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Retail Client's Satisfaction With Investment Advice. Is MiFID II a Desired Regulation?

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The aim of the study was to investigate whether investment advisors' procedures of servicing evolve to meet MiFID II Directive requirements. Using a mystery client procedure adopted from the Synovate (2011) research, 51 datasets and 58 datasets were collected in 2016 and 2017. No statistical differences between annual results were found in procedures of collecting necessary information. Advisors were generally perceived to be clear in providing recommendations. Almost all clients were satisfied with such service. The results provide a general profile of a satisfied client as a person looking for transparent and clear information on investment alternatives provided by a professional in terms of collecting detailed but only necessary data.

Keywords: MiFID II, investment advisor, retail investor, investment recommendation, client's satisfaction.

Zadowolenie klienta indywidualnego z doradztwa inwestycyjnego. Czy Dyrektywa MiFID II to potrzebne rozwiązanie?

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Celem badania była analiza zmian w standardach obsługi klientów detalicznych doradztwa inwestycyjnego pod kątem wypełniania zaleceń dyrektywy MiFID II. Badanie przeprowadzono w schemacie tajemniczego klienta z wykorzystaniem procedury stosowanej w badaniu przeprowadzonym przez Synovate (2011). W 2016 i 2017 zebrano dane z odpowiednio 51 i 58 wizyt w instytucjach finansowych. Nie stwierdzono statystycznych różnic w procedurach przeprowadzania wywiadu o sytuacji klienta i jego potrzebach. Klienci generalnie postrzegali doradców jako osoby, które jasno komunikują swoje rekomendacje i przedstawiają różne możliwości inwestycyjne. Około 90% klientów było zadowolonych z obsługi. Wyniki przedstawiają ogólny profil zadowolonego klienta jako osoby poszukującej przejrzystych i jasnych informacji o alternatywach inwestycyjnych, przekazanych przez doradcę, który zachowuje się profesjonalnie, przeprowadzając wywiad i poszukuje szczegółowych, ale tylko niezbędnych informacji o kliencie.

Słowa kluczowe: MiFID II, doradca inwestycyjny, klient indywidualny, rekomendacja inwestycyjna, satysfakcja klienta.

JEL: G24, G18, G11

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1. Introduction

The MiFID II and MiFIR directives (2014), along with a number of delegated and implementing acts which regulate the functioning of the financial product distribution market, became effective in January 2018 in the European Union, including Poland. Their aim is primarily to support the position of retail (or non-professional) investors in their relations with intermediaries of financial instruments and financial advisors with regard to savings, investments, insurance coverage or mortgage loans. Amongst financial services providers, the most agitation was recently generated by the implementation of a requirement for brokers to disclose their commission on the sale of products which might result in consumer resistance to the payment of such commissions. The broker's compensation, as in other trades, is an effective motivator in the sale of financial products. Unfortunately, market practices show that this often leads to "high pressure" sales tactics. Customers are compelled to buy financial products which are not best suited to their true needs and risk perception capabilities but rather are profitable for the broker.

In 2011, the Synovate company, by order of the European Commission, Directorate-General Heath and Consumer Protection, published the results of their study conducted using the mystery client method in 1,209 offices of institutions offering investment products in 27 EU member states. It revealed that 50% of advisors did not investigate the client's willingness to take risks prior to their advice, in 57% of cases the products offered did not correspond to the clients' needs, while in 80% of those cases it was associated with an excessively high risk level of the proposed financial instrument (Synovate, 2011). The results of those studies have confirmed the validity of developing and implementing the MiFID II Directive, which more strongly regulates the relations between financial advisors and their clients compared to the MiFID I Directive, still in force since 2010. The ineffectiveness of the MiFID I regulations has been confirmed in Poland, among other things, by the scale of issues which have affected retail clients who purchased unit-linked insurance funds (Ostrowska-Dankiewicz, 2017). The disclosed distribution mechanisms of those types of products clearly indicate that the primary criterion adopted by some financial advisors was the amount of commission received, rather than their client's expectations and real needs. In the long-term perspective, inappropriately selected financial instruments have led to friction in the relations between financial institutions and their clients, the involvement of supervisory institutions in solving problems and market regulations, which is most certainly evidence of a lack of customer satisfaction with the purchase of instruments and a negative impact on the image of financial institutions. Of even greater importance would be the adverse effect on investor confidence in their advisors, erosion of institutional trust and a consequent discouragement

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to embark upon long-term savings plans required to build up savings for a financially secure retirement.

Results of studies, however, show that client satisfaction may be one of the key factors of success for financial brokers (Anderson, Pearo, & Widener, 2008), positively influencing the increase in market share, profitability and the building of long-term client relationships (Anderson, Fornell, & Lehmann, 1994; Yeung & Ennew, 2000; Bernhardt, Donthu, & Kennett, 2000). As noted by Helgesen (2006), the level of perceived satisfaction with services is associated with the fulfilment of the client's needs, desires and requests, and translates to a higher level of customer loyalty and greater probability of repeated use of the service offered. These are very strong correlations and may significantly affect the broker's success. The advisors' conduct while selling products intended to grant them greater benefits compared to the client may be defined as a sales focused strategy (Bejou, Ennew, & Palmer, 1998). Another type of strategy adopted by the advisor may be a focus on the client, which involves proceeding in accordance with the client's best interests (Bejou, Ennew, & Palmer, 1998). As shown by Saxe and Weitz (1982), a genuine focus by advisors on the client's needs and wants leads to an increase in mutual understanding and trust. This "consultative selling" approach in turn makes more robust and enduring long-term client relationships one of key sources of satisfaction felt by most clients.

2. Methods

In relation with the effective date of the MiFID II Directive, the Authors of this article have conducted two waves of studies of institutions offering investment instruments and plans, using a mystery client procedure – in June 2016 and subsequently in June 2017. The 2010 Synovate scenario was adopted. The aim of the study was to investigate whether investment advisors complied with the spirit and letter of MiFID II Directive requirements. Specifically, we investigated whether advisors collected necessary "know the client" information, providing balanced, unbiased investment choices calibrated to client needs, especially with respect to risk tolerance and savings goals and, finally, fulfilling overall performance expectations in terms of meeting retail clients' needs and wants. Moreover, apart from the analysis of the consultative selling procedure itself, the study also analysed which factors would significantly influence a client's perceived satisfaction with provided advice.

The meetings were conducted by 26 surveyors in 2016 and 28 other in 2017. Each of them met with 2 consultants in 19 banks and financial brokerage institutions which offered investment products in the city of Lublin and its area[1]. The dispersion was intended to ensure objectivity of the opinions of clients taking part in the study. Information on the process of consulting was conveyed after the meeting with the consultant using a standardized form encompassing 79 content-related and 6 identifying questions. 51 complete sets of data collected in 2016 and 58 gathered in 2017 were accepted for analysis.

The aim of each visit was to receive an investment recommendation for the same initial scenario, description of the client's situation and his/her expectations. All potential clients in the interviews purported that they were about to graduate from university (Finance and Accounting); that they had saved up PLN 10,000 (equal to about EUR 2,400 or 2–2.5 mean monthly compensations in Poland) from temporary work or seasonal working abroad; and were aware of the need for long-term savings. They were then in an informal relationship, rented a flat with their partners, had their own monthly income of PLN 1,500 at their disposal and were additionally financially aided by their parents, but they had prospective employment and salary rise opportunities after graduation soon.

3. Results

As presented in Table 1, no statistical difference between 2016 and 2017 results was found in procedures of collecting necessary information according to the results of U Mann-Whitney tests (formal conditions for t-Student test in regard to normal distribution of variables were not met). In 84%–88% of cases, clients were asked about the investment purpose and the holding period, which are essential for investment advising services. The levels were like the figures reported in the Synovate studies – in this case, they were 84% and 87% respectively. However, only 57% of clients in 2016 and 53% in 2017 reported that the consultant evaluated their willingness to take risks in any way. This is a significantly lower result compared to 76% observed by Synovate in 2010. Moreover, the survey data revealed that in a significant majority of cases these were conclusions drawn from informal, unstructured conversations with the client, rather than a formal, systematically conducted procedure. Only in about 10% of cases was the client asked to fill out a form with scalable answers (Synovate – 17%) and far less with non-scalable answers (about 5%). Over 80% of clients did not take a formal test of risk tolerance in both years. This level remains low according to Synovate's equivalent findings of 20% not tested.

In about half of cases (48–51%), the consultant failed to inquire about the available income or assets and in 64–67% of cases they failed to ask about the current level of expenses. In the abovementioned issues, this could have been the result of the specific nature of the investment situation and the client's profile – a young individual graduating from university, at the start of their professional career, due to which they most likely did not have a significant amount of assets and liabilities. On the other hand, the levels are surprisingly similar to what Synovate observed generally throughout Europe in 2010.

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Advisor asked about…	**Synovate (2011)**	**2016**	**2017**	**U Mann-Whitney p-level 2016 vs. 2017**
Investment objectives	**.84**	**.88** (.33)	**.86** (.35)	.753
Desired investment horizon	**.87**	**.88** (.33)	**.84** (.37)	.572
Risk profile / appetite	**.76**	**.57** (.50)	**.53** (.50)	.722
Current income and / or assets	**.52**	**.49** (.50)	**.52** (.50)	.779
Current financial commitments	**.31**	**.33** (.48)	**.36** (.48)	.755

Tab. 1. The retail client's perception of advisor behaviour in collecting necessary information (share of clients who confirmed the advisor's action; 1.00 = all). Source: Synovate (2011); own calculations based on surveys data.

Client's impression	**Synovate (2011)**	**2016**	**2017**	**U Mann-Whitney p-level 2016 vs. 2017**
Advisor was clear in recommendation	**.90**	**.92** (.27)	**.88** (.33)	.467
Advisor informed about risk involved	**.80**	**.90** (.30)	**.88** (.53)	.827
Advisor provided forecasts	**.68**	**.81** (.40)	**.88** (.33)	.395
Advisor strongly recommended a specific instrument	n/a	**.35** (.48)	**.40** (.49)	.641

Tab. 2. The retail client's perception of advisor behaviour in proving information about recommended investment (share of clients who confirmed the advisor's action; 1.00 = all). Source: Synovate (2011); own calculations based on surveys data.

Advisors were generally perceived to be clear in providing recommendations and discussing investment options. 88–92% of clients were satisfied in that case, a level which remains high compared to the previous Synovate study. The results are no surprise considering that such sales skills are essential for any advisor profession. Almost 90% of clients in our 2016 and 2017 studies were informed about risk issues related to discussed investment products. This exceeded the Synovate-reported level of a few years ago and can be considered a tendency towards meeting the MiFID requirements. Moreover, in most cases (81% in 2016 and 88% in 2017) consultants presented prognoses regarding the proposed instruments. Although it was not possible to statistically compare results with Synovate due to the lack of structural data from 2010, the average level seems to be higher in Poland nowadays that that reported for the European study. Forecasts themselves may not be correct but in assessing the quality of investment servicing, providing them may be important to consider the consultant professional (Zaleśkiewicz et al., 2016). Only in about 35% of cases in 2016 and a statistically similar 40% level in 2017 did the client indicate that consultants placed emphasis on promoting a specific product. Although the level can be considered quite high, it should be emphasised that this specific investment circumstances may give advisors a narrow range in providing investment options. Synovate did not report value for this issue.

Recommendation was congruent with…*	**2016**	**2017**	**U Mann-Whitney p-level 2016 vs. 2017**	**Percent of answers meeting expectations****	
				2016	**2017**
Investment objectives	**3.88** (1.07)	**3.64** (1.05)	.160	72.5	60.3
Desired investment horizon	**3.96** (1.26)	**3.72** (1.29)	.263	74.5	62.1
Risk tolerance	**3.78** (1.08)	**3.47** (1.25)	.207	66.7	58.6
Financial situation	**3.67** (1.16)	**3.47** (1.01)	.234	60.8	51.7
Knowledge	**3.78** (1.12)	**3.52** (1.13)	.180	68.6	62.1

* Rating scale of 1 to 5, where 1 = „did not meet my requirements at all" and 5 = "perfect for my needs"

** Graded 4 or 5.

Tab. 3. The retail client's perception of meeting expectations by investment advice. Source: Own calculations based on surveys data.

The congruence of the final investment recommendation with the client's initial expectations is slightly above the range mid-point. For all analysed dimensions of suitability, the advisory services received were graded as suitable or perfect for the client's needs in 60–70% of cases. An exception to such high levels of satisfaction was with respect to understanding the client's financial situation. Only 10–15% of clients in each dimension and year declared that they were disappointed with an advisor's service with a 22.4% peak of disappointed clients in the case of accordance with their risk tolerance in 2017. As Zaleśkiewicz et al. proved, a client tends to evaluate the advisor as more credible if advice is congruent with the client's prior preference (Zaleśkiewicz et al., 2016). Having that in mind, advisors that discover information about the client's expectations about investment defining parameters may provide their service leading to higher satisfaction of their clients than those who provide professional, objective but unexpected solutions.

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In order to discover the factors that influenced the client's satisfaction with investment advice, 29 variables were analysed using a multifactor linear regression procedure to explain the client's satisfaction. A description of variables is presented in Table 4.

Variables describing advisor's behaviour	**Scale***	**2016**			**2017**		
		N	**Mean**	**Std. dev.**	**N**	**Mean**	**Std. dev.**
Advisor asked about:							
investment objectives	no / yes	51	.88	.325	58	.86	.348
investment horizon	no / yes	51	.88	.325	58	.84	.365
risk tolerance	no / yes	51	.57	.500	58	.53	.503
assets and income	no / yes	51	.49	.505	58	.52	.504
financial commitments	no / yes	51	.33	.476	58	.36	.485
investing experience	no / yes	51	.69	.469	58	.67	.473
level of current spending	no / yes	51	.31	.469	58	.34	.479
Advisor provided:							
information on authorisation to provide investment advice	no / part / yes	51	.37	.528	58	.72	.914
information on investment alternatives	no / yes	51	.96	.196	58	.93	.256
details of recommended investment	no / part / yes	51	.78	.503	58	.83	.625
information on costs and commissions	no / yes	51	.86	.348	58	.81	.395
information on investment risk	no / part / yes	51	.69	.583	58	.72	.643
forecasts	no / yes	51	.33	.476	58	.26	.442
information on historical performance of recommended instrument	no / yes	51	.78	.415	58	.67	.473
information on lack of correlation between historical and future results	no / part / yes	41	1.29	.929	40	1.38	.807
information on uncertainty of forecasts	no / yes	21	.57	.507	17	.88	.332
complete information to make decision	no / yes	51	.71	.460	58	.67	.473
transparent and clear information	no / yes	51	.92	.272	58	.88	.329

independent, objective and argumentative information	no / part / yes	51	1.71	.701	58	1.55	.841
Advisor was detailed in collecting information	no / part / yes	51	2.04	.774	58	1.91	.683
Advisor applied tools to discover risk profile	no / part / yes	51	.29	.672	58	.52	.863
Advisor made sure that client understood information provided	no / yes	51	.65	.483	58	.64	.485
Advisor strongly recommended a specific financial instrument	no / yes	51	.35	.483	58	.40	.493
Recommended financial instrument was generally suitable	no / yes	51	.75	.440	58	.72	.451
Recommendation was congruent with:							
investment objectives	1 to 5	51	3.88	1.070	58	3.64	1.055
investment horizon	1 to 5	51	3.96	1.264	58	3.72	1.295
risk tolerance	1 to 5	51	3.78	1.083	58	3.47	1.246
current risk exposure	1 to 5	51	3.67	1.160	58	3.47	1.012
knowledge about risk	1 to 5	51	3.78	1.119	58	3.52	1.128
General satisfaction with service provided	1 to 5	51	3.70	.909	58	3.48	.978

* Discrete *yes-no* variables were coded with *1-0 values* respectively. In the case of discrete *yes-part-no* variables, answers were coded with *2-1-0 values* respectively. Congruence of recommendations scale as described under Table 3.

Tab. 4. Total satisfaction with the advisor's service and variables explaining satisfaction – descriptive statistics. Source: Own calculations based on surveys data.

Each client assessed total satisfaction with the service provided by the advisor using the 1 (extremely dissatisfied) to 5 (extremely satisfied) scale adopted from the Synovate questionnaire. The average result was 3.7 (σ = .909) in 2016 and 3.48 (σ = .978) in 2017. In order to explain which of the diagnosed activities of the advisor, which information he/she provided and what perceived quality of the advisor's recommendations can influence a client's final satisfaction level, a multiple regression model was applied. General satisfaction with the service provided was the dependent variable in the model. All the above mentioned variables (Table 4) were taken into account as potential predictors initially. The SPSS automated linear modelling with a forward stepwise model and AICC criteria was applied to 2016 and 2017 observations separately to identify the most important predictors. Multiple regression model coefficients were then estimated for both years. The results are presented in Table 5.

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Predictor	**(2016) β_i**	***t*** **p-value**	**(2017) β_i**	***t*** **p-value**
(Constant)	**1.943***** (.331)	5.871 .000	.709 (.387)	1.832 .073
Advisor provided complete information to make decision	**.670**** (.331)	2.920 .006	**.499*** (.214)	2.331 .024
Advisor was detailed in collecting information	-.139 (.175)	-.797 .430	**.737***** (.174)	4.234 0.000
Advisor provided transparent and clear information	-.131 (.331)	-.397 .694		
Advisor made sure that client understood information given	**.381*** (.188)	2.033 .049	.271 (.193)	1.403 .167
Recommended financial instrument was generally suitable	**.581*** (.236)	2.458 .018	.367 (.231)	1.589 .119
Advisor asked about risk tolerance	.290 (.192)	1.511 .139	-.317 (.217)	-1.464 .150
Advisor provided information on costs and commissions	.461 (.249)	1.851 .072		
Advisor asked about assets and income	.451 (.248)	1.822 .076		
Advisor asked about level of current spending	.012 (.218)	.057 .955		
Recommendation was congruent with investment horizon	.060 (.074)	.811 .422		
Recommendation was congruent with current risk exposure			.066 (.112)	.590 .558
Recommendation was congruent with knowledge			-.055 (.091)	.604 .549
Recommendation was congruent with risk tolerance			.055 (.091)	.604 .549
Recommendation was congruent with investment objectives			.158 (.116)	1.366 .179
Advisor provided information on authorisation to provide investment advice			-.060 .106	-.571 .570
Adj. R-square	.711		.668	
F	13.059 (p = .000)		12.446 (p = .000)	

* p < .05; ** p < .01; *** p < .001.

Tab. 5. Predictor variables of the retail client's satisfaction with the investment advisory service. Source: Own calculations based on surveys data.

Out of 15 selected variables, 5 are common for 2016 and 2017 observations. Both models explain over 80% of satisfaction variance with selected predictors indicating which activities are important to clients of investment advisory services. Providing complete information to make a decision is the predictor included in both models with positive impacts on satisfaction. The results in this case mean that clients expect from their advisor to render credible advice supported by convincing explanations. However, clients want to be in control of making "their" decision and not be subject to high pressure tactics from advisors. The models suggest that the clients who perceive the recommended financial instrument as generally suitable for them and congruent with initial general expectations should be more satisfied than others (the effect is positive in both models but stronger and significant only in 2016). Contrary to this, in 2017 clients valued their advisor's accuracy in collecting information used to formulate recommendations (the strongest positive effect significant with $p = .000$). The advisor's accuracy could increase general satisfaction by 1.474.

4. Discussion

Although the estimates of predictors are not all statistically significant, the results provide a general profile of a satisfied retail investor. This is a person who is looking for transparent and clear information on investment alternatives provided by an advisor who is a professional in terms of collecting detailed but only necessary data and makes sure that the client is comfortable with what he/she communicates. Such an investor also requires the advisor to confirm the client's initial expectations, i.e. financial instrument. Any financial recommendation should make the client feel that the solution is congruent with his/her investment objectives to be achieved in an expected time period, according to risk appetite and the knowledge level.

The results of our study suggest that the MiFID II Directive that has been in force since 2018 can be considered a desirable regulation, at least from the perspective of retail investors. Suitability and appropriateness are fundamental in providing investor protection. The financial services industry labels this as the "know the client" protocol. To both competently manage their own risk exposure (in the case of borrowers) and/or offer services and investment products (in the case of saver-investors), financial firms must have a robust understanding of whom they are dealing with. Typically, this necessitates a due diligence investigation of counter-parties, where a temptation may exist to compromise it because of its cost and perhaps customer inconvenience. MiFID II provides the needed regulatory incentive to meet performance standards. It requires that when providing investment advice, the information obtained from the client by investment firms must ensure that a suitable recommendation is made to the client. These requirements

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include collecting and updating information on client's education, knowledge and investment experience, financial situation, assets held, financial commitments, ability to bear losses as well as investment objectives: horizon, risk preferences, risk profile, risk tolerance. Even when providing execution only services, investment firms must assess whether the financial instrument is appropriate for the client. That also requires acquiring knowledge of the client's experience, types and frequency of transactions the client used to be involved in, the level of education and profession. Our 2016 and 2017 studies proved that retail clients' expectations are just similar – the suitability of advised financial instrument, advisors being detailed in collecting information and providing advice that meets the client's expectations, including risk tolerance, product knowledge, current financial situation or investment horizon – were activities with higher statistical significance. From now on, providing investment services that meet the standard informally expected by the clients will be required by the law.

The conducted analysis has shown that the situation in the area of procedures of offering investment products to retail clients has not undergone significant changes since 2010, when a representative study for the European Union was conducted by the Synovate company. It seems that more attention in building client-advisor relationships is still required in the area of communicating the risk of recommended investment instruments. This need is critical primarily due to the influence on the future result of the client's investment and the client's perception of the purchased financial instrument or investment plan. It remains, however, no less important to the building of long-term relationships between the customer, the consultant and the institution offering the product. The analyses have shown that satisfaction with investment consulting is raised by the clarity of information provided regarding investment risks. The use of formal risk tolerance evaluation tools may result in an improvement of the consulting process assessment, as it positively affects the perception of the consultants' "know the client" rule, leads to taking advantage of their recommendations and building long-term, authority-based relationships with the institution. Combined, these can be of considerable benefit for all the parties involved in investment advisory services.

Endnotes

1 Institutions visited: Alior Bank, Bank BGŻ BNP Paribas, Bank BPH, Bank Zachodni WBK, Bank Millennium, Bank Pekao, Bank PKO BP, Credit Agricole, Deutsche Bank Polska, DSA Investment, Eurobank, Expander, Idea Bank, ING Bank Śląski, Open Finance, OVB Allfinanz Polska Spółka Finansowa, PKO BP, Raiffeisen Polbank. In mid 2018 and 2019, the study will be conducted again in order to compare the results before and after implementation of the MiFID II Directive.

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