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Investment & Financial Services Association Ltd

THE IFSA FEES AND CHARGES CONSUMER PERCEPTIONS STUDY:

A SUMMARY REPORT

Study No. 12303

July 2001



Key Findings from the Consumer Research

This document presents the key findings from a study that was conducted with managed investment consumers in June and July 2001 on fees and charges.

More information on the study can be obtained by contacting either Lynn Ralph or Richard Gilbert at IFSA.

Background, Objectives and Methodology

Sweeney Research was commissioned to conduct a significant market research study designed to explore consumer perceptions of fees and charges. The overall aim of the study was...

To benchmark and assess the current state of consumer understanding and perceptions of fees and charges and to provide strategic guidance on the development of industry policy and education materials on fees and charges.

To meet the overall aim of the study and a range of specific objectives, a combination of qualitative and quantitative research was conducted with consumers who hold a managed investment. Some qualitative research was also conducted with financial planners.

The specific structure is outlined below.

Qualitative Research

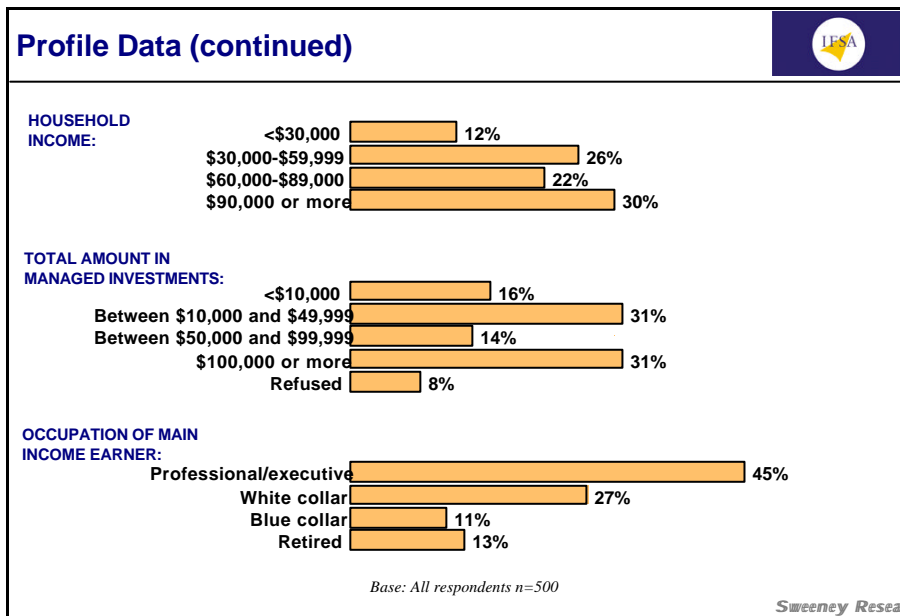
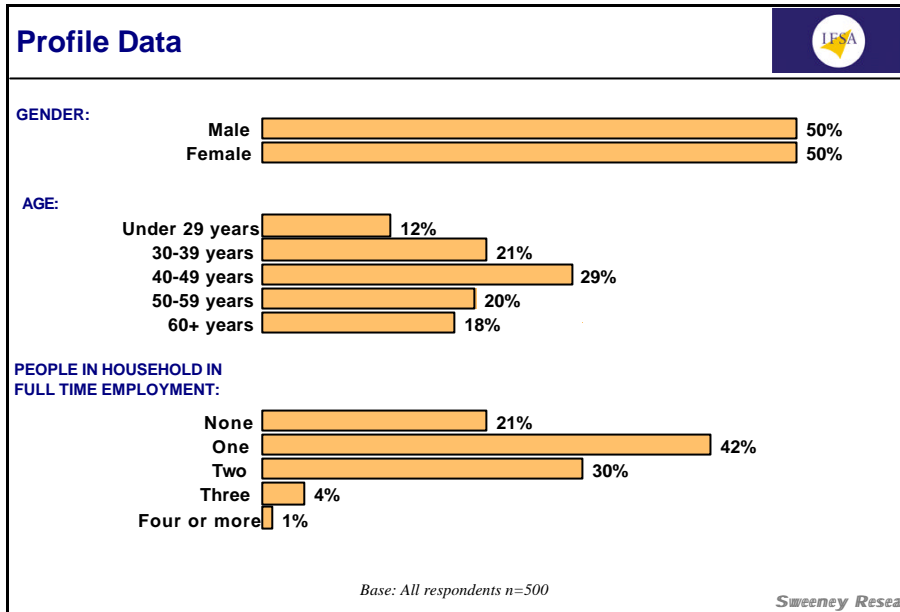
- Four focus group discussions with managed investment consumers in Sydney and Melbourne
- Two focus group discussions with financial planners in Sydney and Melbourne

Quantitative Research

- 500 telephone interviews with managed investment consumers in Sydney, Melbourne, Brisbane, Canberra, Adelaide and Perth. All respondents had a managed investment with an IFSA member organisation and quotas were imposed by city. The sample profile is captured in the two graphs below.



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Attitudes to Managed Investments

The way consumers view managed investments has a critical bearing on their attitude to fees and charges.

Today, consumers talk about how the financial landscape is ever changing. It is one characterised by...volatility, complexity and a proliferating array of choices. This is occurring in an era when many of the target market simply do not have the time to evaluate all the options open to them or keep up to date with all the changes. In light of this, it is not surprising that the perceived positives attached to managed investments unfolded in the following way.,,

- Time efficient and convenient
- Less risky (because they are accessing knowledge and professionalism)
- A way of accessing international markets
- A form of diversification
- Tax advantageous (in super)
- Readily accessible in a liquidity sense
- Modern
- A form of forced saving (long term)

But, at the end of the day there is a comparatively dynamic equation that drives the level of interest in managed investments. It is...

$$\text{returns} + \text{diversification} + \text{professional management} = \text{peace of mind}$$

Managed investments promise decent returns and less stress in an environment where safety and security are important: arguably more so since the fall in e-stocks and the publicity given to corporate collapses.

The qualitative research clearly indicated that the managed investment industry enjoys a solid quotient of **trust** at a time when many are somewhat cynical of business generally.

Managed investment organisations avoid this cynicism - presumably at least partly a function of the returns generated in the immediate past.



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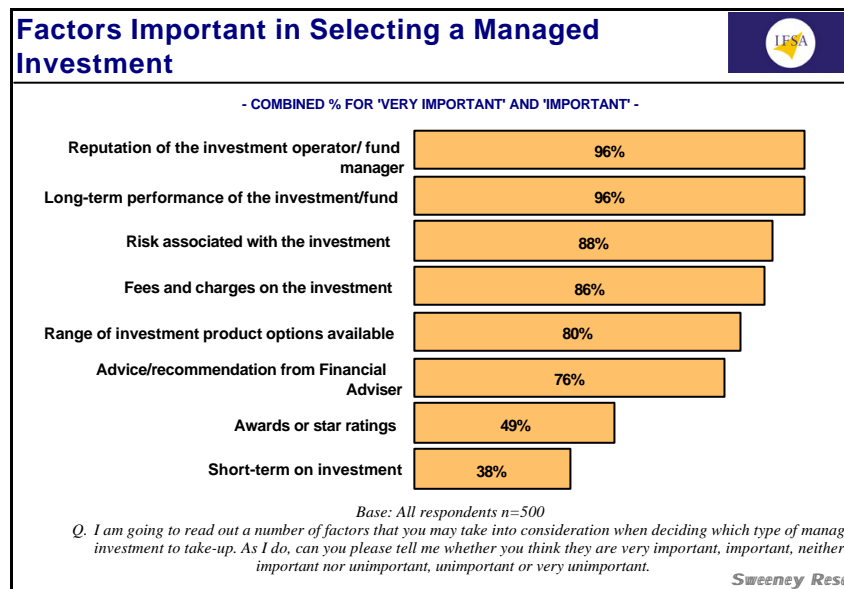
This level of trust and the preparedness of consumers to pay for 'peace of mind' means that fees and charges are not currently a major top of mind issue.

However, we did detect an undercurrent of possible discontent that emerged the more consumers discussed the topic. It is a latent issue.

Their focus at this point in time is not so much on the absolute level of fees, but rather on *transparency* and *disclosure* - two words that have started to enter the consumers' lexicon.

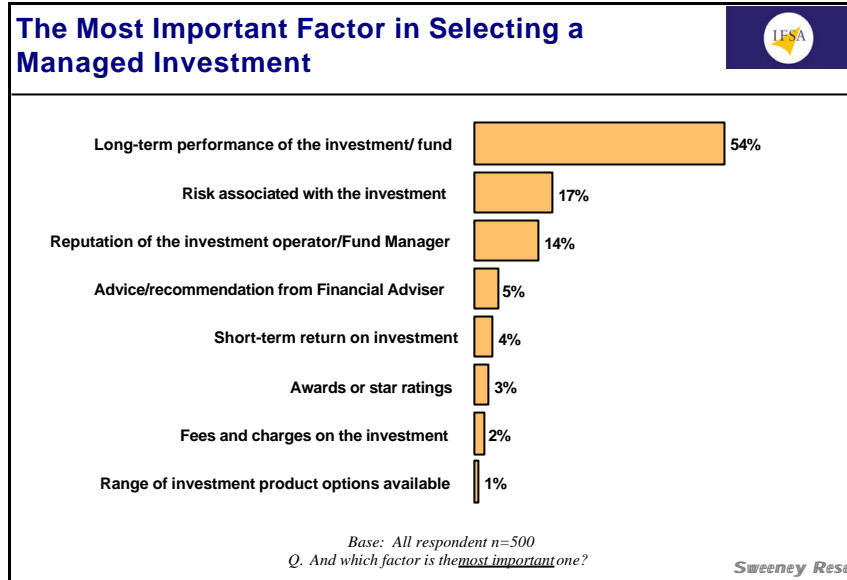
The Importance of Fees in the Decision Making Process

In the telephone interviews, a range of factors used to select managed investments were read to respondents and they were asked to state whether they considered each one to be 'important' or 'unimportant', using a five point scale. As the chart shows, eighty-six percent of consumers consider fees and charges to be "important" when evaluating managed investments.



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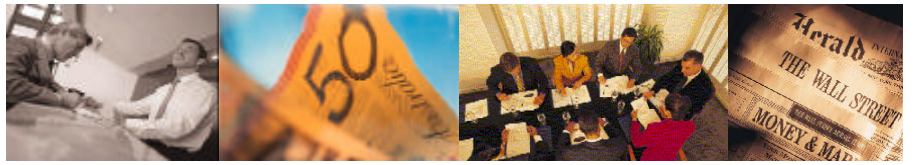
This rating of "fees and charges" needs to be kept in comparative context. The next graph focuses on the (single) most important factor selected by consumers and it shows long term performance (54%) is by far and away the most dominant criteria of evaluation. Only 2% of consumers said that *fees and charges* are the most important criteria in their decision making process.



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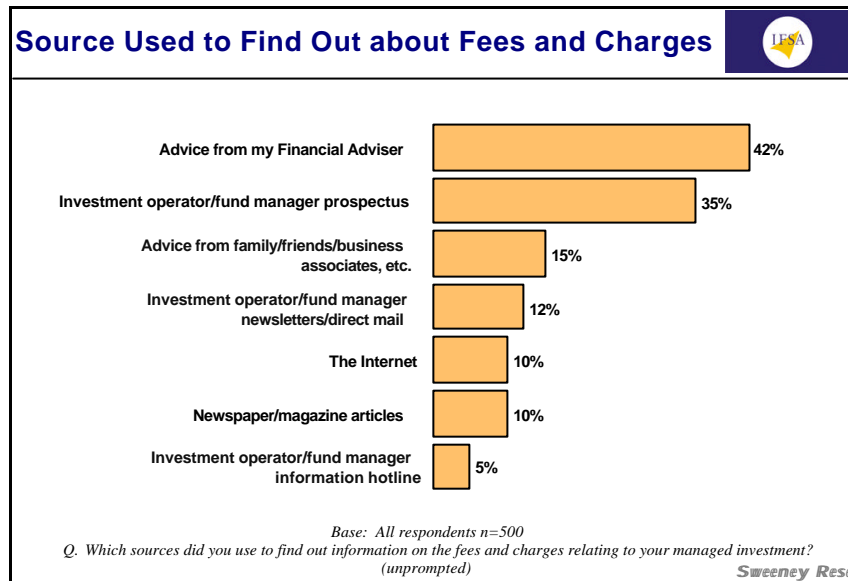
Based on our discussions with consumers, we suggest that this low level ranking of 'fees and charges' is a function of a number of factors...

- ❶ The notion and acceptance of fee for advice, knowledge and professionalism (you don't get anything for nothing: or, the user pays principle)
- ❷ The recognition of the historically sizeable gap between returns and fees (and it would be easy to hypothesise that the topic of fees will rise more to the surface in an era when returns decline to mid to higher single digit levels)
- ❸ The perception that the similarities of fees from one managed investment to another are greater than the differences



The Information Available on Fees and Charges

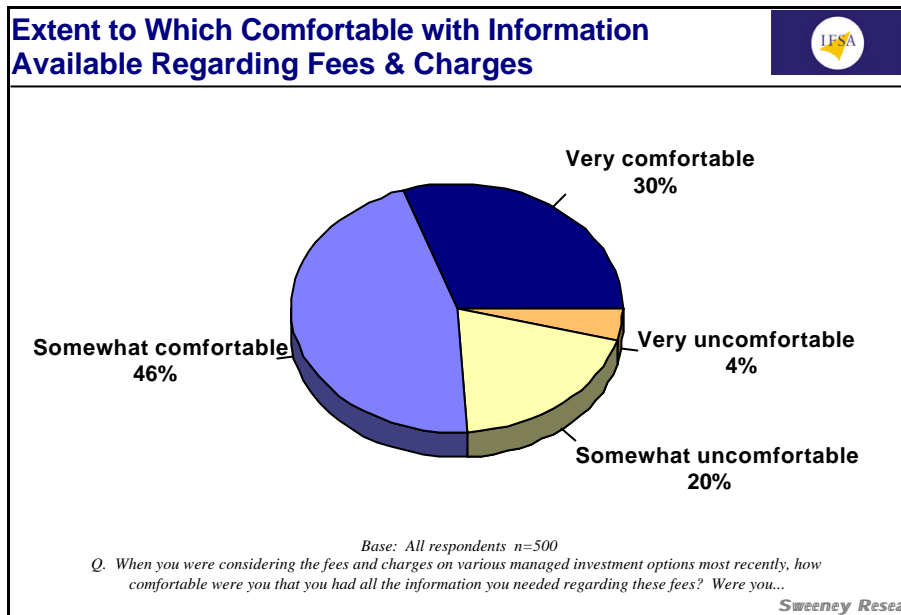
The main sources of information on fees and charges used by consumers are *advice from a financial adviser* and the *prospectus*.



The sources of information that consumers consider to be "the most reliable" were also examined and the results reflect the usage patterns in the graph above. *Advice from the financial adviser* (32%) and *the prospectus* (24%) are considered to be the two most reliable sources for the majority of consumers.

All managed investment consumers were asked the extent to which they were comfortable with the amount of information they had on the fees and charges at the time they selected the managed investment. Three-quarters (76%) of consumers said that they were either 'very' or 'somewhat' comfortable with the information at hand.

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The 76% of managed investment consumers who said that they were "comfortable" that they had all the information they required on fees were asked to explain why they felt comfortable. The two main reasons were that...

- *"the fees were explained thoroughly"*
- *"all the paperwork was put in front of me/in prospectus"*

Only 24% of consumers said that they were "uncomfortable" with the information available on fees and charges. The main reasons this segment of consumers put forward to explain their standpoint were...

- *"fees/charges were not explained properly"*
- *"there is a lot of hidden fees"*
- *"it's hard to work out what the actual fees are/complex"*

It is important to appreciate that it was fewer than one in ten consumers that mentioned these specific reasons. As the data in the pie chart above shows, the majority of consumers were "comfortable" with the information available on fees and charges.

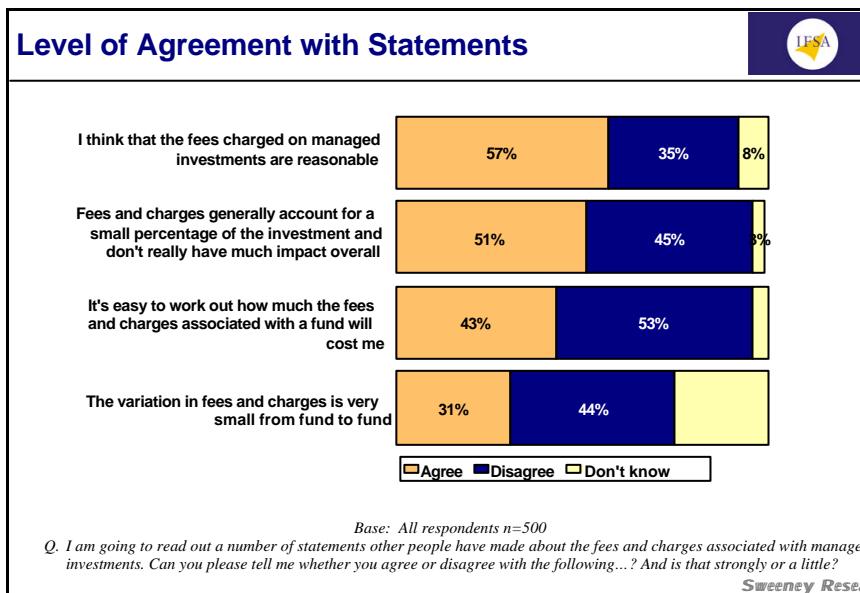
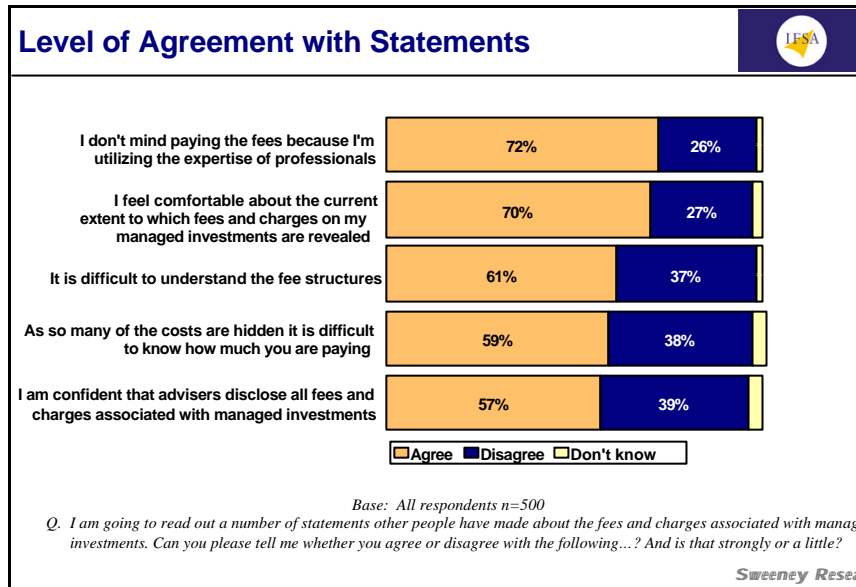


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Attitudes to Fees and Charges

A number of attitudinal statements were developed based on the findings from the focus groups. The two graphs below capture the extent to which the managed investment consumers agreed or disagreed with the statements.

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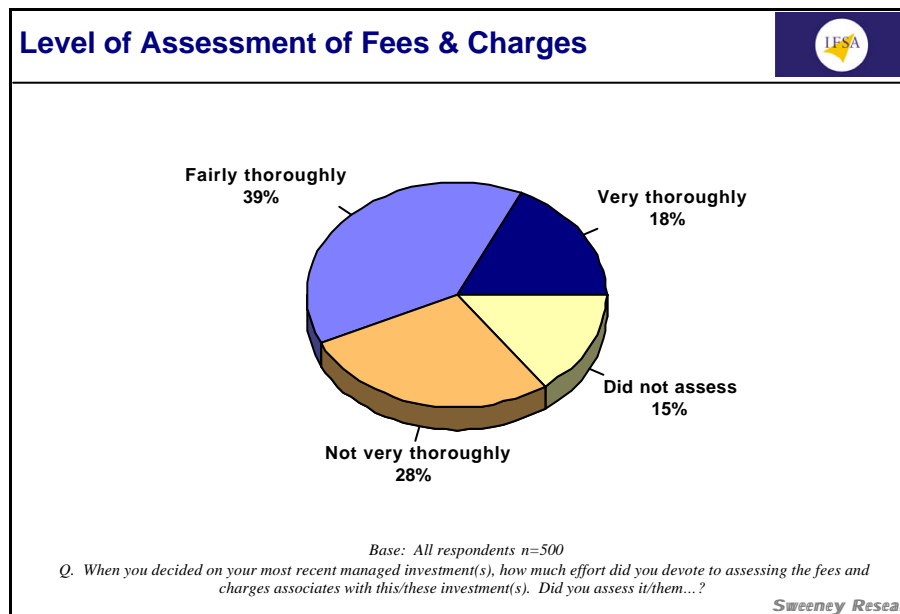
What can be seen in the consumers' reaction to these statements is that...

- They expect to pay for professionalism
- They're comfortable about the extent of fee disclosure
- In the main, they think that the fees are reasonable
- But, that for reasonable proportions it **is** difficult to understand the fee structure, and that it's not all that easy for them to work out exactly how much it will cost

Level of Assessment of Fees and Charges and Confidence in Understanding the Fees

Consumers were asked the extent to which they assessed the fees and charges associated with the most recent managed investment they selected. While 57% of consumers said that they assessed the charges "very/fairly thoroughly", four in ten (43%) fell at the other end of the spectrum.

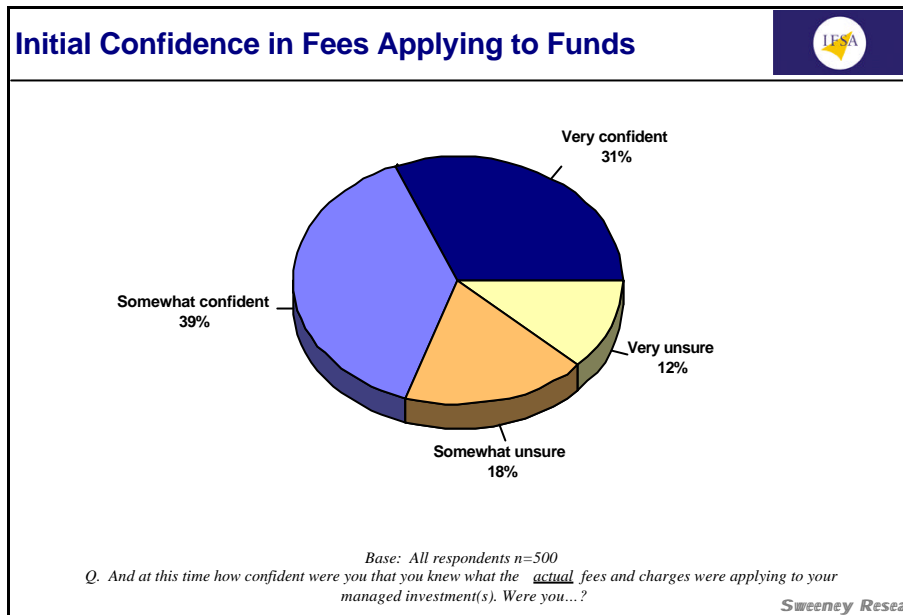
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Despite any difficulties they might have had, seventy-percent of the managed investment consumers interviewed said that they were "confident" that they knew what the actual fees and charges were that were applying to their managed investment.



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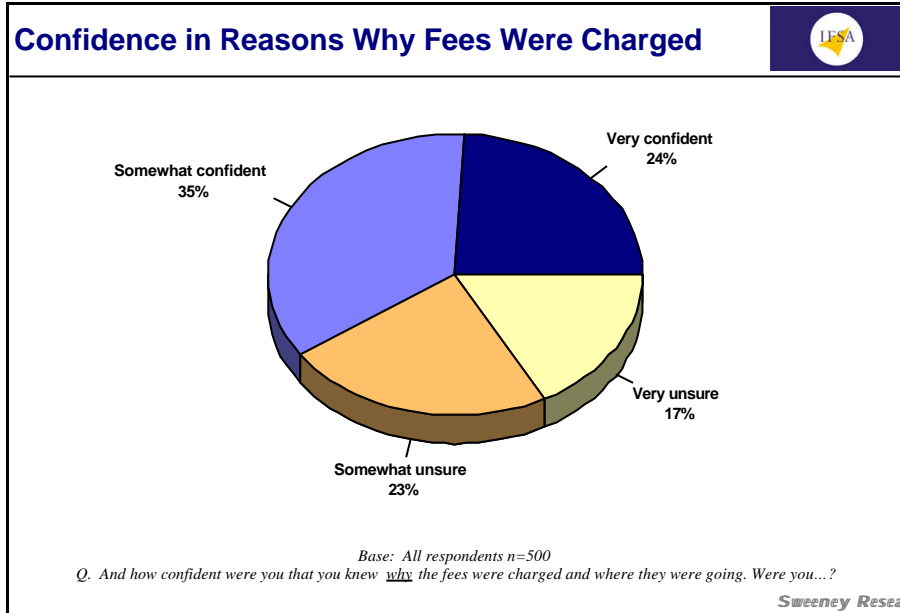
Some interesting and statistically relevant observations can be made about the 30% of respondents who said they were "unsure"...

- C They are less likely to have \$100,000 or more in managed investments
- C They have a stronger preference for fees to be expressed in dollar terms
- C Two-thirds cannot make a stab at the percentage of their investment that is paid in ongoing fees or with entry fees
- C They are less confident that they understand that all the fees and charges have been disclosed
- C Lower percentages say they had 'very thoroughly' assessed the fees and charges.

In terms of allocation, the graph below illustrates that six in ten (59%) consumers were confident that they knew *why* the fees were charged and *where* they were going.



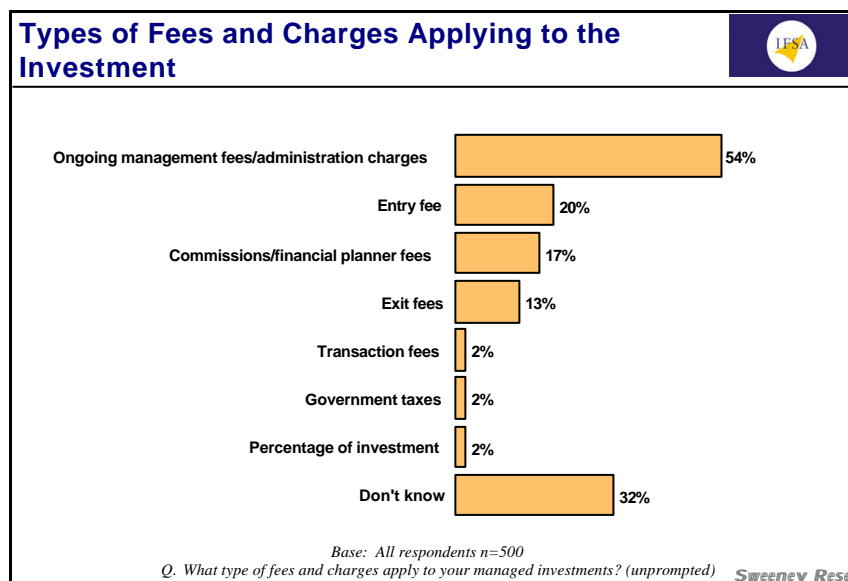
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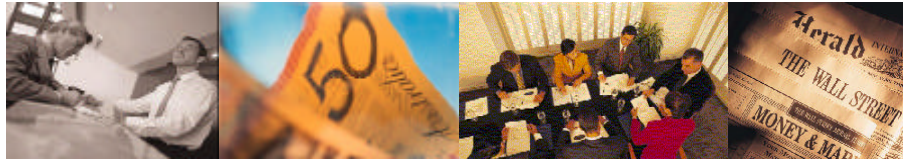


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Understanding of the Types of Fees and Charges Applying to the Investment

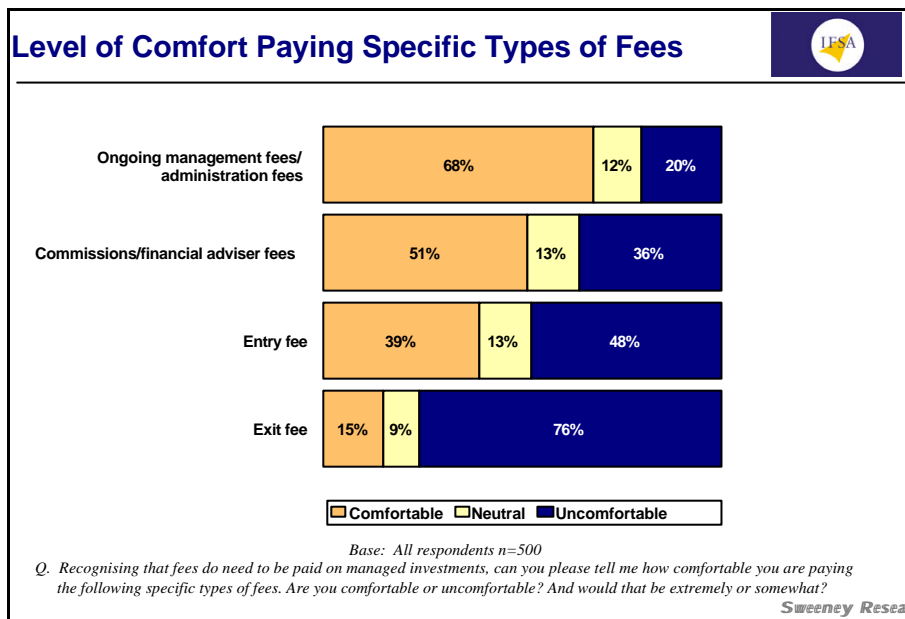
Consumers were asked an unprompted question regarding the *types* of fees and charges which apply to their investment. The results are covered in the graph below, but perhaps the most striking finding is that close to one third (32%) of consumers were unable to define the types of fees and charges they are paying. Similar characteristics apply to this third of the sample as apply to those who were 'unsure' about the actual fees that are charged on their investment.





Comfort with Specific Fees

Consumers were read a list of the four broad types of fees that they may pay in taking up a managed investment and asked to explain the extent to which they are comfortable with each fee type. What the chart below clearly illustrates is that consumers are most comfortable with the ongoing management/administration fees and significantly less comfortable with the entry and exit fees.



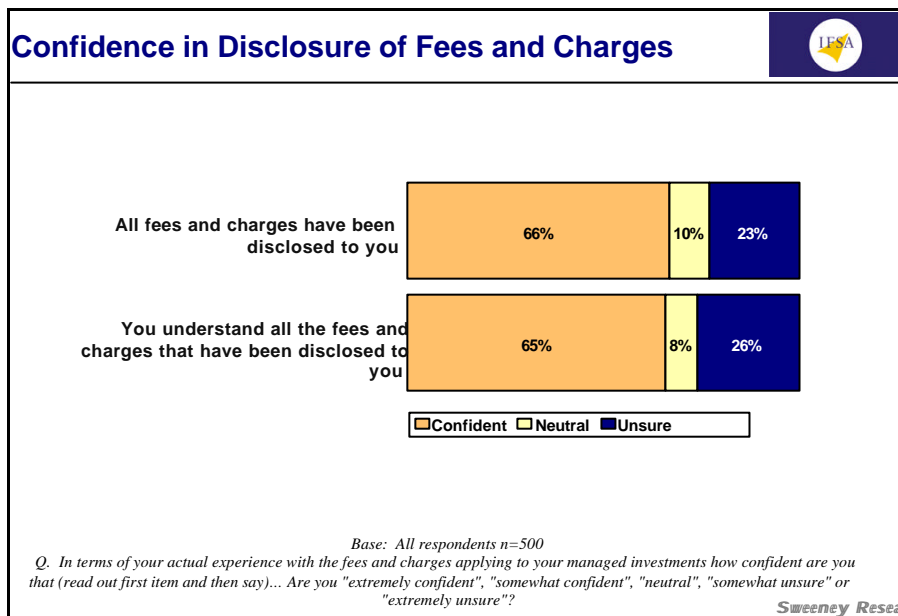
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Confidence in Disclosure

In the graph below it can be seen that large proportions of consumers are 'confident' that...

- All fees and charges have been disclosed (66%)
- They understand all fees and charges (65%)

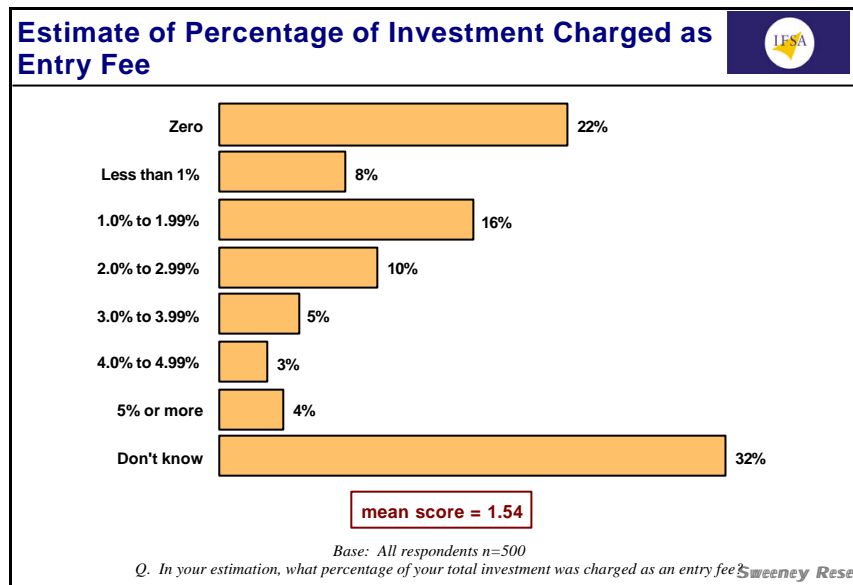


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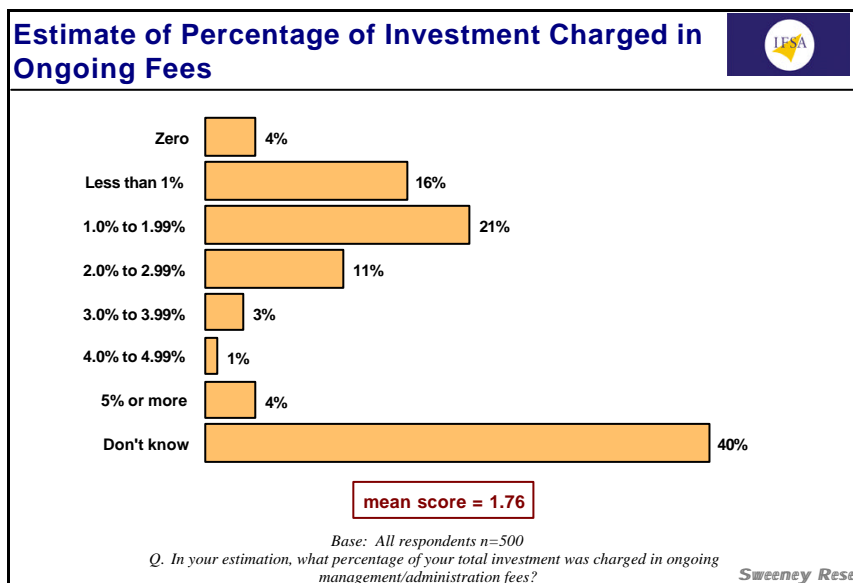


Knowledge of Fee Levels

Consumers were asked... "In your estimation, what percentage of your total investment was charged as an entry fee?". While the chart below provides the breakdown, it is particularly relevant that close to one third (32%) of consumers said that they "don't know" what they were charged as an entry fee.



A similar question was asked about the percentage of the total investment that is charged in ongoing management/administration fees. Four in ten (40%) consumers were unable to give an indication of the ongoing fee levels.



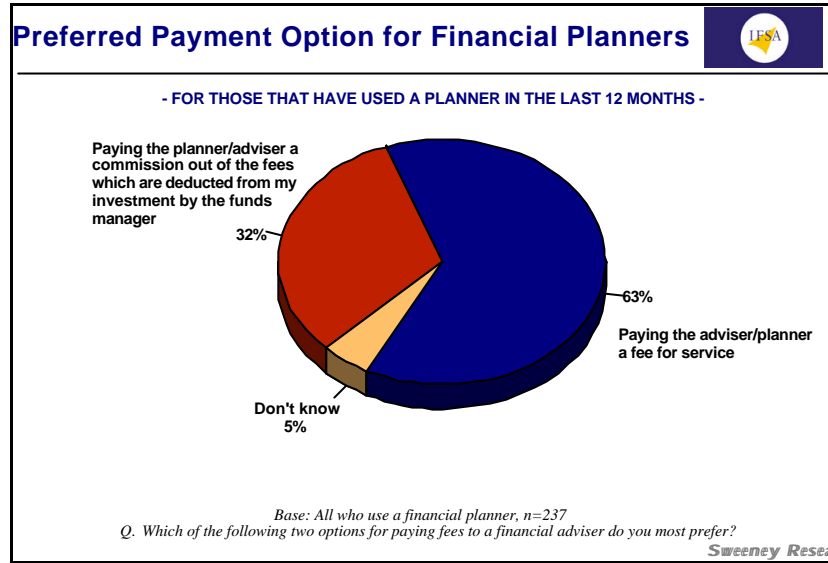
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Preferred Adviser Payment Options

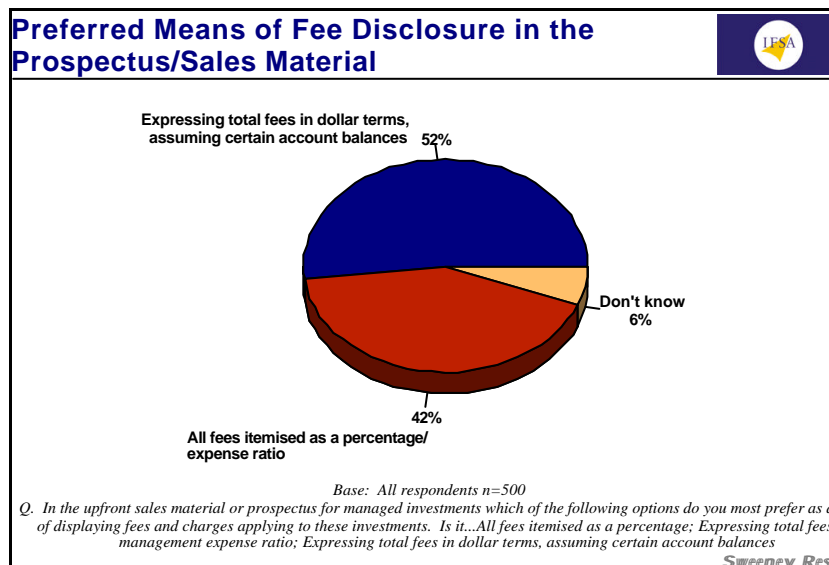
All consumers who used a financial planner were presented with two options for paying financial planners. Two-thirds (63%) prefer to pay a fee for the service, with 32% preferring a commission based approach.



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Preferred Means of Fee Disclosure in a Prospectus

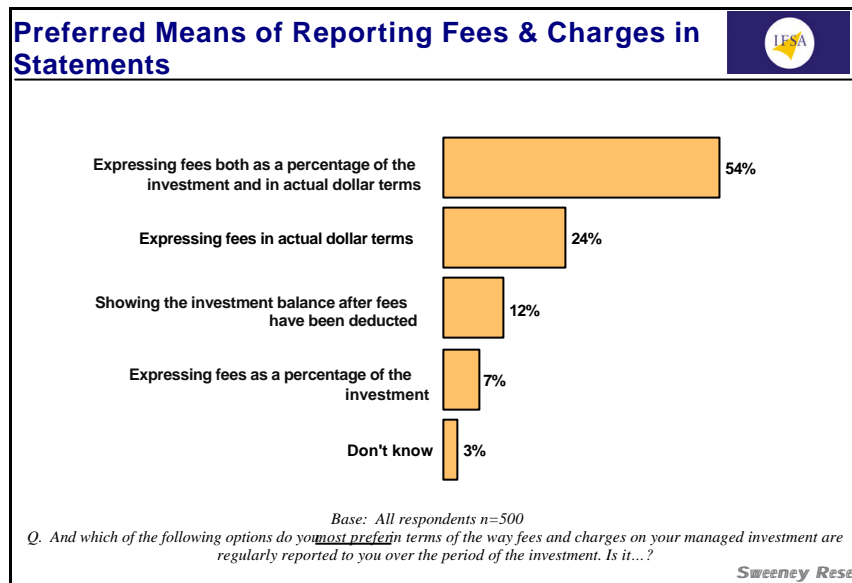
Consumers' preferences for fee disclosure in the prospectus are split between 'dollar terms' and 'a percentage/expense ratio'. As the chart below shows, one in two (52%) consumers prefer the fees to be expressed in dollar terms, with a slightly smaller number (42%) preferring all fees itemised as a percentage/expense ratio.





Ongoing Reporting Preferences - Statements

Consumers were presented with four different reporting options and asked to put forward a preference. Over one in two (54%) of the managed investment consumers interviewed said their preference is for "expressing fees both as a percentage of the investment and in actual dollar terms".



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Concluding Observations

A number of observations can be made to draw all of these findings together...

- First of all, the predisposition towards managed investments is high and that's because consumers acknowledge that they are paying for diversification, knowledge and professionalism. Overlayed on this is the solid quotient of trust the managed investment industry enjoys at a time when many people view big business cynically.
- Secondly, in the list of criteria used to select one managed investment or another, fees and charges come well down the list.
- Thirdly, in an absolute sense, fees and charges are not uppermost in their minds – a function of the historical gap between returns and fees.

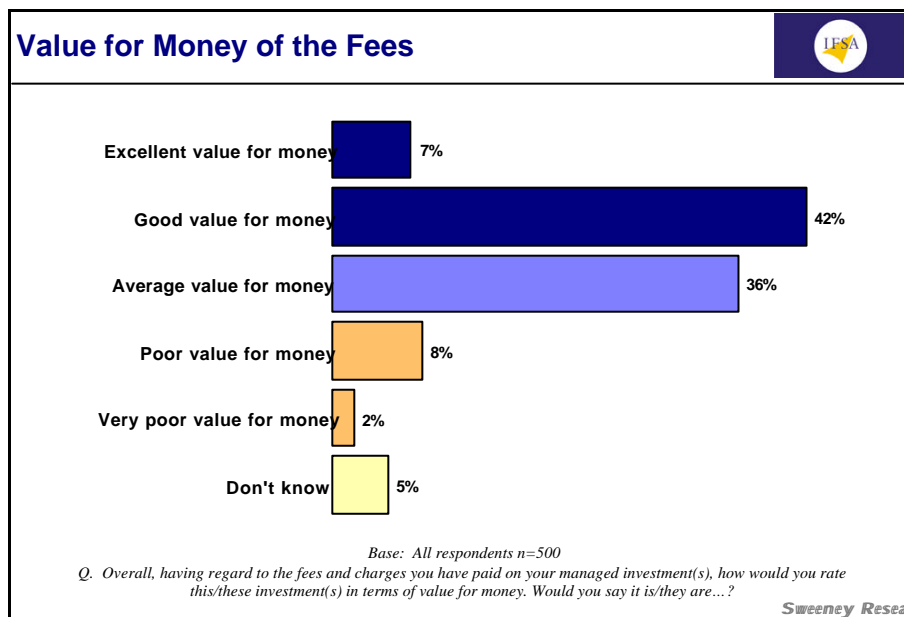


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- Fourthly, about a third of those who have managed investments have, at the best, an extremely hazy knowledge of fees and charges.
- Five, when we do give them disclosure and reporting options, they somewhat predictably opt for more rather than less.
- But, six, at the end of the day, they're not all that concerned.

In interpreting all of the attitudes and opinions on fees and charges, it is relevant that half (49%) of all consumers consider managed investments to be *excellent or good value for money*. A further third (36%) said that they have at least met expectations. Only one in ten considered their managed investment to be "poor" value for money.

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This positive attitude towards managed investments underscores the contention that for a large proportion of consumers, fees are not (yet) a major issue.