The Art, Science and Ethics of Client Data Collection

for financial advisers and planners

Dr Paul Moran CFP®

The collection of information about a subject prior to advice or diagnosis is common across many professions. Indeed, across the various professions there are several approaches to the collection of information, however, they all have one thing in common – questions. Certainly, the quantity and quality of the questions determines the effectiveness, suitability and appropriateness of diagnosis or advice.

However, in addition to questions, professionals also need to record observations about their clients. These observations add to the answers from the questions and provide a more complete picture of the ‘person’. A holistic view, so to speak.

We could possibly differentiate financial advisers into two types – holistic and transactional. While this characterisation may be a little simplistic and not take into effect some specialist advisers, it is probably an appropriate way to differentiate on operating practices and client outcomes.

Holistic financial advisers, as a rule, will conduct a comprehensive fact find and use this to determine the needs and objectives of the client. It is fundamental to being able to assist the clients articulate their goals because until this is done, the client’s goals (wants?) may be unachievable. A thorough understanding of ‘where the client is now’ really helps to lead the discussion into areas where the client has needs that they didn’t realise they had (unknown unknowns?).

Transactional financial advisers tend to be specific outcome focused and therefore only need to capture enough information to justify a specific recommendation. In the current environment, this is done by scoping in or out to limit the advice provided and therefore the client information needed.

Differentiating financial advisers in this way is obviously not black and white as there will be times where holistic financial advisers operate in a transactional manner and vice versa. This paper is not intended to establish that one is ‘better’ than the other, but rather to identify the importance of gathering a complete picture of the client for holistic financial advisers.

ASIC consultation paper CP332 into advice affordability is clearly leaning towards transactional advice as a solution to advice affordability, and there is a bias towards questioning whether ‘technological’ solutions can assist with reducing the cost of advice. This is evidenced by the questions asked in their submission questionnaire. It appears that this has been taken to a whole other level under the Levy review.

So, if you believe that limited or transactional advice is the future, and technology is going to be able to deliver this type of advice cheaply – you probably don't need to read any further.

Holistic financial advisers need to collect a lot of information about their clients to ensure that the advice they provide is complete, accurate and appropriate. The ability to gather all the required information is a skill that is learned over time, and unfortunately is not a significant part of the education of financial advisers. Most textbooks on financial planning allocate barely a single page to it.

Gathering only limited information about a client means that you are not able to anticipate future client needs, or to look 'over the horizon' when you interact with your clients. You simply will not know what you, and they, are missing.

Further, the majority of financial advisers still use a static, paper-based form to collect the client details once, initially, and then perhaps via another paper document, on an ad hoc basis, to update the information. From personal experience, these forms are completed with, shall we say, different levels of detail.

The paper-based nature of this form of data collection means at least double handling, and sometimes multiples of this. It also means that data starts to become 'spread' across the various systems used in a modern financial advice practice. Paper forms clearly lack the conditionality of on-line forms, meaning that they cannot ask follow-on questions depending on the answer provided previously. If a paper-form was used to ask all the questions possibly needed by a financial adviser, it would be in the order of 60–100 pages long – way too long to provide to a client.

On-line forms, either based on editable PDF style forms or survey style software, are certainly a step forward with the latter offering the ability to ask conditional questions. However, they are still static and so do not meet the needs of a modern professional practice to have up to date, comprehensive retrievable information on hand when needed.

The ability to gather, store and retrieve client information, and then integrate with other software has to move forward in the same way as professionalism in advice.

We are not alone as a profession in struggling with data collection

The medical profession has struggled with patient data collection in recent times. A 2019 paper by Reiswich and Haag identified that 'virtual patient history' training may be enhanced through the use of chatbots but found that this was specifically for the training of doctors. They stop well short of expecting that actual patient histories would be taken by 'robots' and agree that more is needed in the development of this as a training tool.

Doctors have similar issues as financial advisers in managing the time taken to complete documentation and the actual time required to manage their patients (clients) (Hauber, 2019). Using an on-line tool to collect a basic patient history (to be supplemented by the physician in the consultation) was seen favourably and more convenient than a paper-based form. This supports the use of a digital tool to collect data, but that it is not complete without physician (adviser) input.

The inability to actually take a complete history was identified in a study by Seitz et al (2018) as an issue for new graduates. An acceptance of ‘only the questions answered by patients’ contributed to sub-optimal outcomes due to a lack of field specific knowledge. In other words, they understood the process of the history-taking but were poor at conducting it. Given the lack of any requirement in financial advice education regarding practical history-taking (fact finding), it would not be surprising if this was the case for financial advisers also.

But there is an art to it

Eliciting information from clients is much more than handing out a form, or even linking them to an on-line data collection tool. It is about having the clients understand the importance of you collecting the information.

It is a demonstration of the level of care you are prepared to provide.

In the same way that we feel confident in a doctor who takes a thorough medical history (and who is provided with clues for the correct treatment), gathering all the facts before making recommendations provides the client with confidence that your recommendations are truly in their best interest and will produce the best outcome.

Taking the time to work collaboratively with the client to ensure a thorough fact find process has been completed will ensure that the client feels that you are working for them. Handing them a form and saying “complete this before I see you” is akin to a medical receptionist asking a patient what is wrong with them, so the doctor doesn’t have to waste any time before writing a prescription. It smacks a little of product selling.

Please don’t misunderstand me – the gathering of some basic information to ensure that the client-adviser match is appropriate is important. Qualifying the clients so that they match your practice’s approach ensures that time is not wasted – but this is not the role of the data collection.

What information is needed to truly ‘know your client’?

Personal and family situation used to involve the basic nuclear family. That simply doesn’t cut it anymore, as it is now common to deal with blended families, de facto relationships, same-sex relationships, stepchildren, separations and divorces. Each of these has consequences for estate planning and superannuation beneficiaries as well as personal insurances. It can lead to ‘colourful’ discussions about education, bequests, gifts, dependencies and more. Even the most basic information – client, partner and kids – can be complicated and an opportunity for a financial adviser to add value. Perhaps very importantly for younger clients are questions about future family plans – surely vitally important to any financial modelling of the future.

Employment details now include ‘side-hustles’, salary packaging, part-time work, superannuation and other employee benefits. Each of these may have tax, Centrelink, insurance and retirement planning consequences that should be known to the adviser. Furthermore, plans to change employment have perhaps been brought forward by the COVID pandemic, as could plans to change employment mode to part-time. TTR strategies need to consider all opportunities regarding tax and cash flow to ensure the strategy works as expected. Security of employment has been shown to be a factor in risk tolerance (Roszkowski & Grable, 2010), but this is often neglected if the questions stop at what do you do and what do you earn?

Information about entities the clients may be involved with is often amongst the hardest to gather. Trustee details, beneficiaries, shareholders, TFNs and ABNs tend to come in dribs and drabs and so there needs to be somewhere to contain them. This information can be so important for tax management and estate planning, but it is generally ignored in a paper-based fact find. Of course, if this information is actually collected – where do you store it?

In a time when client expectations of what we know is increasing exponentially, comprehensive information about assets and liabilities, income and expenditure becomes even more important. Ownership, renewal dates, tax structures, distributions and dividends, cost base, SRNs, HINs, TFNs, CRNs all need to be recorded. Simply obtaining totals for assets, superannuation and liabilities would probably be seen as lazy and un-caring now.

In a similar vein to contemporary complications regarding families, estate planning creates an enormous opportunity to develop very deep bonds with your client. A detailed review of a client’s estate plan often elicits the ‘wait…what’ response when they realise who is the beneficiary of their superannuation, or that the divorce they completed years ago negated their existing will and they are intestate. Even understanding the consequences of intestacy can be challenging for a client. But while ‘everyone knows’ that they should have a current will and powers of attorney – who actually gets around to it unless prompted. Professional advisers have realised for some time that a lot of estate planning is undertaken outside of the will, and also that leading the discussion with an estate planning specialist legal partner really cements the ‘trusted adviser’ relationship.

Moving from ‘do you have a will?’, to exploring estate goals and identifying potential future issues that might convert a ‘my situation is pretty straight forward’ to a ‘wow – I didn’t know that could happen’ kind of realisation.

What do I need to consider of an ethical nature?

The ethics of data collection is a complex and multifaceted topic that touches on a wide range of issues related to privacy, consent, and the use of personal information. At its core, the ethics of data collection is about ensuring that individuals have control over their own data and are able to make informed decisions about how it is used.

One key ethical issue related to data collection is privacy. In today's digital age, vast amounts of personal information are being collected, stored, and shared by a wide range of organizations, from tech companies and social media platforms to government agencies and financial institutions. This data can include everything from our browsing history and search queries to our location data and biometric information. As a result, individuals are increasingly concerned about how their data is being used and who has access to it.

Another important ethical issue related to data collection is consent. In order for data collection to be ethical, individuals must be able to make informed decisions about whether or not to share their personal information. This means that organizations must be transparent about what data they are collecting, why they are collecting it, and how it will be used. Individuals must also be able to opt out of data collection if they choose to do so.

The use of personal information is also a key ethical issue related to data collection. Organizations that collect data must be responsible for how that data is used and must ensure that it is being used in a manner that is consistent with the individual's expectations. This can include everything from not sharing data with third parties without consent, to not using data for targeted advertising or other unwanted purposes.

In addition to these key ethical issues, there are also a number of other concerns related to data collection, including data security, data accuracy, and data retention. Organizations must take steps to protect the data they collect from unauthorised access and must ensure that the data they collect is accurate and up to date. They must also have clear policies in place for how long data will be retained and how it will be disposed of when it is no longer needed.

So, we can see that on the one hand we have a legislated need to collect and store detailed information about our clients, and on the other an expectation that data is not stored unless it is needed. This is an ethical dilemma for financial advisers.

Overall, the ethics of data collection is a complex and rapidly evolving topic that touches on a wide range of issues related to privacy, consent, and the use of personal information. Organizations that collect data must be transparent and responsible in their practices, and individuals must be able to make informed decisions about how their data is used. It is important for everyone to be aware of the implications of data collection and work together to ensure that it is done in an ethical and responsible manner.

References

Hauber, R. S. (2019). Evaluation of Patient's Attitude Towards Computer Supported History Taking. Studies in Health Technology & Informatics, 194–198.

Reiswich A. & Haag, M. (2019). Evaluation of Chatbot Prototypes for Taking the Virtual Patient History. Studies in Health Technology & Informatics, 73–80.

Roszkowski, M., & Grable, J. E. (2010). Evidence of lower risk tolerance among public sector employees in their personal financial matters. Journal of Occupational and Organisational Psychology, 82(2), 453–463.

Seitz, T. R-S. (2018). Competency in medical history taking—the training physicians view. The Central European Journal of Medicine, 17–22.

Stivers, T. H. (2001). Breaking the sequential mold: Answering 'more than the question' during comprehensive history taking. Text – Interdisciplinary Journal for the Study of Discourse, 151–185.