questionnaires were developed, which were distributed to clients with existing living annuities. The questionnaires tested mainly their perceptions of the advice that they receive from their financial planners. A similarly styled questionnaire was also developed and distributed to the financial planners to test their perceptions of the quality of their advice and the value they add to their clients' financial well-being. The questionnaires contained structured and semi-structured, mostly closed-ended questions. A number of open-ended questions were asked and participants could also elaborate on some of the closed-ended questions. The aim of the survey was to gather data that will assist in finding solutions to the stated problem.

Probability sampling was used, specifically simple random sampling - meaning that each client that owned a living annuity in the region had an equal chance of being chosen to participate in the study (Sekaran & Bougie 2009: 270). More specifically, the questionnaires were sent out to all clients who had living annuities at the time. The financial planner questionnaires were distributed by means of a web-based questionnaire. The client questionnaires were hard copies that were either distributed to participants via e-mail or delivered to them by their financial planner. The hard copy questionnaires were e-mailed back to the researcher.

### **3.4 Population**

As mentioned before, the participants in the study were existing living annuity clients of a national wealth management business. The business has a regional office in Bloemfontein that covers the geographic regions of the Free State, Northern Cape and North-West Provinces. The regional office has five wealth financial planners and the participants are clients of the firm, linked to these financial planners. There are two types of clients in the wealth management firm, namely high net worth clients and ultra-high net worth clients. High net worth clients have a minimum net asset value of R15 million with investable assets worth a minimum of R7 million. Ultra-high net worth clients have a minimum net asset value of R30 million and investable assets worth a minimum of R15 million. Both the high net worth and the ultra-high net worth clients that have existing living annuities could be participants in the study, but as mentioned in chapter 1, only ultra-high net worth clients took part in the study. The firm also distinguishes between primary and secondary clients. Only primary clients have to meet the qualifying criteria of the firm. Secondary clients are also clients of the firm, which are linked to primary clients. They generally are family members of the primary clients. The firm mostly does business with primary clients. At the end of 2013, the firm had 144 ultra-high net worth clients in addition to 291 high net worth primary clients and 2052 secondary clients. Out of the total client pool, only 22 have existing living annuities. For this research study, the target population is therefore all the living annuity clients, which

are 22. A specific sample size was not chosen and the semi-structured survey type questionnaires were sent out to all the living annuity clients of this regional office. The sample is thus equal to the target population.

All the financial planners in the regional office are certified financial planners, which means that they have all attained “stringent qualification and competency requirements as well as abide by unequivocal ethical standards”. They may use the CFP® designation, which is recognised internationally as the “benchmark for professional advice” (Financial Planning Institute of South Africa 2014: 3). The financial planner questionnaires were used to assess what the managers consider to be their contribution to the financial well-being of clients. It also tested the quality of the retirement planning advice, benchmarked against what was found in the literature review. All five financial planners participated in the study.

The questions were designed to provide answers the questions posed in chapter 1 as well as achieve the objectives, as will be seen in the next chapter. The distribution method of the questionnaires is discussed in the next section.

### **3.5 Data Collection and Analysis**

The data were gathered through a survey-type, semi-structured questionnaire. Most living annuity clients received an e-mail that explained that their participation was voluntary, that the information received from them would be treated as confidential, the purpose of the study and that the study is for academic purposes. The financial planners delivered hard copy questionnaires to some of the clients that they felt would not respond to an e-mail. In those instances, they explained the above to the client. As a requirement from the wealth management firm, all clients had to sign a letter (see Appendix A) stating that they participate out their own free will. The completed questionnaires were e-mailed or faxed to the researcher. The questionnaire and data analysis methods are discussed in this section.

### 3.5.1 Questionnaire

The questionnaire was firstly designed to find solutions for the stated problem. It was informed by the literature review in the previous chapter. The questionnaire was specifically designed to test perceptions of advice, but there are various client perceptions questionnaires available and these were used as a guideline. The questionnaire was designed to achieve the following broad objectives:

- To gain a better understanding of client perceptions and preferences regarding advice on living annuities.
- To test client knowledge of living annuity characteristics and benefits.
- To test clients' levels of financial planning and financial product knowledge.
- To establish how much clients know about their options available at retirement.
- To establish how often post-retirement plans are revised and investment reviews are done for clients with existing living annuities.
- To establish how clients feel about the fees applicable to living annuities in relation to the advice they receive.
- To test clients' perceptions of the value added to their financial well-being by the financial planner.
- To test the clients' level of satisfaction and perceptions of price, product choice as well as the overall client offering of the business.
- To establish if there is a need to educate clients more about financial products and living annuities in particular.
- To contribute to the body of knowledge regarding clients' perceptions of living annuity advice.

Most of the questions were closed-ended, Lickert-scale type questions. In some of the closed-ended questions the participants were asked to elaborate on the answer given. There were a number of open-ended questions as well. The appropriateness and

validity of the questions were tested with the regional director of the wealth management business as well as by the research supervisor. This was done to minimise any bias by the researcher. The questionnaire was also tested for validity and reliability using statistical techniques and was found to be both valid and reliable. The questionnaires that were used are attached in Appendices C and D. The programme used to distribute the questionnaires to the financial planners and to collect the data from both sets of participants is discussed below.

### **3.5.2 EvaSys – Data Collection and Analysis**

Electric Paper Ltd. is a company based in the United Kingdom that provides survey automation software. They have a system called EvaSys that provides a surveying solution for paper, online and hybrid surveying within the same system. The system was developed in Germany and they assist approximately 1000 customers worldwide (Electric Paper Ltd. 2014: 1). The University of the Free State has a licence to use the software. This software was used to create the online questionnaires. The link to the online questionnaires was e-mailed by the Evasys officer from the University of the Free State to the financial planners participating in the study, whilst hard copy questionnaires were generated and distributed to client participants. The e-mail explained the purpose of the study; how the questionnaire should be completed; the layout of the questionnaire; and it assured the participants of their anonymity. The participants were asked to click on the link to access the questionnaire. The participants were encouraged to complete the questionnaire in one sitting, but they were able to start completing the questionnaire, save it, and return later to complete it. After they completed the questionnaire, they submitted it. The online survey was only closed after an instruction by the researcher to the EvaSys officer at the University from the Free State.

The data from the questionnaires were automatically recorded by the software and the Evasys officer sent a report (information contained in report can be seen in Appendices C and D) to the researcher via e-mail as well as a Microsoft Excel coded data sheet.

The data were automatically coded by software and the report provided the following information:

- The number of respondents that participated in the survey.
- The number of respondents that answered each question.
- The average response per question.
- The standard deviation per question.
- Scaled question responses (frequency of distribution).
- A detailed summary of open-ended questions.

A large portion of the data analysis was therefore performed by the software and the additional tests will be discussed below. The next section deals with the statistical tests that were applied to the data.

### **3.6 Statistical Tests applied**

From the previous section it can be seen that a number of statistical analyses are already performed by the EvaSys software. These include calculations of averages (means), standard deviation as well as frequency of distribution. Frequencies were used to establish the number of participants that agreed or disagreed and how many were neutral on a particular statement. In addition to this, Pearson's Chi-Square test was considered to ascertain the statistical significance of the population, but it was not done due to the size of the sample being too small. The Fischer exact test can be used for smaller sample sizes. It can be described as a test that analyses the relationship between categorical variables. The expected relationship between the variables is defined in the null hypothesis ( $H_0$ ). The null hypothesis is then tested by calculating a level of significance, expressed as a p-value. For the event that significant evidence cannot be found in support of the null hypothesis, an alternative hypothesis is also defined ( $H_A$ ) (Howel 2008: 473). Although the most common p-value used in academic research is 0.05, typical significance levels include 0.1 and 0.01 as well (Anon nd: 1 – 20) (Laerd Statistics nd: 1 - 8).

The next chapter will include a discussion of the results of these tests.

### **3.7 Research Ethics**

Research ethics can be referred to as a “code of conduct or societal norm of behaviour while conducting research” (Sekaran & Bougie, 2009: 15). Participants were prepared and briefed about the purpose of the study, the format as well as ethical considerations. None of the participants were forced in any way to participate in the study. Each individual participating in the study gave consent out of free will. Participants’ information was kept confidential. Participants remained anonymous. The researcher strived to remain objective throughout this study. The study does not contain any questions that sought to harm or embarrass clients in any way. The questions were also asked in such a way that the answers did not reveal the identities of participants.

The detailed results were to be kept anonymous and treated with the strictest confidentiality. The next chapter accurately reports the findings of the survey, including all weaknesses and shortcomings of the research.

### **3.8 Conclusion**

In this chapter it can be seen that the research methodology process follows a scientific and a linear series of steps. This chapter starts off with an introduction and research design that gives an overview of what is to follow and the strategy for conducting the research. The factors that influenced the approach as well as the chosen methods were discussed. The chapter explains how the questionnaire was developed as well as the collection and analysis of data.

The chapter ends off with ethical considerations that are important for this study. The next chapter presents in more detail the specific findings of the research.

## **Chapter 4 - Research findings and analysis**

### **4.1 Introduction**

The first chapter provided an overview of this study and dealt with the research problem as well as the research objectives. The second chapter was an in-depth literature review of all issues relating to the study, including amongst others, discussions about retirement planning, living annuities, applicable legislation, client perceptions, customer relationship management and client satisfaction. In Chapter 3, the research methodology was discussed at length. This chapter details the survey findings as obtained through the data collected.

Two sets of questionnaires were designed and distributed. The first questionnaire was designed and distributed to clients. The second questionnaire was designed and distributed to the financial planners (wealth managers) of these clients. The client questionnaire seeks to establish what client's perceptions and preferences are when it comes to living annuity advice. The client questionnaire also tests clients' understanding of the products available at retirement, the features and benefits of living annuities in particular. It seeks to establish the level of financial product knowledge as well as overall financial product knowledge. It also seeks to determine the process followed when clients receive advice as well as the frequency of retirement planning reviews done for the client participants. The questionnaire also tests client perceptions about fees applicable to the product as well as the accompanying advice. Lastly, it tests if clients perceive their wealth managers to be adding value to their financial well-being as well as their overall level of satisfaction with the advice of the financial planner.

The financial planner questionnaire (wealth manager questionnaire) tests mostly the same things as the client questionnaire, just from the wealth manager's point of view. In addition, it also tests the process that was followed when giving clients advice. The two

sets of questionnaires were compiled to compare the client perceptions with the wealth manager perceptions.

#### **4.1.1 Survey distribution**

For this research study, full consent was obtained from all the client participants in the study to be contacted and to take part willingly. Appendix A contains the consent letter that had to be signed. The questionnaires were distributed mainly via the financial planners to the client participants. The financial planners were advised on how to position the purpose, ethical considerations as well as the limitations of the research. The questionnaires and consent letters were delivered either to the client participants in person by their financial planner or e-mailed to them. The purpose, limitations and ethical considerations of the client survey were explained to the financial planners prior to distribution. The purpose of the study and ethical considerations, which were discussed in the previous chapter, were explained to the client participants by the financial planner upon delivery or in the body of the e-mail that was sent out. The client participants signed a document stating that they may be contacted to participate in this independent research study and that they would be participating in the survey out of their own free will. This signed document was a requirement from the business where the participants are clients. A total of 22 hard copy questionnaires were distributed to clients either in person by the financial planner or via e-mail. This means the questionnaire was sent out to all of the firm's clients that fall under the ultra-high net worth category, who currently owns a living annuity in the region. After following up with the client participants for more than a month, a total of 15 questionnaires were received back. This is a fairly good response rate of 68.18%, especially considering the demographic location of the participants - which will also be discussed in this chapter. Some of the clients simply did not want to participate, despite being asked several times. The researcher's details were provided on the client questionnaires and the filled-out questionnaires were sent directly to the researcher.

There are only four financial planners with living annuity clients in this segment. All of the wealth managers participated in the study. The financial planners all filled out the financial planner questionnaires online and results for both sets of questionnaires were summarised as can be seen in Appendices B to D.

## **4.2 Discussion of Survey Results**

The questions in the questionnaires were designed to provide a solution to the stated problem in Chapter 1 and to reach the research objectives. The questions in the questionnaires were discussed with the researcher's study leader, the statistician who did the analysis as well as the regional director of the business unit used for the research, to test for the relevance of the questions. Both survey results will be discussed simultaneously and the responses will be compared. Results will be discussed under the headings of the objectives of the study. This is done to analyse the perceptions of both the wealth manager and client about living annuity advice. However, before the survey results are discussed, the demographics of both the client participants and wealth manager participants will be discussed.

### **4.2.1 Demographics**

It has already been mentioned in the previous chapter that the client participants in the study are existing living annuity clients of the regional office of a national wealth management business. The client participants are situated across the Free State, Northern Cape and North-West provinces and are linked to the four wealth manager participants. All the clients are part of the ultra-high net worth section of the business, which was discussed in the previous chapter. The regional office also has a few living annuity clients that fall within the high net worth segment, but these clients were not contacted to participate in the survey. The reason for this was that currently these clients are not linked to a financial planner and the logistics to comply with the business' requirements to obtain consent from these clients proved to be too difficult.

## 4.2.2 Client Participants

The table below contains the demographic information of the client participants.

Table 1: Client demographics

<b>Demographic variable</b>	<b>Client information</b>
Age	Client participant ages ranged from 62 to 75.
Male / Female	93.33 % male; 6.67% female
Relationship status	80 % married; 6.7% single; 6.7% divorced; 6.7% widowed
Financial dependants	26.7% have no financial dependants; 46.7% have one financial dependant, 6.7% have two financial dependants; 6.7% have three financial dependants; 6.7% have four financial dependants; 6.7% have five financial dependants.
Education	3 clients only have matric; 2 have a diploma; 2 have a degree; 7 have postgraduate qualifications and 1 did not complete the question.
Income from work	71.4% still receive income from work; 28.6% do not.
Income other than living annuity	100% receive income other than the living annuity.

## 4.2.3 Financial Planners

The table below contains the demographic information of all the wealth manager participants.

Table 2: Financial planner demographics

<b>Demographic variable</b>	<b>Wealth manager information</b>
Age	36, 42, 43, 58
Male / Female	All male.
Education	All wealth managers have a Post Graduate diploma in Financial Planning.
Experience	All wealth mangers have between 14 and 20 years' experience.

The wealth managers have a combined 60 years of financial planning and wealth management experience. All the wealth managers have a postgraduate diploma in financial planning, which is arguably the benchmark qualification in the financial planning environment.

#### **4.2.4 Survey Results discussion**

The analysed survey results was summarised and presented in a frequency table. Average responses were also calculated and standard deviations were determined. Some of the questions in the surveys were Likert-scale type questions that ranged from 1 to 7, with four being the neutral response. The average response of all the Likert-scale questions was calculated and the standard deviation for each question was also calculated. The standard deviation is a measure of the variability of the responses. A standard deviation of 0 means that all participants gave the same response. The larger the standard deviation, the more varied the responses. The survey contained open-ended questions as well and the results are also incorporated in the analysis. Each of the two tests will now be discussed.

##### Crosstabs Tests (Frequency Tests)

In the Crosstabs tests, responses from 1 to 3 indicated that the participants disagreed with a statement and 5 to 7 indicated that they agreed. The percentages within the “who” columns indicate a percentage of clients who agree or disagree as well as a percentage of managers who agree or disagree with a statement. The exact numbers are also in the columns. The full results of the Crosstabs Test including neutral responses can be seen in Appendix B.

##### Fisher Exact Test (Chi square)

Initially the Chi Square test was considered, but was dropped due to the size of the sample being too small. Instead of the Chi Square test, the Fisher Exact test was done,

which was explained in the previous chapter. The data from the questionnaires were grouped into two categories. The one group is made up of clients or wealth managers that agreed with a particular statement, whilst the other group is made up of clients or wealth managers who did not agree with a particular statement. The neutral response was excluded. The Fisher Exact test and the Chi Square test for that matter, makes use of a measurement referred to as the p-level. The p-level in this case will measure the client responses against the wealth manager responses. The null hypothesis as well as the alternative hypothesis can be defined as:  $H_0$ : Responses are the same, when  $p > 0.1$ ;  $H_A$ : Responses are not the same, when  $p < 0.1$ . Thus, if the p-value is less than 0.1 then we conclude that they responded differently and if the p-value is greater than 0.1 then we conclude that the responses are the same.

All the Likert-scale type questions had results for the Fischer Exact test, where the p-value was larger than 0.1. This means that the responses from the clients were aligned with the responses from the wealth managers. This is the first very significant result, because it means that the perceptions of the financial planners and the clients are closely aligned. The results of the questions will be discussed below, under the headings of the objectives mentioned in Chapter 3. The full results of the Fisher Exact Test can be seen in Table 1 below. When looking at the statements in Table 1 below, the results of this test is a positive affirmation of the quality of work done by the financial planners. For example, the result for question 19 is 0.595, which means that clients agreed that their financial planner adds value to their financial well-being, which is in line with the financial planner's perceptions. From a business point of view, the result of question 36 is significant, because it says that clients are satisfied paying for the advice that they receive. If the theory in chapter 2 is considered, these clients can become loyal clients, provided that customer relationship management is actively used as a tool, which could positively influence the long-term profitability of the clients. The questionnaires that were used can be found in Appendix C, whilst summaries of the client and financial planner questionnaires results can be found in appendices D and E respectively.

Table 3: Fisher Exact Test

Fisher Exact Test		
Questions		P-value
Q1.8	I understand financial products.	0.786
Q1.9	I understand personal financial planning. (Includes retirement planning, estate planning, investment planning, etc.)	0.800
Q1.10	I was presented with various options upon my retirement from my retirement fund. (includes retirement annuity, pension preservation fund, provident preservation fund, pension fund and provident fund)	0.524
Q1.11	I understood the retirement options available to me upon retirement from my retirement fund.	0.686
Q1.12	I understand the benefits and features of a living annuity.	0.574
Q1.13	I am satisfied with my decision to purchase a living annuity.	0.595
Q1.14	I understand all the applicable costs on my living annuity.	0.300
Q1.15	I am aware of the on-going costs associated with receiving continuous advice.	0.446
Q1.16	I am satisfied with the advice fees charged to receive continuous advice.	0.214
Q1.17	The supporting documents accurately provided me with all the information that was explained to me about the product, as well as the analysis and recommendation.	0.446
Q1.18	I understand what value is added by my wealth manager.	0.352
Q1.19	My wealth manager adds value to my financial well-being.	0.595
Q1.20	My wealth manager is knowledgeable.	0.446
Q1.21	My wealth manager has a good investment support base (e.g. specialists experts) assisting him.	0.470
Q1.22	My wealth manager considered all aspects of my personal finances prior to making any recommendation.	0.446
Q1.23	A full financial needs analysis was done to assess my needs.	0.579
Q1.24	The advice I received was clear and easy to understand.	0.595
Q1.26	I am comfortable paying for advice.	0.733
Q1.27	The wealth manager makes a positive contribution to my living annuity portfolio.	0.614
Q1.28	I meet with my wealth manager on a regular basis to discuss and review my living annuity.	0.421
Q1.29	I receive regular feedback about the performance of my living annuity.	0.595
Q1.30	The living annuity provided the benefits that I expected.	0.550
Q1.32	Overall, I am satisfied with the advice of my wealth manager.	N/A
Q1.34	Overall, I am happy to pay applicable product fees for the benefits of the product.	0.462
Q1.36	Overall, I am satisfied paying advice fees.	0.420
Q1.38	Overall, I am satisfied with the value added to my financial well-being.	0.750
Q1.39	All relevant queries relating to my living annuity have been dealt with by my wealth manager.	0.778
Q1.40	How likely are you to recommend the services of your wealth manager relating to your living annuity to others?	0.765
Q1.42	I am satisfied with the amount of contact with my wealth manager.	0.750
Q1.43	I am satisfied with the amount of reviews done on my living annuity.	0.446

**Objective 1: To gain a better understanding of client perceptions and preferences, of advice on living annuities.**

Most clients understood and appreciated the value added by their wealth manager as well as perceived their wealth manager to be knowledgeable. These sentiments were shared by their wealth manager, as can be seen in Table 4 below. Table 4 as well as the other tables below contain the question number, the question that was asked as well as the responses from financial planners and clients. These tables therefore contain summarised information from Appendix B. The reader is advised to also refer to Appendices B, C and D.

Table 4

Questions	%Clients Agree	%Financial Planners Agree	% Clients disagree	%Financial Advisors Disagree
Q1.18 I understand what value is added by my wealth manager.	73.3	100	26.7	0
Q1.19 My wealth manager adds value to my financial well-being.	80	100	13.3	0
Q1.20 My wealth manager is knowledgeable.	73.3	100	20	0
Q1.24 The advice I received was clear and easy to understand.	80	100	13.3	0
Q1.26 I am comfortable paying for advice.	66.7	100	6.7	0
Q1.27 The wealth manager makes a positive contribution to my living annuity portfolio.	86.7	100	13.3	0
Q1.30 The living annuity provided the benefits that I expected	66.7	100	13.3	0
Q1.32 Overall, I am satisfied with the advice of my wealth manager.	93.3	100	6.7	0
Q1.36 Overall, I am satisfied paying advice fees.	46.7	75	20	0

From Table 4 above, it follows that clients perceived the advice that they received as clear and easy to understand and that they were comfortable paying for advice. This

perception was probably brought on by the fact that most clients perceived their wealth manager to be making a positive contribution towards their living annuity.

Most clients had positive descriptions for the quality of advice, which ranged from adequate to excellent - which is in alignment with the wealth managers' perceptions. However, again it should be noted that 13.3% of clients did not think that the advice is clear and easy to understand; 13.3% did not think that their wealth manager is making a positive contribution towards their living annuity and 6.7 % of clients were not comfortable with paying for advice.

It is also worth noting that most clients were of the opinion that the living annuity provides them with the benefits that they expected. This probably speaks to the quality of the advice, because it means that the product benefits and features were discussed when giving the client advice. Almost all the clients indicated that they were overall satisfied with the advice of their wealth manager, but when asked if they were happy to pay advice fees, the responses were varied, as can be seen in Table 4 above.

Some of the descriptions used when clients elaborated on their satisfaction included words like good and excellent, but one client had concerns about the financial motivation for recommending the product and another said that his income was not increasing and that there was not enough growth. Again, the wealth managers were generally positive about how they thought their clients perceived their overall advice.

**Objective 2: To test client knowledge of living annuity characteristics and benefits.**

It can be seen in Table 5 below that most clients understood the benefits and features of a living annuity, which is what their wealth managers expected. In Table 4 above, it could also be seen that most clients' perception was that the product provided them with the benefits that they had expected. It can, therefore, be concluded that not only did

most of the clients understand the product features and benefits, but that their expectations about the benefits of the product were met.

Table 5

Questions	%Clients Agree	%Financial Advisors Agree	% Client disagree	%Financial Advisors Disagree
Q1.12 I understand the benefits and features of a living annuity.	73.3	100	13.3	0
Q1.13 I am satisfied with my decision to purchase a living annuity	80	100	13.3	0
Q1.14 I understand all the applicable costs on my living annuity.	60	100	26.7	0
Q1.17 The supporting documents accurately provided me with all the product information that was explained to me with all the information that was explained to me about the product, as well as the analysis and recommendation.	73.3	100	20	0

It has already been mentioned that most clients perceived the advice they received as clear and easy to understand. Since product recommendation is also part of the advice combined with the fact that most clients indicated that they understood the products and features, it can be concluded that the product features and benefits were also clearly understood. However, it should be noted that one client pointed out that hidden costs were eroding his fund. In the case of this client, it can be concluded that this client did not understand all the product features that also includes all costs. Further to this 73.3% of clients perceived the supporting information provided to them as sufficient information that accurately described the features and benefits of the product. Most clients indicated that they were satisfied with their purchase of their living annuity.

**Objective 3: To test clients' levels of financial planning and financial product knowledge.**

All the clients in the survey completed at least a matric and 78.6% had post-matric qualifications, but as mentioned in the previous chapters, this does not mean that the clients necessarily understand financial planning and financial planning products. A living annuity is a financial product and it has already been mentioned that most clients think that they understand the benefits and features of living annuities, but does this mean that they understand financial products? Table 6 below shows that clients believe that they do understand financial planning and financial planning products. It is, however, interesting to note that one wealth manager's response was neutral on the question of whether or not his clients understood financial planning and financial products.

Table 6

Questions	%Clients Agree	%Financial Advisors Agree	% Client disagree	%Financial Advisors Disagree
<b>Q1.8 I understand financial products.</b>	71.4	75	7.1	0
<b>Q1.9 I understand personal financial planning. (Includes retirement planning, estate planning, investment planning, etc.)</b>	73.3	75	6.7	0
<b>Q1.22 My wealth manager considered all aspects of my personal finances prior to making any recommendation.</b>	73.3	100	20	0
<b>Q1.23 A full financial needs analysis was done to assess my needs.</b>	73.3	75	13.3	25

Most client participants indicated that their wealth manager considers all aspects of their personal finances prior to making a recommendation and also that a full financial needs analysis was done to assess their needs. It can therefore be concluded that most clients had gone through a financial planning process and should be familiar with what the process entails.

The wealth managers do not follow exactly the same process when they do retirement planning, but there are similarities and two broad steps that include:

1. Step1: Gathering of information and analysis. The wealth managers do a needs analysis for their clients where the current circumstances are analysed and future needs are considered. One wealth manager mentioned conducting an interview to determine income requirements, etc., whilst another explained the steps he follows when doing retirement planning. His first two steps also consist of information gathering. Another mentioned conducting a financial personality assessment as part of the analysis. The wealth managers also mentioned that various options are considered.
2. Step 2: Implementation and review. After the analysis and options are provided to clients, the proposals are implemented if the clients are satisfied. After implementation, the solution and client situation is monitored.

**Objective 4: To establish how much clients know about their options available at retirement.**

Only 60% of clients indicated that they were presented with various options upon retirement. This is in contrast with the wealth managers' responses, who all said that their clients were presented with various options upon retirement. The client and wealth manager responses can be seen in table 6 below. It is a matter of concern that 26.7% of clients had a neutral response to this statement. A total of 86.7% of clients did indicate that all relevant queries relating to their living annuity had been dealt with by their wealth manager and in addition, 86.7 % of clients understood the various options available to them from their retirement fund when they retire.

Table 7

Questions	%Clients Agree	%Financial Advisors Agree	% Client disagree	%Financial Advisors Disagree
Q1.10 I was presented with various options upon my retirement from my retirement fund. (includes retirement annuity, pension preservation fund, provident preservation fund, pension fund and provident fund)	60	100	13.3	0
Q1.39 All relevant queries relating to my living annuity have been dealt with by your wealth manager.	86.7	100	6.7	0
Q1.11 I understood the retirement options available to me upon retirement from my retirement fund.	86.7	75	13.3	0

If the financial planner responses are assumed to be accurate, likely reasons for some of the client responses should be found. Only 60% of clients indicated that they were presented with options upon retirement and 13.3% of clients indicated that they do not understand the various options. It could be that a different wealth manager than the current one gave the client advice when the client bought the product. If this is not the case, perhaps the clients could have forgotten that they were in fact presented with various options. Alternatively, if the wealth managers are wrong, that would mean that there is a gap in the advice process that has to be filled. However, overall it can be concluded that most clients do understand the options available to them upon retirement.

**Objective 5: To establish how often post retirement plans are revised and investment reviews are done for clients with existing living annuities.**

Only 66.7% of clients indicated that their wealth manager meets with them on a regular basis to discuss and review their living annuities, whilst 20% did not agree and 13.3% were neutral. However, the average score for this question was relatively low at 4.9, with a standard deviation of 2. The standard deviation is a measurement that shows how much responses can deviate from the average response. In this case it can be seen that the responses varied considerably. Although all wealth managers agreed that

they do see clients regularly for reviews of their living annuities, the average score was relatively lower at 5.5 and with a standard deviation of 0.6. This is a relatively less confident response from the wealth managers compared to most of the other responses. However, more clients indicated that they did receive regular feedback from their wealth manager about the performance of their living annuities. This means that although some clients do not necessarily meet with their wealth managers on a regular basis, they do receive feedback from their wealth manager. Not only were most clients satisfied with the amount of contact they have with their wealth manager, they were also satisfied with the number of reviews done on their living annuities. This is a sentiment shared by all wealth managers.

Table 8

Questions	%Clients Agree	%Financial Advisors Agree	% Client disagree	%Financial Advisors Disagree
<b>Q1.28 I meet with my wealth manager on a regular basis to discuss and review my living annuity.</b>	66.7	100	10	0
<b>Q1.29 I receive regular feedback about the performance of my living annuity.</b>	80	100	13.7	0
<b>Q1.42 I am satisfied with the amount of contact with your wealth manager.</b>	78.6	100	7.1	0
<b>Q1.43 I am satisfied with the amount of reviews done on my living annuity.</b>	78.6	100	21.4	0

It has been mentioned that most client participants have indicated that all relevant queries relating to their living annuities have been dealt with by their wealth manager and this can be seen in table 7. This could be the reason why, although some clients indicated that they do not have enough contact with their wealth manager, they were satisfied with the amount of contact.

**Objective 6: To establish how clients feel about the fees applicable to living annuities in relation to the advice they receive.**

It has already been mentioned that most clients are satisfied paying advice fees and that most clients indicated that they understood the applicable costs on their living annuities. These results can be found in Table 4 above. However, the average response to the statement of them understanding the applicable fees was 4.8 with a standard deviation of 2.2, which indicates that the degree of variability is relatively more than on other responses. So, perhaps there is a gap that needs to be filled relating to client understanding of the applicable product fees.

It has already been mentioned that most clients felt comfortable paying for advice, but again the average response was a relatively low 4.9 with a standard deviation of 1.9. Importantly, most clients responded that they were aware of the on-going costs for receiving continuous advice, but three clients mentioned that they were unaware of costs relating to on-going advice. When asked to elaborate on the response about their satisfaction with the advice they received, responses varied and included the following:

- advice should be rendered free of charge;
- consider fees to be excessive;
- fees must be included in the product;
- I am always prepared to pay for advice as long as it is the correct advice;
- I was always satisfied after fees were lowered after mutual agreement;
- if it is reasonable;
- Not really. I will also talk to people like Allan Gray, Coronation and PSG; and
- Yes, if the advice is professional relevant and not biased.

Three wealth managers indicated that that they believed that, overall, their clients are satisfied to pay advice fees whilst one wealth manager was neutral. The average score for this statement was also relatively low at 5.5 and the responses did not vary too much. When asked to elaborate on why they gave the aforementioned response, the wealth manager responses included:

- Clients are happy with my advice and also assisted me with the implementation process;
- If the value add is explained they agree to pay the fees;
- Mostly this is determined if their investment grew and they can (although they might not in that year) increase the income thereof.

Less than 50% of clients said that they were happy paying for the applicable product fees for the benefits of the product, as can be seen in Table 9 below. An average response of 4.9 with a standard deviation of 1.8 was recorded. Some of the clients elaborated on their response and some of these are listed below:

- fees should be within limits;
- fees must be conservative and product must be worth the fee;
- fees must be reasonable for the efforts of the wealth manager;
- prices are market related but should be motivated and unique benefits be highlighted- as the portfolio increases prices should be adjusted downward;
- products are already coming at a price why should I pay more;
- need to be negotiated with possible alternatives; fee is reasonable; and
- consider fees to be excessive.

Some of the wealth managers also elaborated on the statement and their responses are also listed below:

- clients agree to the fee;
- clients are more knowledgeable and understand that it does not matter where they go, there will be costs that they will have to pay for;
- Clients do not have a problem paying for services, advice and products, as long as they get value.

Table 9

Questions	%Clients Agree	%Financial Advisors Agree	% Client disagree	%Financial Advisors Disagree
Q1.34 Overall, I am happy to pay applicable product fees for the benefits of the product.	46.7	100	13.3	0

**Objective 7: To test the clients' perceptions of the value added to their financial well-being by the financial planner.**

It has already been mentioned that most clients perceived their wealth manager to be adding value and particularly adding value to their financial well-being. These results can be seen in the tables above. These sentiments were also shared by the wealth managers.

The majority of clients also perceived their wealth managers to be knowledgeable and that they considered all aspects of their personal finances prior to making a recommendation. It has also been said that most clients perceived their wealth manager to making a positive contribution towards their living annuities whilst the product provided them with the benefits that they expected. These results can be seen in Table 4. These perceptions transpired in clients being satisfied with the overall advice of their wealth manager to the extent that most clients are satisfied paying advice fees. It can therefore be concluded that clients perceive their wealth managers to be adding value to their financial well-being.

**Objective 8: To test the clients' level of satisfaction and perceptions of price, product choice as well as the overall client offering of the business.**

Based on the aforementioned results thus far, it is clear that there is a high level of satisfaction with the product itself, but although most clients indicated that they understood the costs involved in the product, there might be a need to do more to

ensure that clients understand all the costs. From the results in Table 9 above, it follows that less than 50% of clients were satisfied with paying for the applicable products fees and some of the reasons that the clients gave for this have already been discussed. From these reasons, it can be concluded that at least some clients perceive the price to be on the expensive side and that it should be something that is negotiable, more conservative and market related.

From the analysis thus far, it can be seen that clients have indicated that they were presented with various options upon retirement from their retirement fund and that they understood the available options. The clients also indicated that they understood the benefits and features of the living annuity in particular. These results can be seen in Tables 5 and 7. The analysis thus far clearly shows that clients are satisfied with the product itself and that they perceive the product to be delivering the expected benefits. The result with regard to the satisfaction with the product itself was captured in Table 4.

When clients were asked to rate the overall value proposition of the firm the wealth manager works for, the clients responded mostly positive and on average rated the value proposition as good.

The wealth managers were very positive about client perceptions of the overall value proposition of the firm. When asked how they thought the clients would rate the overall value proposition of the firm, their responses were the following:

- 7 out of 10. Clients are getting more informed and I truly think that our firm is more than competitive in pricing. Knowledge and available options to clients.
- Good
- I think they will give us a good rating
- Very good

Considering the analysis done thus far, particularly the fact that a full financial needs analysis are being done, client perceptions about the overall value being added to their financial well-being are positive, as well as the comments above, it can be concluded that the overall client perception of the value proposition of the firm is good.

**Objective 9: To establish if there is a need to educate clients more about financial products and living annuities in particular.**

Clients were very positive about their understanding of financial products as well as the benefits and features of living annuities in particular, the results of which is summarised in Tables 5 and 6. However, there are signs that there might be a need for more education regarding these. Firstly, not all clients indicated that they understood financial products and not all clients indicated that they understood the benefits and features of living annuities. Secondly, not all clients understood the costs involved in the product. Thirdly, not all clients were aware of on-going advice fees, which might be applicable to living annuities. Lastly, when clients were asked to elaborate on their level of satisfaction about product fees, it was clear that there were some misunderstandings about the difference between product fees and advice fees.

**Objective 10: To contribute to the body of knowledge regarding clients' perceptions of living annuity advice.**

To the best of the researcher's knowledge a study testing client perceptions of living annuity advice had not been done in South Africa. The results of this study will therefore definitely add to the knowledge regarding living annuity advice.

### **4.3 Conclusion**

This chapter provided a full analysis of the research data. It started out by recapping some aspects of the previous chapters that are relevant to this chapter including the methodology that was used. The results were analysed and all of the objectives have been reached. The Fisher results for the Fisher Exact Test was larger than 0.1 throughout. Therefore, it can be concluded that the responses from the clients and the

wealth managers were in line with each other. Please see a brief summary of the findings below:

- Most clients understood the value added by their wealth manager and perceived them to add value to their financial well-being.
- There are clients who do not perceive their wealth managers as knowledgeable and yet 93.3% of them were overall satisfied with the advice from their wealth manager.
- However, the satisfaction with the advice does not necessarily translate into satisfaction for paying for advice. This is despite the fact most clients have the perception that their wealth manager adds value to their living annuity as well. Only 46.7% of clients were satisfied with having to pay for advice.
- Although 73.3% of clients have the perception that they understand the features and benefits of a living annuity, only 66% indicated that the living annuity provided them with the benefits that they expected.
- A total of 40% of clients either did not understand the costs on their living annuity or they were unsure as to whether they understood the costs on their living annuities.
- Considering the above statistics, it is interesting that 80% of clients were satisfied with their decision to purchase a living annuity.
- Most clients have the perception that they understand both financial products as well as financial planning. This can make sense if it is considered that most clients indicated that a full financial needs analysis was done to establish their needs. This means that most clients must have gone through a financial planning process.
- A total of 40% of clients indicated that they were either not sure, or that they were not presented with various options at retirement. Interestingly, as many as 86.7% of clients indicated that they understood the various options available at retirement

- Most clients were generally satisfied with the amount of reviews (and performance reviews) on their living annuities and the contact they have with their wealth manager. Clearly, there is room for improvement.
- Less than half of the clients were satisfied paying the applicable product fees and upon further questioning, it could be observed that there might be some misunderstanding of what constitutes product fees and what constitutes advice fees.
- The overall value proposition of the firms was rated very highly by most clients.

The next chapter will conclude the study and will include recommendations.

## **Chapter 5 - Discussion and Recommendations**

### **5.1 Introduction**

The purpose of this research study was to determine client perceptions about living annuity advice. This research paper started out with an overview of the study in chapter 1, which included an introduction, the problem statement, primary and secondary objectives as well as a brief discussion of the research methodology. The primary objective of this research was to gain a better understanding of client perceptions and preferences in the upper-middle and affluent market, of advice on living annuities that will enable managers to employ the most appropriate strategies to service these needs. This objective has been reached and the results have been discussed in the previous chapter. The second chapter presented a literature review of various topics related to the subject matter including the regulatory environment, retirement reform proposals, retirement planning, benefits of living annuities and also customer relationship management. The first two of the secondary objectives have been reached as part of the literature review, while the rest of the objectives were in empirical in nature and therefore reached in Chapter 4. This chapter presents and discusses recommendations on the findings, but before that is done, the findings will be summarised briefly.

### **5.2 Summary**

Based on the literature review done in Chapter 2, it was clear from the outset that there is a responsibility on the part of financial planners to be honest, fair, and act with due skill when they are servicing or giving advice to clients. It could also be seen that retirement planning is a structured and continuous process and has a definite impact on retirement outcomes. The advice that goes with retirement planning is informed by the client's objectives, goals and personal financial circumstances. All aspects of the clients'

personal finances must be taken into account and wealth managers must adhere to the principles in the General Code of Conduct as discussed. Ideally, all clients must go through a proper financial planning process and the six-step financial planning process developed by the Financial Planning Standards Board can be used as a good practice guideline. The advice that the wealth managers give should incorporate educating clients about financial planning and financial products.

The proposed retirement reforms as well as the Treating Customers Fairly principles were analysed to establish how they might impact on this particular wealth management firm from a theoretical point of view. Considering the analysis, the impact might be relatively small. However, external forces affecting any business, including regulatory changes, may bring about challenges and uncertainties. Financial planners and wealth management firms must control the things that can be controlled, like customer relationship management, client perceptions, good service levels and loyalty. It is also clear from the research that CRM, client loyalty and client perceptions are all related to one another. It is, therefore, of critical importance to ensure that clients have positive perceptions about the company, the wealth manager, the advice that is given, the value that is added by the wealth manager, the appropriateness of the recommendations, the quality of the products as well as the level of service. It is very important that proper financial needs analysis, including retirement planning is done for clients. The quality and suitability of advice must be clear. Further, by making use of CRM strategies and processes, wealth managers can improve relationships with its clients, manage clients' expectations and perceptions, increase client loyalty as well as increase profitability.

This research sought to engage both clients and wealth managers so that perceptions could be compared. Should there be any challenges, these have to be overcome to improve the confidence clients have in their wealth manager. These challenges also have to be overcome to assist in improving public confidence in the financial services industry, financial products and services. It will also help to increase clarity, simplicity, transparency and understanding of financial products and services.

When the research data were analysed, a number of findings were made. Firstly, there is a clear alignment between the wealth manager perceptions and client perceptions. This was evident throughout the previous chapter, and the results of the Fischer Exact Tests clearly show this very significant result. As mentioned in Chapter 4, the real value will be added once the business starts using the results within a customer relationship management programme that has the potential to increase client profitability. The findings have already been discussed in the previous chapter at this point only a few important take-outs will be summarised below. The recommendations will also mainly focus on these items:

- Most clients had the perception that their wealth manager adds value to their financial well-being.
- Some clients did not perceive their wealth managers as knowledgeable.
- Most clients were satisfied with the advice they receive and also indicated that their wealth manager was adding value to their living annuity.
- Most clients had the perception that they understand the features and benefits of a living annuity, yet only 66% indicated that the living annuity provided them with the benefits that they expected. However, as many as 80% of clients were satisfied with the purchase of their living annuity.
- A total of 40% of clients either did not understand the costs on their living annuity or they were unsure as to whether they understood the costs on their living annuities.
- Most clients had the perception that they understand both financial products as well as financial planning.
- Although most clients said that they understood the various product options available at retirement, some clients indicated that they were not presented with all the options.
- Most client were generally satisfied with the amount of reviews (and performance reviews) on their living annuities and the contact they had with their wealth manager.

- Less than half of the clients were satisfied paying the applicable product fees and there might be some misunderstanding of what constitutes product fees and what constitutes advice fees.
- The overall value proposition of the firms is rated very highly by most clients.

### **5.3 Recommendations**

The objectives that were set out in the first chapter have been reached and recommendations also speak to these objectives and are now listed below:

1. Firstly, financial planners should ensure that financial needs analyses are always part of the advice process. Clients should understand the advice that is given clearly, and if necessary, the wealth manager must repeat steps in the process to ensure that they understand. Wealth managers must consistently provide all clients with supporting documentation that will assist the client in understanding the analysis, recommendation and products. Clients must clearly understand where the wealth manager is adding value with a particular recommendation, product or service that is being rendered.
2. Financial planners must ensure that clients know exactly what their level of experience and expertise are. The four wealth managers have extensive experience; they are well-qualified and they have an investment support base (investment specialists) that supports them in their work. It is highly important for clients to be aware of this. Financial planners must also ensure that they instil confidence in their clients by preparing well for their appointments, so that most of the potential questions the client might have is prepared for.
3. The company should ask clients if they are satisfied with the advice that they are getting and also ask for feedback. If there is real intent to understand and use the feedback from the clients, it has the potential to feed into improving the quality of advice. If the information gathered from client research is utilised to improve the

client offering and improve client relationships, it should have a positive impact on the company's bottom line.

4. Financial planners should make sure that clients understand all the features and benefits of the product, including the costs. Financial planners should make sure that clients know exactly what to expect from the product. Benefits and features should be discussed again during reviews. Clients should be explained that there is a difference between product related costs and advice costs on their living annuities. It is crucial that the financial planner is able to articulate and demonstrate that the costs are market related and deserved. Product costs and advice costs must be clearly explained to clients as well as the reasons for the fees and the price and whether these are competitive considering what the client is getting.
5. The financial planner must approach the advice process as an opportunity to educate his clients. Opportunities should be created to do presentations to clients about broader financial matters; for example, the financial planner can arrange for an economic review business lunch where matters that affect clients in the economy can be discussed. However, effective learning might be better for some clients in a one-on-one scenario during the financial planning process. In the case of retirement planning for instance, all the various product options should be explained to the client and these should be presented to clients as alternative solutions.
6. Investment reviews of living annuities provide financial planners with an opportunity to recap the reasons why the recommendation that was made was suitable. It also provides an opportunity to go over the benefits and the features of the product again, to make sure that the client understands. Most clients did indicate that they are satisfied with the amount of reviews that are done and the amount of contact with their wealth manager. Each review appointment is an opportunity to build trust and to make sure that it is made clear to client where value is added.
7. Financial planners will have to demonstrate to all clients that the advice that they give is valuable and appropriate for the clients' needs. This will change the mind-

sets of some of the clients so that more clients would be satisfied to pay for advice, because it adds value to their financial well-being. As mentioned, satisfied clients can be turned into loyal clients, which should be a business imperative. Managing client relationships continuously to ensure that clients remain loyal is of absolute importance. One of the best ways for a financial planner to earn trust and improve on the value he can add to his clients, is to continuously ask for feedback.

8. There is a definite need to educate clients more. It is clear from the analysis that clients' understanding of financial products and living annuities can be improved. The financial planner who is knowledgeable and competent has the ability to transfer that knowledge and is able to find solutions for the clients' needs have a good chance of building long term sustainable relationships.
9. The results have shown that most clients are satisfied with the amount of contact they have with their financial planner as well as the amount of investment reviews that are done on their living annuities. This level of activity should be maintained by financial planners, who should try to improve on this where possible. This will also assist in managing the relationship with the client.
10. Similar client perception research should be undertaken by the wealth management firm for a wider spectrum of products, services and clients.
11. Similar research should be undertaken for clients in the lower end of the market. This type of research might add even more value in the lower and mass-middle market.

## **5.4 Conclusion**

The goal of this study was to investigate client perceptions of independent living annuity advice amongst ultra-high net worth clients in central South Africa linked to a specific wealth management firm. This goal as well as all the objectives set out in Chapter 1 has been achieved. However, the researcher's limitation of only having ultra-high net worth clients to investigate is regrettable. A study of this nature might add more value if done

with participants who do not have other sources of income apart from the living annuities that they bought. Future research should therefore be conducted, particularly in these markets.

This chapter concludes the study and included a summary and recommendations.

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**Appendix A**

To whom it may concern

I,..... hereby give consent that I can be contacted and will willingly participate in an independent academic survey conducted by Albert Moroeroe for a thesis in partial fulfilment of a Master's in Business Administration.

Yours truly

.....

Signature.....

## Appendix B

Please see the questions in Appendices C and D.

### Q1.8 \* Who

			Who		Total
			Client	Manager	
Q1.8	Disagree	Count	1	0	1
		%	9.1%	0.0%	7.1%
	Agree	Count	10	3	13
		%	90.9%	100.0%	92.9%
Total		Count	11	3	14
		%	100.0%	100.0%	100.0%

### Q1.9 \* Who

			Who		Total
			Client	Manager	
Q1.9	Disagree	Count	1	0	1
		%	8.3%	0.0%	6.7%
	Agree	Count	11	3	14
		%	91.7%	100.0%	93.3%
Total		Count	12	3	15
		%	100.0%	100.0%	100.0%

### Q1.10 \* Who

			Who		Total
			Client	Manager	
Q1.10	Disagree	Count	2	0	2
		%	18.2%	0.0%	13.3%
	Agree	Count	9	4	13
		%	81.8%	100.0%	86.7%
Total		Count	11	4	15
		%	100.0%	100.0%	100.0%

**Q1.11 \* Who**

			Who		Total
			Client	Manager	
Q1.11	Disagree	Count	2	0	2
		%	13.3%	0.0%	11.1%
	Agree	Count	13	3	16
		%	86.7%	100.0%	88.9%
Total		Count	15	3	18
		%	100.0%	100.0%	100.0%

**Q1.12 \* Who**

			Who		Total
			Client	Manager	
Q1.12	Disagree	Count	2	0	2
		%	15.4%	0.0%	11.8%
	Agree	Count	11	4	15
		%	84.6%	100.0%	88.2%
Total		Count	13	4	17
		%	100.0%	100.0%	100.0%

**Q1.13 \* Who**

			Who		Total
			Client	Manager	
Q1.13	Disagree	Count	2	0	2
		%	14.3%	0.0%	11.1%
	Agree	Count	12	4	16
		%	85.7%	100.0%	88.9%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.14 \* Who**

			Who		Total
			Client	Manager	
Q1.14	Disagree	Count	4	0	4
		%	30.8%	0.0%	23.5%
	Agree	Count	9	4	13
		%	69.2%	100.0%	76.5%
Total		Count	13	4	17
		%	100.0%	100.0%	100.0%

**Q1.15 \* Who**

			Who		Total
			Client	Manager	
Q1.15	Disagree	Count	3	0	3
		%	21.4%	0.0%	16.7%
	Agree	Count	11	4	15
		%	78.6%	100.0%	83.3%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.16 \* Who**

			Who		Total
			Client	Manager	
Q1.16	Disagree	Count	6	0	6
		%	46.2%	0.0%	37.5%
	Agree	Count	7	3	10
		%	53.8%	100.0%	62.5%
Total		Count	13	3	16
		%	100.0%	100.0%	100.0%

**Q1.17 \* Who**

			Who		Total
			Client	Manager	
Q1.17	Disagree	Count	3	0	3
		%	21.4%	0.0%	16.7%
	Agree	Count	11	4	15
		%	78.6%	100.0%	83.3%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.18 \* Who**

			Who		Total
			Client	Manager	
Q1.18	Disagree	Count	4	0	4
		%	26.7%	0.0%	21.1%
	Agree	Count	11	4	15
		%	73.3%	100.0%	78.9%
Total		Count	15	4	19
		%	100.0%	100.0%	100.0%

**Q1.19 \* Who**

			Who		Total
			Client	Manager	
Q1.19	Disagree	Count	2	0	2
		%	14.3%	0.0%	11.1%
	Agree	Count	12	4	16
		%	85.7%	100.0%	88.9%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.20 \* Who**

			Who		Total
			Client	Manager	
Q1.20	Disagree	Count	3	0	3
		%	21.4%	0.0%	16.7%
	Agree	Count	11	4	15
		%	78.6%	100.0%	83.3%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.21 \* Who**

			Who		Total
			Client	Manager	
Q1.21	Disagree	Count	3	0	3
		%	20.0%	0.0%	15.8%
	Agree	Count	12	4	16
		%	80.0%	100.0%	84.2%
Total		Count	15	4	19
		%	100.0%	100.0%	100.0%

**Q1.22 \* Who**

			Who		Total
			Client	Manager	
Q1.22	Disagree	Count	3	0	3
		%	21.4%	0.0%	16.7%
	Agree	Count	11	4	15
		%	78.6%	100.0%	83.3%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.23 \* Who**

			Who		Total
			Client	Manager	
Q1.23	Disagree	Count	2	1	3
		%	15.4%	25.0%	17.6%
	Agree	Count	11	3	14
		%	84.6%	75.0%	82.4%
Total	Count		13	4	17
	%		100.0%	100.0%	100.0%

**Q1.24 \* Who**

			Who		Total
			Client	Manager	
Q1.24	Disagree	Count	2	0	2
		%	14.3%	0.0%	11.1%
	Agree	Count	12	4	16
		%	85.7%	100.0%	88.9%
Total	Count		14	4	18
	%		100.0%	100.0%	100.0%

**Q1.26 \* Who**

			Who		Total
			Client	Manager	
Q1.26	Disagree	Count	1	0	1
		%	9.1%	0.0%	6.7%
	Agree	Count	10	4	14
		%	90.9%	100.0%	93.3%
Total	Count		11	4	15
	%		100.0%	100.0%	100.0%

**Q1.27 \* Who**

			Who		Total
			Client	Manager	
Q1.27	Disagree	Count	2	0	2
		%	13.3%	0.0%	10.5%
	Agree	Count	13	4	17
		%	86.7%	100.0%	89.5%
Total	Count		15	4	19
	%		100.0%	100.0%	100.0%

**Q1.28 \* Who**

			Who		Total
			Client	Manager	
Q1.28	Disagree	Count	3	0	3
		%	23.1%	0.0%	17.6%
	Agree	Count	10	4	14
		%	76.9%	100.0%	82.4%
Total		Count	13	4	17
		%	100.0%	100.0%	100.0%

**Q1.29 \* Who**

			Who		Total
			Client	Manager	
Q1.29	Disagree	Count	2	0	2
		%	14.3%	0.0%	11.1%
	Agree	Count	12	4	16
		%	85.7%	100.0%	88.9%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.30 \* Who**

			Who		Total
			Client	Manager	
Q1.30	Disagree	Count	2	0	2
		%	16.7%	0.0%	12.5%
	Agree	Count	10	4	14
		%	83.3%	100.0%	87.5%
Total		Count	12	4	16
		%	100.0%	100.0%	100.0%

**Q1.32 \* Who**

			Who		Total
			Client	Manager	
Q1.32	Agree	Count	14	4	18
		%	100.0%	100.0%	100.0%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.34 \* Who**

			Who		Total
			Client	Manager	
Q1.34	Disagree	Count	2	0	2
		%	22.2%	0.0%	15.4%
	Agree	Count	7	4	11
		%	77.8%	100.0%	84.6%
Total		Count	9	4	13
		%	100.0%	100.0%	100.0%

**Q1.36 \* Who**

			Who		Total
			Client	Manager	
Q1.36	Disagree	Count	3	0	3
		%	30.0%	0.0%	23.1%
	Agree	Count	7	3	10
		%	70.0%	100.0%	76.9%
Total		Count	10	3	13
		%	100.0%	100.0%	100.0%

**Q1.38 \* Who**

			Who		Total
			Client	Manager	
Q1.38	Disagree	Count	1	0	1
		%	8.3%	0.0%	6.3%
	Agree	Count	11	4	15
		%	91.7%	100.0%	93.8%
Total		Count	12	4	16
		%	100.0%	100.0%	100.0%

**Q1.39 \* Who**

			Who		Total
			Client	Manager	
Q1.39	Disagree	Count	1	0	1
		%	7.1%	0.0%	5.6%
	Agree	Count	13	4	17
		%	92.9%	100.0%	94.4%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

**Q1.40 \* Who**

			Who		Total
			Client	Manager	
Q1.40	Disagree	Count	1	0	1
		%	7.7%	0.0%	5.9%
	Agree	Count	12	4	16
		%	92.3%	100.0%	94.1%
Total		Count	13	4	17
		%	100.0%	100.0%	100.0%

**Q1.42 \* Who**

			Who		Total
			Client	Manager	
Q1.42	Disagree	Count	1	0	1
		%	8.3%	0.0%	6.3%
	Agree	Count	11	4	15
		%	91.7%	100.0%	93.8%
Total		Count	12	4	16
		%	100.0%	100.0%	100.0%

**Q1.43 \* Who**

			Who		Total
			Client	Manager	
Q1.43	Disagree	Count	3	0	3
		%	21.4%	0.0%	16.7%
	Agree	Count	11	4	15
		%	78.6%	100.0%	83.3%
Total		Count	14	4	18
		%	100.0%	100.0%	100.0%

2014

Client Perceptions of living annuity advice questionnaire

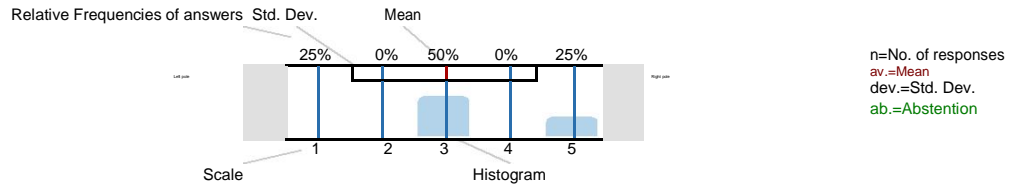
A total of 15 respondents completed the questionnaire. Response rate = 68.2%



Survey Results

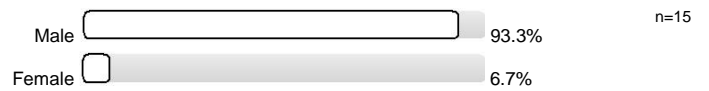
Legend

Question text

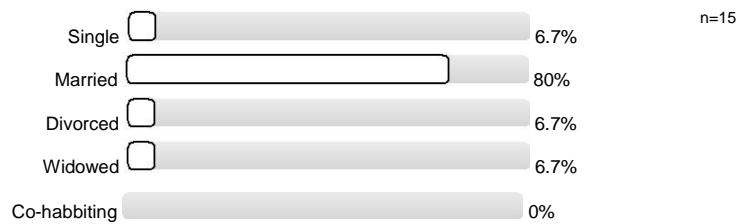


1.

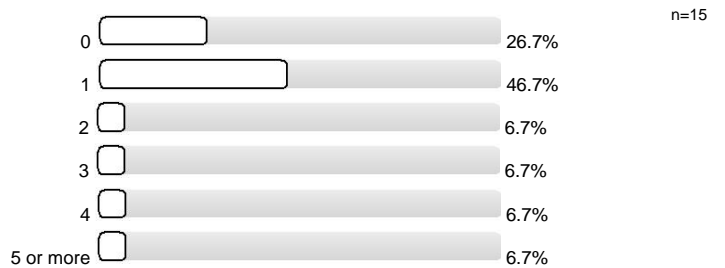
1.2) Gender



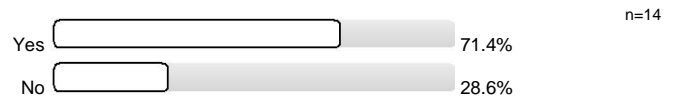
1.3) Relationship Status (single, married ,etc.)



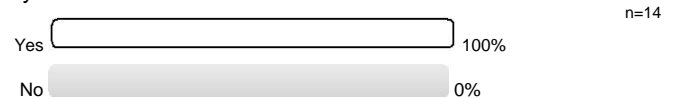
1.4) How many financial dependents do you have?



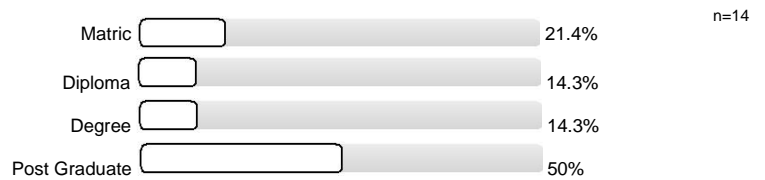
1.5) Do you currently receive income from work?



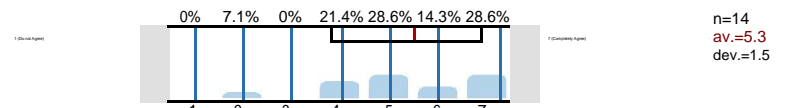
1.6) Do you have other sources of income other than your living annuity?



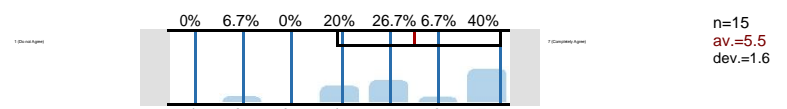
1.7) What is your level of education? (e.g. matric, degree, post graduate)



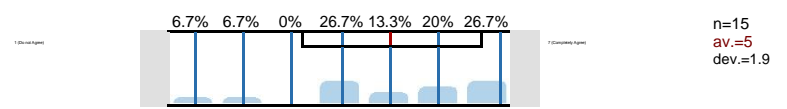
1.8) I understand financial products.



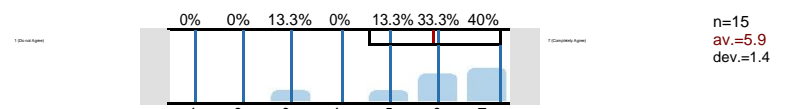
1.9) I understand personal financial planning. (includes retirement planning, estate planning, investment planning, etc.)



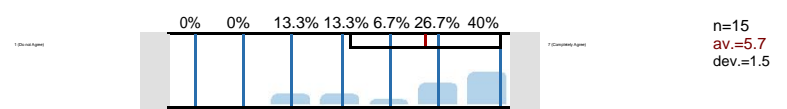
1.10) I was presented with various options upon my retirement from my retirement fund. (includes retirement annuity, pension preservation fund, provident preservation fund, pension fund and provident fund)



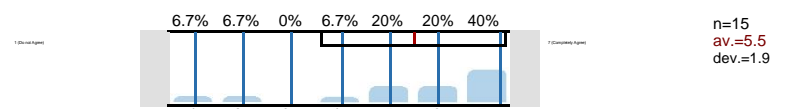
1.11) I understood the retirement options available to me upon retirement from my retirement fund.



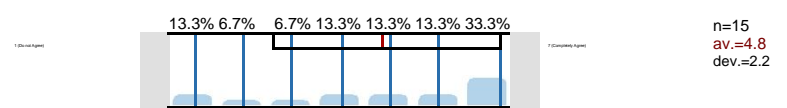
1.12) I understand the benefits and features of a living annuity.



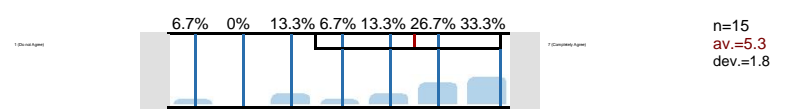
1.13) I am satisfied with my decision to purchase a living annuity.



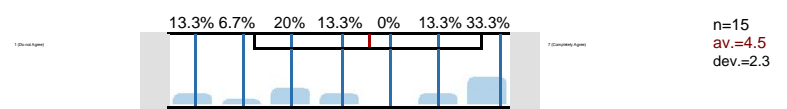
1.14) I understand all the applicable costs on my living annuity.



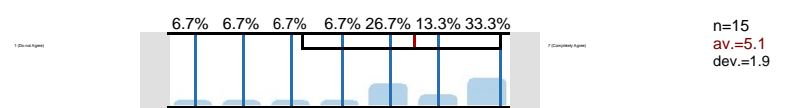
1.15) I am aware of the ongoing costs associated with receiving continuous advice.



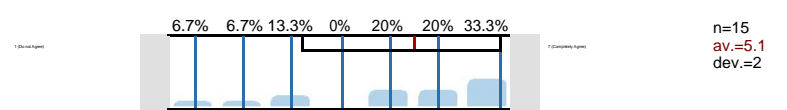
1.16) I am satisfied with the advice fees charged to receive continuous advice.



1.17) The supporting documents accurately provided me with all the information that was explained to me about the product, as well as the analysis and recommendation.

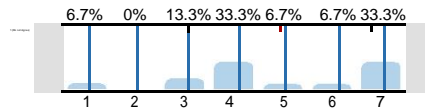


1.18) I understand what value is added by my wealth manager.



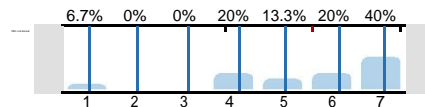
1.19)	My wealth manager adds value to my financial well-being.		n=15 av.=5.5 dev.=1.7
1.20)	My wealth manager is knowledgeable.		n=15 av.=5.4 dev.=2
1.21)	My wealth manager has a good investment support base (e.g. specialists experts) assisting him.		n=15 av.=5.7 dev.=1.9
1.22)	My wealth manager considered all aspects of my personal finances prior to making any recommendation.		n=15 av.=5.5 dev.=2
1.23)	A full financial needs analysis was done to assess my needs.		n=15 av.=5.4 dev.=1.5
1.24)	The advice I received was clear and easy to understand.		n=15 av.=5.5 dev.=1.9
1.26)	I am comfortable paying for advice.		n=15 av.=5.3 dev.=1.4
1.27)	The wealth manager makes a positive contribution to my living annuity portfolio.		n=15 av.=5.8 dev.=1.4
1.28)	I meet with my wealth manager on a regular basis to discuss and review my living annuity.		n=15 av.=4.9 dev.=2
1.29)	I receive regular feedback about the performance of my living annuity.		n=15 av.=5.5 dev.=1.6
1.30)	The living annuity provided the benefits that I expected.		n=15 av.=5.3 dev.=1.9
1.32)	Overall, I am satisfied with the advice of my wealth manager.		n=15 av.=6.1 dev.=1
1.34)	Overall, I am happy to pay applicable product fees for the benefits of the product.		n=15 av.=4.9 dev.=1.8

1.36) Overall, I am satisfied paying advice fees.



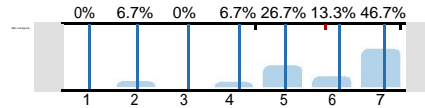
n=15  
dev.=1.9

1.38) Overall, I am satisfied with the value added to my financial well being.



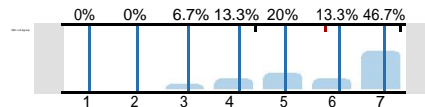
n=15  
dev.=1.7

1.39) All relevant queries relating to my living annuity have been dealt with by your wealth manager.



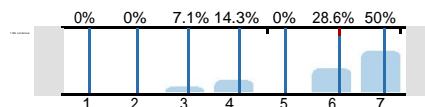
n=15  
dev.=1.5

1.40) How likely are you to recommend the services of your wealth manager relating to your living annuity to others?



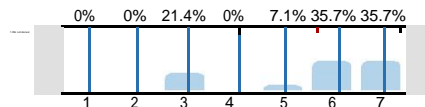
n=15  
dev.=1.4

1.42) I am satisfied with the amount of contact with your wealth manager.



n=14  
dev.=1.4

1.43) I am satisfied with the amount of reviews done on my living annuity .



n=14  
dev.=1.5

# Profile

Subunit: DIRAP  
 Name of the trainer: 2014  
 Name of the course: Client Perceptions of living annuity advice questionnaire (ClientAMT3)  
 (Name of the survey)

Values used in the profile line: Mean

1.

1.8) I understand financial products.	1 (Do not Agree)								7 (Completely Agree)	n=14	av.=5.3	md=5.0	dev.=1.5
1.9) I understand personal financial planning. (includes retirement planning, estate planning, investment planning, etc.)	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=5.0	dev.=1.6
1.10) I was presented with various options upon my retirement from my retirement fund. (includes retirement annuity, pension preservation fund,	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.0	md=5.0	dev.=1.9
1.11) I understood the retirement options available to me upon retirement from my retirement fund.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.9	md=6.0	dev.=1.4
1.12) I understand the benefits and features of a living annuity.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.7	md=6.0	dev.=1.5
1.13) I am satisfied with my decision to purchase a living annuity.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=1.9
1.14) I understand all the applicable costs on my living annuity.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=4.8	md=5.0	dev.=2.2
1.15) I am aware of the ongoing costs associated with receiving continuous advice.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.3	md=6.0	dev.=1.8
1.16) I am satisfied with the advice fees charged to receive continuous advice.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=4.5	md=4.0	dev.=2.3
1.17) The supporting documents accurately provided me with all the information that was explained to me about the product, as well as	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.1	md=5.0	dev.=1.9
1.18) I understand what value is added by my wealth manager.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.1	md=6.0	dev.=2.0
1.19) My wealth manager adds value to my financial well-being.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=1.7
1.20) My wealth manager is knowledgeable.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.4	md=6.0	dev.=2.0
1.21) My wealth manager has a good investment support base (e.g. specialists experts) assisting him.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.7	md=7.0	dev.=1.9
1.22) My wealth manager considered all aspects of my personal finances prior to making any recommendation.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=2.0
1.23) A full financial needs analysis was done to assess my needs.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.4	md=5.0	dev.=1.5
1.24) The advice I received was clear and easy to understand.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=1.9
1.26) I am comfortable paying for advice.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.3	md=5.0	dev.=1.4
1.27) The wealth manager makes a positive contribution to my living annuity portfolio.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.8	md=6.0	dev.=1.4
1.28) I meet with my wealth manager on a regular basis to discuss and review my living annuity.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=4.9	md=5.0	dev.=2.0
1.29) I receive regular feedback about the performance of my living annuity.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=1.6
1.30) The living annuity provided the benefits that I expected.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.3	md=6.0	dev.=1.9
1.32) Overall, I am satisfied with the advice of my wealth manager.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=6.1	md=6.0	dev.=1.0
1.34) Overall, I am happy to pay applicable product fees for the benefits of the product.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=4.9	md=4.0	dev.=1.

1.36)	Overall, I am satisfied paying advice fees.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=4.9	md=4.0	dev.=1.9
1.38)	Overall, I am satisfied with the value added to my financial well being.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.5	md=6.0	dev.=1.7
1.39)	All relevant queries relating to my living annuity have been dealt with by your wealth manager.	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.8	md=6.0	dev.=1.5
1.40)	How likely are you to recommend the services of your wealth manager relating to your living annuity to others?	1 (Do not Agree)								7 (Completely Agree)	n=15	av.=5.8	md=6.0	dev.=1.4
1.42)	I am satisfied with the amount of contact with your wealth manager.	1 (Do not Agree)								7 (Completely Agree)	n=14	av.=6.0	md=6.5	dev.=1.4
1.43)	I am satisfied with the amount of reviews done on my living annuity .	1 (Do not Agree)								7 (Completely Agree)	n=14	av.=5.6	md=6.0	dev.=1.5

## Comments Report

1.

### 1.1) Age

■ 62 (2 Counts)

■ 63

■ 64

■ 65 (3 Counts)

■ 67 (2 Counts)

■ 69 (2 Counts)

■ 70

■ 71

■ 75

1.25) How would you describe the overall quality of advice that you received when purchasing your living annuity?

■ ADEQUATE AND TRUSTWORTHY

■ EXCELLENT (2 Counts)

■ GOOD

■ Good (3 Counts)

■ OK. NOT A MATERIAL PART OF MY INVESTMENTS

■ THE INTENTION WAS NOT QUESTIONED; BUT THE CLARITY IN SO FAR END RESULT AT RETIREMENT AND POST RETIREMENT REMAINS A VALUE TO ME

1.31) Please elaborate on the above choice

■ I am still working and helping my two sons with professional evaluations and estate agent work. When I stop being a consultant I will do a full assessment of my total position

■ Advice meets the projected figures

■ GOOD GROWTH UP UNTIL NOW

■ I SEE THE SERVICE AS PART OF THE FUNCTION OF MY WEALTH MANAGER AND WOULD THEREFORE NOT EXPECT TO PAY AN ADDITIONAL FEE WITH REGARDS TO BENEFITS - I DO NOT YET HAVE LONGTERM EXPERIENCE WITH THE PRODUCT

■ I WAS NOT GIVEN UNREALISTIC EXPECTATIONS AS TO YIELD, AS SO OFTEN HAPENS IN PRACTICE.

■ NOT A MATERIAL INVESTMENT

■ Only start receiving income January 2015

■ SATISFIED

■ THERE ARE TOO MANY HIDDEN COSTS THAT ERODES YOUR FUNDS

1.33) Please elaborate on the above choice

■ ALWAYS WILLING TO HELP

- Advice meets the projected figures
- EXCELLENT
- Getting good through not perfect service<sup>2014</sup>
- HE BASICALLY PROVIDES FOR MY INVESTMENT AND FINANCIAL INFORMATION REQUIREMENTS HE COMES ACROSS AS A RELIABLE, PROFESSIONAL CONSULTANT
- HE IS KNOWLEDGEABLE AND HAS COMPLETE CONFIDENCE
- I AM DOUBTFULL OF THE FINANCIAL MOTIVATION ON THE PART OF THE ADVISOR FOR A PARTICULAR PRODUCT
- NO MARKED IMPROVEMENTS IN MY INCOME AND NOT ENOUGH GROWTH
- THE ADVICE RECEIVED COVERS FAR MORE THAN THE ANNUITY
- Very professional and really good advice

1.35) Please elaborate on the above choice

- AS LONG AS IT IS WITHIN LIMITS
- CONSIDER FEES TO BE EXCESSIVE
- FEES MUST BE INCLUDE
- Fees should be conservative and product should be worth the fee
- I BELIEVE THE PRICES ARE MARKET RELATED BUT THIS SHOULD POSSIBLY BE MOTIVATED AND UNIQUE BENEFITS HIGHLIGHTED. ALSO AS PORTFOLIO INCREASE, FEE % SHOULD BE ADJUSTED DOWNWARDS.
- NEED TO BE NEGOTIATED WITH POSSABLE ALTERNATIVES
- PAYMENT FOR THE CORRECT PRODUCT IS NOT OUT OF LINE
- PRODUCTS ARE ALREADY COMING AT A PRICE WHILE SHOULD PAY MORE
- The amount is reasable
- fees must be reasonable for efforts by wealth manager

1.37) Please elaborate on the above choice

- ADVICE SHOULD BE RENDERED FREE OF CHARGE
- CONSIDER FEES EXCESSIVE
- FEES MUST BE INCLUDED IN PRODUCT
- I AM ALWAYS PREPARED TO PAY FOR ADVICE, AS LONG AS IT IS THE CORRECT ADVICE
- I WAS ALWAYS SATISFIED AFTER FEES WAS LOWERED AFTER MUTUAL AGREEMENT
- If it is reasable
- Not – Really – I will also talk to other people like Allan Gray, Coronation and PSG
- YES - SUBJECT TO COMMENT ABOVE 1.35
- Yes if the advice is professional and relevant and not biast

1.41) Would you like to make any additional statements / recommendations /

comments ■ NO (2 Counts)

■ No (2 Counts)

■ THERE SHOULD BE BETTER COMMUNICATION AND VIGOROUS EFFORDS TO IMPROVE THE PROFITS ON YOUR CAPITOL

■ WOULD NEED LONGER TERM PERFORMANCE RECORDS IN ORDER TO MAKE A MORE RELEVANT EVALUATION

1.44) How well would you rate the overall value proposition of the firm that my wealth manager works

for. ■ EXCELLENT

■ FAIR.

■ HAVE NO COMPARATIVE EXPERIENCE OF OTHER FIRMS BUT AM NOT UNCOMFORTABLE WITH THE CURRENT SERVICE.

■ I am not a suitable candidate for this survey

■ Reasonable

■ See 1.42 and 1.43

■ Very Good

■ Very high 7+

# Evasys

## Wealth managers questionnaire

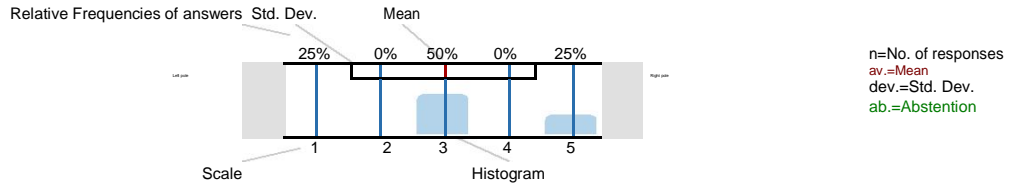
A total of 4 respondents completed the questionnaire. Response rate = 100%



### Survey Results

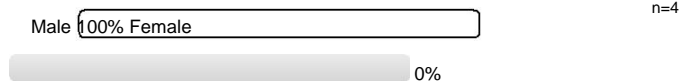
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Question text

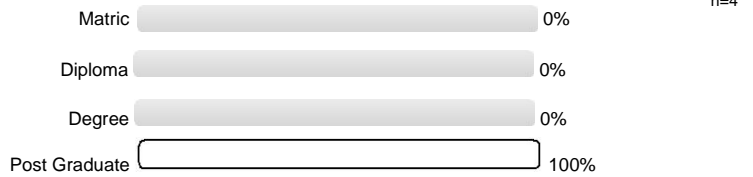


1.

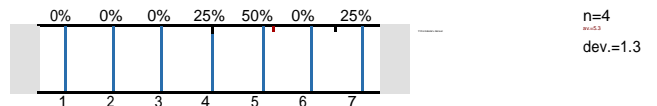
1.2) Gender



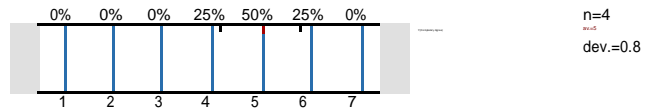
1.3) What is your level of education? (e.g. matric, degree, post graduate)



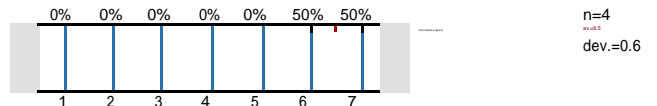
1.8) My clients understand financial products



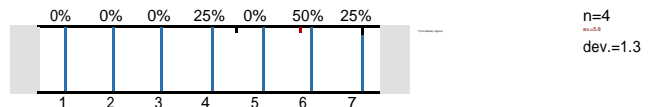
1.9) My clients understand personal financial planning. (includes retirement planning, estate planning, investment planning, etc.)



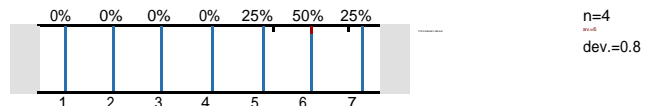
1.10) My clients were presented with various options upon their retirement from their retirement fund. (includes retirement annuity, pension preservation fund, provident preservation fund, pension fund and provident fund)



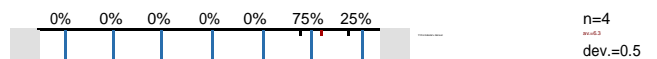
1.11) My clients understand the retirement options available to them upon retirement from their retirement fund.



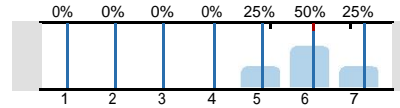
1.12) My clients understand the benefits and features of a living annuity.



1.13) My clients are satisfied with their decision to purchase a living annuity.

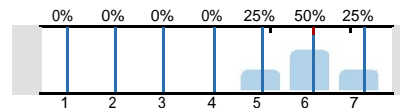


1.14) My clients understand all the applicable costs on their living annuity.



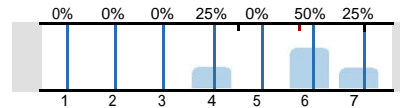
n=4  
dev.=0.8

1.15) My clients are aware of the ongoing costs associated with receiving continuous advice.



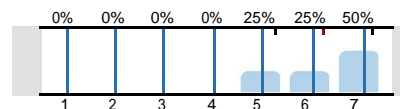
n=4  
dev.=0.8

1.16) My clients are satisfied with the advice fees charged to receive continuous advice.



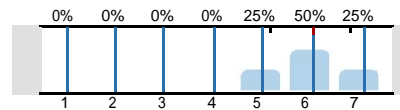
n=4  
dev.=1.3

1.17) The supporting documents accurately provide my clients with all the information that was explained to them about the product, as well as the analysis and recommendation.



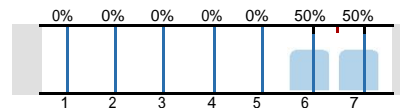
n=4  
dev.=1

1.18) My clients understand what value is added by his/her wealth manager.



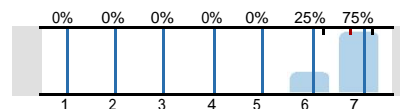
n=4  
dev.=0.8

1.19) I add value to my clients' financial well-being.



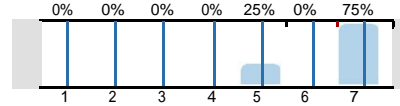
n=4  
dev.=0.6

1.20) I am knowledgeable.



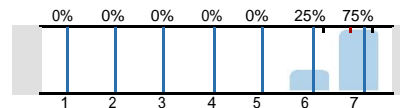
n=4  
dev.=0.5

1.21) I have a good investment support base (e.g. specialists experts) assisting me.



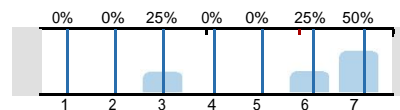
n=4  
dev.=1

1.22) I consider all aspects of my clients personal finances prior to making any recommendation.



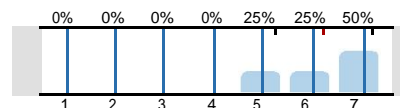
n=4  
dev.=0.5

1.23) A full financial needs analysis was done to assess my clients needs.



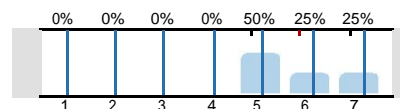
n=4  
dev.=1.9

1.24) The advice my clients received was clear and easy to understand.



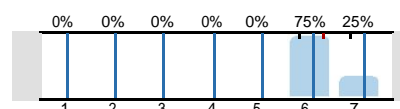
n=4  
dev.=1

1.26) My clients are comfortable paying for advice.



n=4  
dev.=1

1.27) I make a positive contribution to my clients living annuity portfolio.



n=4  
dev.=0.5

1.28)	I meet with my clients on a regular basis to discuss and review their living annuity.		n=4 $\mu=5.5$ dev.=0.6
1.29)	I give my clients regular feedback about the performance of their living annuity.		n=4 $\mu=5.5$ dev.=1
1.30)	The living annuity provide the benefits that my clients expected.		n=4 $\mu=5.5$ dev.=0.8
1.32)	Overall, my clients are satisfied with the advice I give them.		n=4 $\mu=5.5$ dev.=0.5
1.34)	Overall, my clients are happy to pay applicable product fees for the benefits of the product.		n=4 $\mu=5.5$ dev.=1
1.36)	Overall, my clients are satisfied to pay advice fees.		n=4 $\mu=5.5$ dev.=1.3
1.38)	Overall, my clients are satisfied with the value added to their financial well being.		n=4 $\mu=5.5$ dev.=0.8
1.39)	I am dealing with all relevant queries relating to my clients living annuity		n=4 $\mu=5.5$ dev.=0.6
1.40)	My clients will recommend my services relating to living annuities to others		n=4 $\mu=5.5$ dev.=0.8
1.42)	I think my clients are satisfied with the amount of contact I have with them		n=4 $\mu=5.5$ dev.=0.8
1.43)	I think my clients are satisfied with the amount of reviews done on their living annuity .		n=4 $\mu=5.5$ dev.=0.8

# Profile

Subunit: External EVASYS Users  
 Name of the trainer: Evasys  
 Name of the course: Wealth managers questionnaire  
 (Name of the survey)

Values used in the profile line: Mean

1.

1.8) My clients understand financial products	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.3	md=5.0	dev.=1.3
1.9) My clients understand personal financial planning. (includes retirement planning, estate planning, investment planning, etc.)	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.0	md=5.0	dev.=0.8
1.10) My clients were presented with various options upon their retirement from their retirement fund. (includes retirement annuity, pension	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.5	md=6.5	dev.=0.6
1.11) My clients understand the retirement options available to them upon retirement from their retirement fund.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=6.0	dev.=1.3
1.12) My clients understand the benefits and features of a living annuity.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.13) My clients are satisfied with their decision to purchase a living annuity.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.3	md=6.0	dev.=0.5
1.14) My clients understand all the applicable costs on their living annuity.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.15) My clients are aware of the ongoing costs associated with receiving continuous advice.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.16) My clients are satisfied with the advice fees charged to receive continuous advice.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=6.0	dev.=1.3
1.17) The supporting documents accurately provide my clients with all the information that was explained to them about the product, as well as	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.3	md=6.5	dev.=1.0
1.18) My clients understand what value is added by his/her wealth manager.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.19) I add value to my clients' financial well-being.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.5	md=6.5	dev.=0.6
1.20) I am knowledgeable.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.8	md=7.0	dev.=0.5
1.21) I have a good investment support base (e.g. specialists experts) assisting me.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.5	md=7.0	dev.=1.0
1.22) I consider all aspects of my clients personal finances prior to making any recommendation.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.8	md=7.0	dev.=0.5
1.23) A full financial needs analysis was done to assess my clients needs.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=6.5	dev.=1.9
1.24) The advice my clients received was clear and easy to understand.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.3	md=6.5	dev.=1.0
1.26) My clients are comfortable paying for advice.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=5.5	dev.=1.0
1.27) I make a positive contribution to my clients living annuity portfolio.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.3	md=6.0	dev.=0.5
1.28) I meet with my clients on a regular basis to discuss and review their living annuity.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.5	md=5.5	dev.=0.6
1.29) I give my clients regular feedback about the performance of their living annuity.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=5.5	dev.=1.0
1.30) The living annuity provide the benefits that my clients expected.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.32) Overall, my clients are satisfied with the advice I give them.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=6.3	md=6.0	dev.=0.5
1.34) Overall, my clients are happy to pay applicable product fees for the benefits of the product.	1 (Do not Agree)									7 (Completely Agree)	n=4	av.=5.8	md=5.5	dev.=1.0

1.36)	Overall, my clients are satisfied to pay advice fees.	1 (Do not Agree)							7 (Completely Agree)	n=4	av.=5.5	md=5.5	dev.=1.3
1.38)	Overall, my clients are satisfied with the value added to their financial well being.	1(Do not Agree)							7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.39)	I am dealing with all relevant queries relating to my clients living annuity	1(Do not Agree)							7 (Completely Agree)	n=4	av.=6.5	md=6.5	dev.=0.6
1.40)	My clients will recommend my services relating to living annuities to others	1(Do not Agree)							7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.42)	I think my clients are satisfied with the amount of contact I have with them	1 (Do not Agree)							7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8
1.43)	I think my clients are satisfied with the amount of reviews done on their living annuity .	1 (Do not Agree)							7 (Completely Agree)	n=4	av.=6.0	md=6.0	dev.=0.8

1.

1.1)

Age

■

■ 42

■

■ 58

1.4)

Please elaborate on the answer above

B Comm Law - R A U

L L B \_ Unisa

Post Graduate Financial Planning -UFS

Advanced Post Graduate Financial Planning - UFS

B.COM (Law), LL.B;LL.M;Post graduate diploma in financial planning law.

BCom

CFP

Advanced CFP

Post Graduate diploma in Financial planning.

1.5)

■ Please describe your level of financial planning and wealth management experience

■ 15 years experience with last 6 years being wealth experience.

■ Extensive - 20 years

I have a good understanding of financial planning and wealth management.

■ Wealth Manager since 1 March 2000 - Absa Wealth

1.6)

■ Please describe the retirement planning process that you follow with your clients

■ 1. Date they need (per employment) / they prefer to retire

2. Income they need at that stage (before and after tax)

3. Consider various options as according to the client's current financial abilities and funds available

4. Recommend if I agree they can retire, or should there be a shortfall what that shortfall is. They can decide to either postpone their retirement, look at alternative income streams and/or adjust their income need.

■ Complete Financial Planning Personality assesment.

Conduct interview to establish income requiremenst;liquidity requiremenst; escalation requiremesnt;tax implications, time frame associated to retirmenet. Based on the above model portfolio that will best adres the above need

■ Gather Info

Discuss clients needs and goals. What income is available and what income needed and for how long and for whom must we all cater for.Put plan together and discuss with client.If in agreeance . implement and monitor

■ I am doing a full needs analises for the client and provide them with different options so that the client can make an informed decision. If the client is happy with a product that suits his or her needs I am helping the client with the implementation of it. I also review the clients situation on a yearly basis in some cases bi annually.

■7) Please describe the process you follow when you give clients living annuity advice

■ 1. More control by client (with inputs from financial advisor)

2. If they have other short term funds (e.g. surplus per current, accumulated leave, third cash, etc) they can use over the first year or two. The longer they can postpone the actual need to withdraw from the balance of their pension/annuity, the better.

3. Calculate different options on income needed. Again try to persuade them to postpone any increases in their % withdrawal the better. And when they start to withdraw, what the minimum is for the first year.

4. Thereafter annual discussion as to (a) the actual balances of the annuity and(b) the client's need.

■ I am doing a full needs analises for the client and provide them with different options so that the client can make an informed decision. If the client is happy with a product that suits his or her needs I am helping the client with the implementation of it. I also review the clients situation on a yearly basis in some cases bi annually.

■ Same as above.Plus discuss legal percentages - 2.5% and 17.5 % max as well as one third in cash and tax implications etc.Get quotes from insurance companies.

■ Same as the above, but with the following additional questions:

Their requirements in terms of certainty regarding income, guarantee thereof, freedom to determine income requirement, comfort with market risk that could possibly impact income and/or fund value ect

1.25) How would your client describe the overall quality of advice that they have received when purchasing their living annuity?

■ Good

■ The actual advice will be applicable to their respective circumstances. As most clients actually "buy" and trust the advisor I sometimes question the clients' own knowledge. Or is that the knowledge of the advisor whom client trust implicitly and therefore the client believes he "understands" the options. I think we do give proper advice and therefore am comfortable if the client does not understand all the exact detail of a living annuity. BUT he needs to understand the basics before I will close the deal!

■ The feedback I received is very positive and the clients are happy.

■ Very good

1.31) Please elaborate on the above choice

■ Clients do not have a problem for paying a fee if they receive good advice and service and where they can see the value add.

■ Clients' needs may differ from time to time and a living annuity (along with the potential of enhancing income vs traditional annuity) is the best product available.

■ n/a

1.33) Please elaborate on the above choice

■ Client are happy with my advice and also instructed me to assist them with the implementation process.

■ I believe clients sometimes feel unsure about certain aspects of a living annuity, but may feel uncomfortable to ask questions that may indicate them unsure.  
I counter this by double checking clients' understanding and highlighting the benefits of a living annuity.

■ n/a

■ retention of current client's and referral of new business from them

1.35) Please elaborate on the above choice

■ Clients are getting more and more knowledgeable and know that wherever they go there will be some sort of costs they will have to pay.

■ Clients do not have a problem to pay for service, advice and products as long as they get some value.

■ They agree thereto.

■ n/a

1.37) Please elaborate on the above choice

■ Client are happy with my advice and also instructed me to assist them with the implementation process

■ If the value add is explained they agree to pay fees.

■ Mostly this is determined if their investment grew and they can (although they might not in that year) increase their income thereof.

■ duplicate

1.41) Would you like to make any additional statements / recommendations / comments

■ No

■ no

1.44) How well do you think your client would rate the overall value proposition of the firm? \_\_\_\_\_

■ 7 out of 10. Clients are getting more informed and I truly think that our firm is more than competitive in pricing, knowledge and available options to clients.

■ Good

■ I think they will give us a good rating.

■ very good

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