

How do clients assess value?

Delivery and evidence of portfolio performance

1. Portfolio performance

“The most important thing is getting the best return. I was shocked by the fee and I saw negative performance and I thought, ‘what am I paying for?’ Consumer, NextWealth Consumer Duty research, 2022

2. Motivated advisers charging a fair fee

“As long as they don’t lose me money, then I’m reassured. They spend time understanding me, so the percentage fee I pay means they are doing their best to make money. I have one less thing to worry about. Not like with an hourly or flat rate fee.” Consumer, NextWealth Consumer Duty research

3. Transparent and defensible all-in costs

“Clients are talking about inflation how interest rates have gone up, and the markets have been depressed and performance in their portfolios hasn't been great. Clients are aware of ours, the DFM platform and investment fees when we then talk about fair value, and are looking at returns from the portfolios, which haven't been great over the last 12 months.” Adviser, NextWealth/ Fidelity Research, 2023

Value

“The value of financial advice is being able to sleep at night.” Consumer, NextWealth Consumer Duty research, October 2022

Development of trust

1. Understanding the style of clients in how they want to manage their wealth

“It was important at the outset to make sure I was going to get a person who actually knows me and actually understands, what I’m trying to do. A lot of IFAs then were very impersonal –I was getting quite an arm’s length service. I like to know they understand me and where I want to get to.” Consumer, NextWealth Communications testing, April 2023

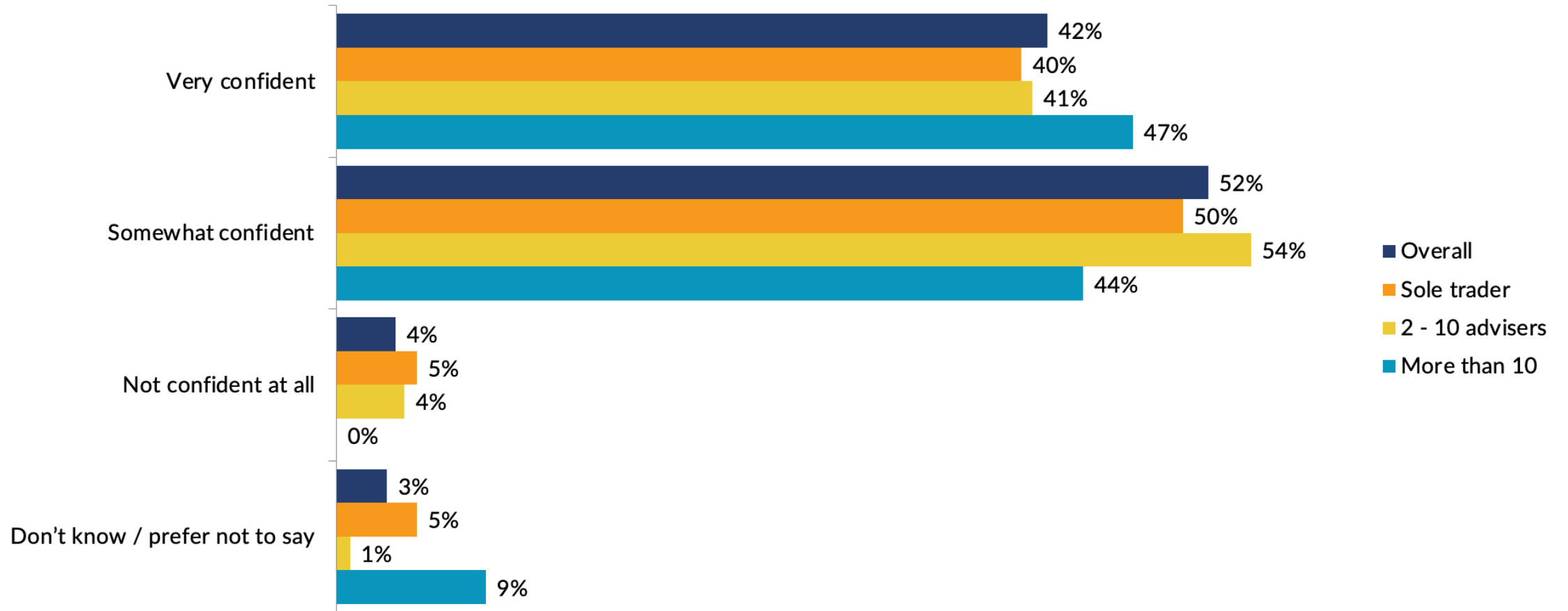
2. On-going advice that reflects long term objectives

“I stopped working three years ago, so I need to flexibly manage my funding and maximise returns, because this money has to last. My IFA explains technical detail and implications of options to make my investments work as hard as possible” Consumer, NextWealth Communications testing, April 2023

3. Clarity of portfolio adjustments

The value of having an IFA is having someone look after and make your money work for you. If it wasn’t working, I would definitely not hesitate in questioning what was going on and looking for other advice. I trust him [my IFA] to put things right and tell me about it.” Consumer, NextWealth Consumer Duty research

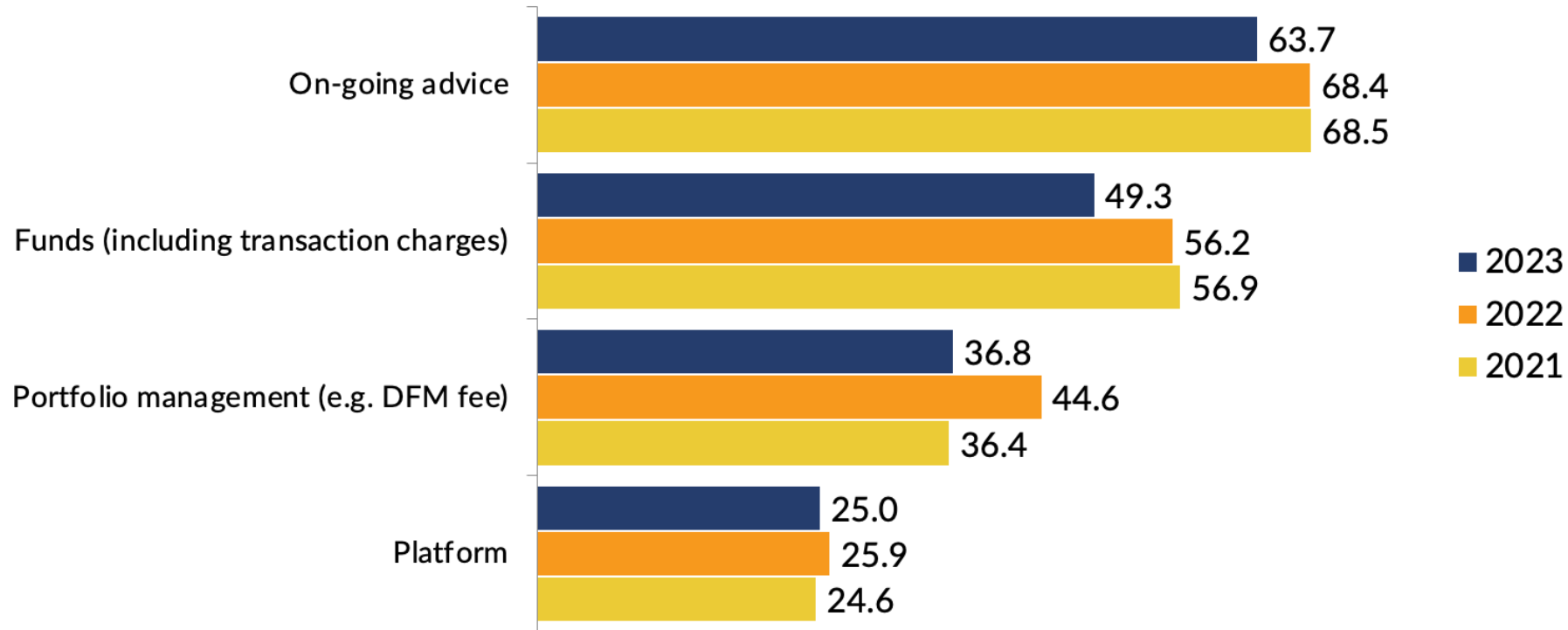
Confidence of financial advice firms in evidencing value



Q: How confident are you in your firm's ability to demonstrate value for money as outlined by Consumer Duty?

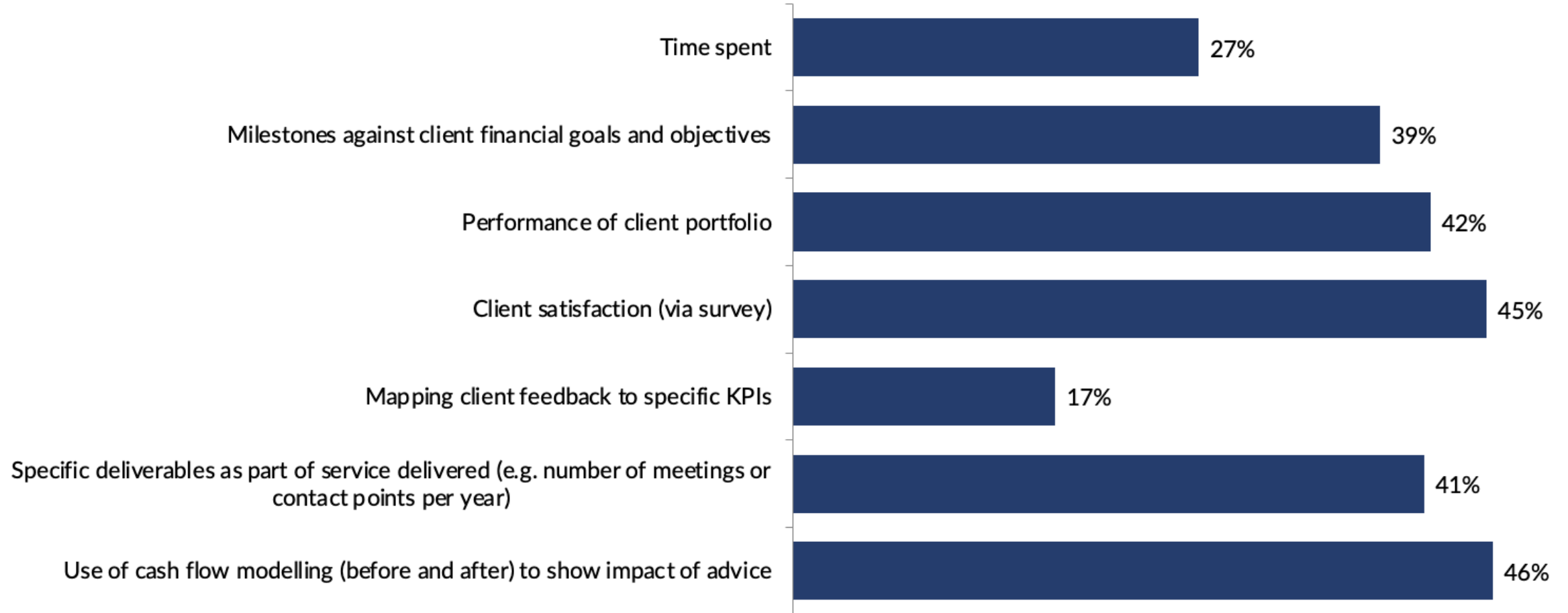
Source: NextWealth Retirement Advice Report 2023

Average on-going fee for financial planning advice



Source: NextWealth Financial Advice Business Benchmarks Report, September 2023

Criteria used to evidence value of advice



Source: NextWealth Financial Advice Business Benchmarks Report, September 2023

The evolution of client segmentation since the introduction of Consumer Duty

Pre-defined service levels

Allocating clients to different segments based on a set of criteria (typically assets) and providing a service that is aligned to their needs.

*“Before we built our segmentation model, we might have had a client with £150,000 pension, a specific level of service with so many hours dedicated to them, but we had no idea whether they had premium bonds or money in the bank or a DB pension.” **Financial planner 15 planner firm***

Source: Research for M&G Wealth, January 2024

Characteristics

The PROD rules concentrated on fulfilling the needs of identified target markets. The Consumer Duty subtly but significantly shifted the focus for client segmentation from service design and suitability to a deeper understanding of how client characteristics impact experience.

*“The first job is very thorough and rigorous to build a process and go through it with every client so that we know who they are, what they've got, where they're going, before now coming back to take a more data driven approach at looking at our clients.” **Financial planner 15 planner firm***

Outcomes

The focus now is on outcomes, and being able to show an appreciation that different types of clients may experience different outcomes.

*“We split our pre-consumer duty segments into 8 categories. Some clients will have everything done for them - tax strategy, liaising with professionals, cashflow modelling, split by pre and post-retirement”. **Financial planner, 15 financial planner firm***

Journey

Do clients need the same level of ongoing advice throughout their advice journey?

What a client needs may change. Firms recognise that segmentation must allow for flexibility to ensure that clients receive a suitable service and avoid foreseeable harm.

*“If clients were to hit the £1million threshold, We'd ask, is the service changing? Are we recommending more complex investments? We have a target market matrix with complexity rating of all the different products that we recommend to clients. We assess whether they could potentially cause harm. Typically, the more complex clients with more AUM, the more tax planning is needed.” **Head of Proposition, 21 adviser firm***

