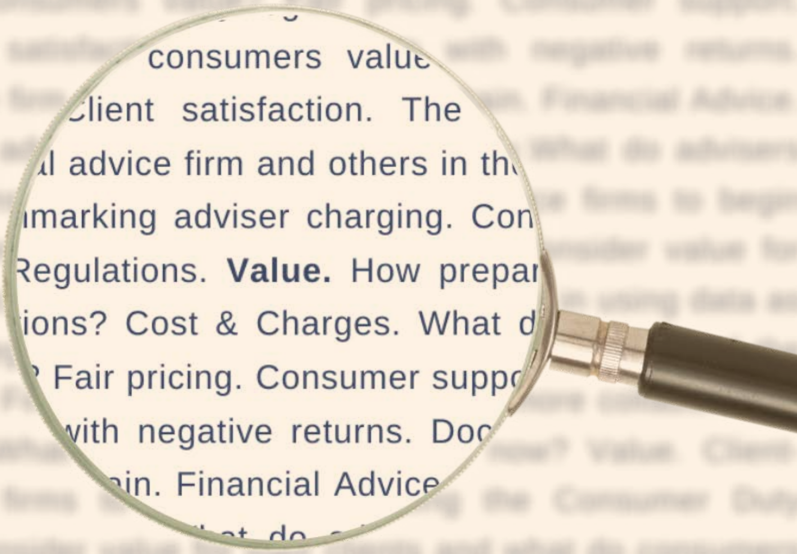
NEXTWEALTH

CONSUMER DUTY IMPLEMENTATION GUIDE

# 1. How are advice firms demonstrating value?



AEGON

March 2023

# Foreword from Aegon

The new Consumer Duty heralds in a whole new world of regulation across retail financial services. The new regulations and guidance are very wide ranging, touching all parts of our industry, but critically, often in very different ways. It will be essential for success that as an industry we work together, collaborating across the distribution chain. At Aegon, we're committed to working closely with advisers. It's only through that collaboration that the new Consumer Duty will deliver to its full potential, delivering benefits not just for consumers but for our industry.

As we approach the 31 July deadline, we know firms are working hard to deliver on implementation plans. Along the way, many questions are arising, with answers often open to different interpretations. So, it's really important to know not just what the FCA rules say, but also how peers across sectors of the industry are responding.

This is why we commissioned NextWealth to produce three guides around key elements of the new Consumer Duty. Importantly, we wanted NextWealth to share what they're hearing from advisers, including where and how business models or processes are changing as a result of the new Consumer Duty. In many regards, the actual advice itself may not have to change hugely – but the framework around that, including the evidence of good outcomes, will definitely have to change. We also believe NextWealth's insights into consumer thoughts, for example on the value of adviser services are also very enlightening and could help advisers improve how they position their services and explain their value.

This guide focuses on the price and value outcome. At Aegon we've long championed the value of advice, and the new Consumer Duty offers the opportunity for advisers to show just how wide reaching that value is, often stretching far beyond a product recommendation.

I've found it fascinating to read these guides. They give real insights into adviser and consumer thoughts. Not everything here represents Aegon's view, but that's not the point - You can read our thoughts on our new Consumer Duty adviser hub – aegon.co.uk/consumer-duty

If I were to add one comment to go with these guides, I'd point to something the FCA said recently in its paper on implementation. And that's 'avoid complacency'. It's really important that all of us, whatever role our firm plays, really asks ourselves if there's more we can do to deliver good customer outcomes.

I do hope you find these guides of interest.

Steven Cameron
Pensions Director, Aegon UK

# Contents

This is the first in a series of three guides helping advisers think through the challenges and opportunities in implementing changes in line with the new Consumer Duty rules. The series shares insights from in-depth interviews with advice firms and advised clients, to explore how advisers are currently approaching these topics within their businesses and the changes they plan to introduce.

The new Consumer Duty rules are designed to increase the level of protection available to consumers and sets new expectations for the standard of care given by firms. Advice firms need to have implemented the new rules by July 31, 2023, as they relate to any products or services that are open to sale or renewal. The rules will come into force for all closed products or services by July 31, 2024.

The new Consumer Duty has four specific outcomes that the Financial Conduct Authority (FCA) rules relate to:

- Products and services
- Price and value
- Consumer understanding
- Consumer support

This guide explores the ways in which advisers can ensure they deliver and demonstrate value for clients under the 'price and value' aspect of the Consumer Duty.

We are basing the findings presented in this guide on quantitative and qualitative research conducted by NextWealth. This consisted of a quantitative survey of 327 financial advice professionals in August 2022, with a top-up survey of 102 financial advisers conducted in October 2022, and a quantitative survey of 302 consumers paying for on-going financial advice, conducted in September 2022. The report also references in-depth interviews with 10 financial advisers, representing a range of firms by geographic location and AUM and in-depth interviews with 10 advised customers and one focus group of 4 younger advised customers (aged 35-50).

# Preparing to implement Consumer Duty

The final rules for the Consumer Duty were released by the FCA in July 2022, with a year to implement, so it is understandable that some firms feel considerably more prepared than others to abide by them when the time comes, while many feel they are still far from where they need to be to comply. These three guides – this is the first - are designed to help advisers determine where and how they need to take action, and pose questions to help them understand how close or far away they are from being ready for the new Consumer Duty.

## How prepared are advice firms?

For example, when we researched advisers back in early October, when it comes to the level of preparedness for products and services being priced fairly for clients, one in five (19%) of advisers feel fully prepared. Just under half (47%) said they were prepared, and 31% were somewhat prepared.

Figure 1: Adviser preparedness for Consumer Duty


Given the relatively short time between the rules being published and the survey, these results are very encouraging. But clearly there is still work to do and we hope the numbers may have improved since.

Advisers in larger firms talked about the fact that they are expecting little to change in the way they work, because their 'compliance and Consumer Duty champions' are in charge of the process and would ensure everything was ready.

A paraplanner from a 50-adviser firm in London, said: *"We think we're prepared. It's a case of making tweaks."*

Other advice firms said they are suitably aware but feel unprepared for the level of complexity that compliance will bring. This is, in part, the result of a lack of clarity on how they will need to change their processes and provide evidence for their practices. This was particularly the case for appointed representatives surveyed.

There are also firms that are prepared for a complete change in their proposition. They realise there is a lot to do to achieve this but feel the gains to be made by offering a more client-centric proposition will be worthwhile.

# Defining value: aligning the adviser and client perspective

The next question that needs to be addressed is what advisers and clients consider value – and whether they agree, especially with the FCA's view of value, as the regulator will be the ultimate arbiter of this. Any mismatch in understanding here could lead to poor performance under both the Consumer Duty rules and in terms of client assistance.

The FCA said it has found that *"some firms sell products or services to consumers that are not right for them, or which don't offer fair value or provide poor customer service and support"*, which is one of the things the regulator is trying to address under this aspect of the Consumer Duty.[1] Given how fundamental getting this right is not just to compliance but to properly servicing clients, it seems relatively shocking that in 2022 the FCA found this is still happening somewhere in the retail financial service world.

Considering this, the fact that many advice firms say they are least prepared to demonstrate the price and value requirement under the Consumer Duty, suggests there is considerable difficulty in establishing objectively what amounts to 'fair' pricing of advice services.

When looking at fair value, the FCA makes clear that firms need to consider not just their own advice fees, but the 'total costs of solution' charge in combination with other charges the client will pay across the full value chain. This was a point emphasised in the FCA's recent 'Dear CEO' letter: [https://www.fca.org.uk/publication/correspondence/consumer-duty-letter-asset-management.pdf].

Resolving this issue will take some time – although standardised benchmarks would help speed this up considerably (see later in this guide) – and advisers have until July 2023 to comply with the incoming rules for new and 'open' existing products. So, in the first instance, it is vital for advisers to understand where adviser and client feelings align on what is seen as 'value' and where they differ. Yes, a big part of this comes down to 'price' and how both parties consider products and advice are priced fairly, but there is more to it than that.

[1] [https://www.fca.org.uk/publication/policy/ps22-9.pdf]

# What is fair pricing?

Consumers view a basis points (bps) charging structure to be a fair way to pay for financial advice as they feel this incentivises advisers to focus on growing their portfolio. They also feel more assured that their adviser is spending time working in the background for their best interests, as opposed to only reviewing their investments during specific chargeable hours or projects.

One 41-year-old consumer with £250,000 to £400,000 of investable assets, said: *"We pay him [the adviser] a share of our annual portfolio growth. You might only see him once or twice a year, but you know he's doing lots behind the scenes to get the best possible return."*

It works well for advisers too, and in the past this model may have allowed firms to service clients with smaller portfolios by subsidising them with fees charged to higher net worth clients. A potential risk is a widening of the advice gap as firms must now examine value delivered to each client segment individually.

In addition, if in considering a client segment, the advice firm finds that once their own charges are added to other applicable charges, a product or service no longer delivers fair value to that segment, adjustments will have to be made.

While consumers see this ongoing fee structure as a fair way to remunerate their 'always on' financial adviser, they find it difficult to objectively evaluate the value they receive.

## Adviser and consumer views on fair pricing

One adviser from a two-adviser firm in Suffolk, said:

*"There's a very well-known old saying, 'price is what you pay, value is what you get'. But value also depends on what you want…My business model is very simple. I charge 1% initial advice charge and half a percent a year ongoing servicing fee. Clients who have more money pay me more money than clients with smaller portfolios."*

*"Bigger clients tend to have more products to service… some of which you can't always access and service online, so you have to phone the provider and spend half an hour waiting for them to answer the phone before you can get a valuation. The bigger clients tend to have more complex needs more products, more discussions around inheritance tax planning, things like that. So, although they're paying me more, they're also benefiting more. I save them more on tax and they get extra services."*

A 41-year-old consumer with £250,000 to £400,000 of investable assets, said: *"I pay him a percentage fee of the overall portfolio value, I know he's making money from me making money, but I get so much else covered by what I pay him, I can call him anytime, ask questions, get the information I need to understand what's going on. It would be hard to know how you'd question the price you pay for that relative to the performance of your investment".*

Another consumer, 48, with the same amount of investable assets, added: *"They spend time understanding me…as long as they don't lose me money, then I've got a specialist looking after my finances. Financial management carries a great deal of emotional weight, so the percentage fee I pay means they are doing their best to make money (If I'm earning more, they earn more), meaning I have one less thing to worry about, unlike with an hourly or flat rate fee."*

## Alternative charging structures

Some advisers opt for charging an hourly fee, something that from the comments above, consumers find less appealing. This fee structure is largely the result of the Retail Distribution Review (RDR) rule changes implemented back in 2012, as the regulator wanted to make advice more professional, so as they moved away from commission-based advice, many advisers also shifted their charging structure.[2]

Even though this could be regarded as representing an approach closer to other professionals – it is how most solicitors, for example, tend to charge – there are many consumers that feel uncomfortable with this fee structure. They say an hourly rate charge feels at odds with their perception of their adviser as a trusted personal contact who is there whenever needed and working away in the background to keep a steady hand on their investments.

[2][https://www.fca.org.uk/news/press-releases/early-indications-reforms-financial-advice-are-working]

## Paying for ongoing support

Consumers highly value on-going support and regular communication through both formal reviews and informal check-ins, as part of the long-term relationship with their financial adviser. But there was some concern among advisers around whether clients without complex needs should be paying for on-going support.

One financial adviser from a three-adviser firm in Hertfordshire, said:

> *"We're questioning price and value all the time. For some of those clients who are getting those very bespoke services they don't need, we are questioning the value of that. But that's something we're putting to the clients. So hopefully we're [still] providing value in that we're achieving significant reductions for all of them."*

Taking away the requirement to automatically pay for certain aspects of ongoing support when it isn't needed is one way that more clients with fewer assets can be helped by advisers, and those clients with more assets can get better value. By removing the requirement to pay for ongoing services that clients with less complex requirements may not need, it can help to expand the reach of financial advice, which helps both advisers and clients. This will be possible with the proper segmentation of clients.

There is also an argument for splitting out the advice element and the implementation of the advice – such as facilitating the access to the relevant product, whether that is a managed portfolio, a pension or another type of product.

Separating out the cost of each would allow advisers to show exactly how they are charging for their time and services and allow clients to see where the value lies in the advice and implementation of that advice. It can also give advisers the freedom to offer specific services to certain clients without the need to offer them across the board.

Depending on how much detail is required at the advice stage, provider delays might still have to be factored in. For example, obtaining full details of current holdings by issuing Letters of Authority and getting providers to share data can really delay things in some instances. But if the initial stage is just between the adviser and client - and focused on goal setting, just using approximate numbers of their holdings, then advisers control this process and the charging maybe is more representative of the life planning and coaching service offered.

The question then becomes is this what the clients want, or need? Do they just want a largely product-based transaction without worrying about goal setting? By separating the charges for different aspects of the service, clients would only pay for what they need and want. This would be a clear win for the impact of the Consumer Duty in ensuring people are paying for what they need from their adviser, no more, no less.

**Action points:**

- ☐ Segmenting by client needs can help you spot where some clients could potentially be receiving services beyond the scope of their requirements or preferences.
- ☐ Can the firm do more to ensure clients are only paying for the aspects of your service that they need and want?

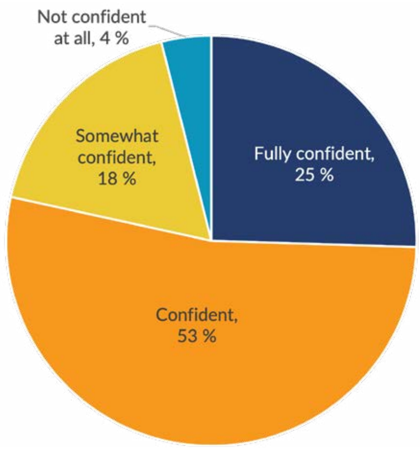
## Using data as evidence

The Consumer Duty regulations effectively replace and considerably extend the Treating Customers Fairly rules. One big change is firms will now have to provide evidence which shows firms are doing the right things and delivering good outcomes. For this, data is critical at both an individual firm and industry level.

However, there is still some work to do for the data crunching required to provide the evidence needed under the Consumer Duty to be completed in all cases. For example, only a quarter of financial advisers are fully confident that they can calculate the expected total cost the customer will pay, despite this being required for certain products by MiFID II. A further 53% are confident.

Similarly, only half of financial advisers are fully confident or confident that they can track costs incurred in delivering service to clients. This is something that the FCA has said companies may need to consider as it is an ingredient to evidencing value – to the regulator as well as clients. So, this is an area that firms need to spend time addressing to present information both internally and externally.

Figure 1: Adviser confidence to calculate the expected total cost




**Action points:**

- ☐ Is your firm making good use of the management information already available in your back office or CRM system?
- ☐ Have you identified any gaps in how your firm calculates the cost of delivering your service to clients?

# Measuring client satisfaction

Value is about much more than just price – after all, the mere existence of the adage 'you get what you pay for' proves you don't necessarily get such good service or the best product if you choose the cheapest option. The relationship between the adviser and the client is no different, but it can be hard to pin down and measure the level of satisfaction the client feels.

Advisers, for example, see providing peace of mind and navigating complexity as key factors in delivering value. But the intangible nature of these factors represents a challenge in evidencing the overall value that reassurance plays in the client relationship.

## How to demonstrate the value of trust

A managing director of a 15-adviser firm in London, said:

*"I think a lot of it is actually just peace of mind and trust. How do you demonstrate value? How do I demonstrate the value of trust? When it's such a subjective thing? It's difficult. What our clients value is that '[the adviser] is someone who I feel confident with, I trust them. They've listened to me, they've understood me. And they've built a plan that I believe in, and I believe in the people delivering that'. That's value."*

Other clients value knowing specific things from their adviser about how much money they have and what they can afford to do.

A financial planner from a two-adviser firm in Suffolk, said:

*"Some clients [just] want to know 'what have I got?' 'Can I afford to go on holiday?' 'How much have we managed to make this year in terms of profit?' They couldn't care less what I've been paid. I could double my fee and they'd probably still pay it because they want the peace of mind of knowing someone understands all this technicality."*

The benefit of expertise and the comfort that gives to clients cannot be overestimated. This is certainly one thing consumers value highly, based on the responses we have received as part of the survey.

One consumer, 58, with £400,00 to £600,000 of investable assets, said:

*"When people ask me about it, I always say that people pay decorators to decorate the house, but everyone's capable of using a paintbrush, but you're not the expert, it won't look anywhere near as smart. And that's how I see finances, I'm paying a professional to do it. So, I maximise my results. And whether the results are tiny, I'm sure there'll be no worse than if I did it myself."*

Another consumer, 34, with £250,000 to £400,000 of investable assets, takes the same view. The initial amount paid for the advice while noticeably higher, is accepted. This consumer added:

*"It comes off in a percentage. I paid quite a bit in the first year, but he assured me that growth should cover the initial fee and after that, it will be a much smaller amount. But the growth is enough that I'm not that bothered anyway."*

**Action points:**

- ☐ How frequently, and by what method(s) is client feedback currently collected?
- ☐ Does feedback represent the views of the different segments of the client bank?
- ☐ Is there a central point where feedback is collated?
- ☐ How do you follow up to ensure that client feedback is acted upon?

# Investment performance

Even though advisers recognise that emotional support and reassurance play a big role in the overall service provided, it is one of the aspects of 'value' that is very difficult to quantify. This is why investment performance is typically documented to demonstrate value to the client.

Consumers are not always sure exactly what percentage of their portfolio they are paying to their adviser, something that should be addressed as it would not be acceptable under the new Consumer Duty regulations. Nevertheless, there is an acceptance that the fee paid for the advice – whatever that is – does provide value.

A consumer, 60 years old, with £400,000 to £600,000 of investable assets, said:

*"It's not a lot of money for what they do. I think solicitors just draw everything out just to justify what kind of money they do. I think you're just a number to them, but I think with a financial adviser, you've got a bit more relationship with them. They couldn't sit with me for three hours and talk about everything on an hourly rate."*

## The problem with negative returns

The benefits of percentage fees are easy to see, and both the adviser and clients tend to be happy with this format. Until they start to see their returns fall, and especially when they make losses in a year. At this point, the idea that a client is putting money from their now reduced portfolio into an adviser's pocket can become far less appealing. This sensitivity to pricing is something advisers need to be cognisant of when markets take a turn for the worse or become more volatile, as they have in recent months.

When this happens, particularly if it is at the beginning of the advice journey, the adviser must be aware that this 'first impression' is unhelpful and they may need to make some extra effort to ensure the client feels comfortable about how hard the adviser is working for them relative to what they are paying.

One consumer, 41, with £250,000 to £400,000 of investable assets, said:

*"At first, I was shocked by the fee, and I saw negative performance and I thought, 'what am I paying for?', but my friend who has had a great success with investments, and recommended our IFA said, 'don't worry it happens with most investments'."*

# Documenting value

Documenting value with evidence to prove that advisory firms are fully complying with the Consumer Duty is not easy, but it can be done in a variety of ways. The most common cited by almost three quarters (73%) of advisers based on NextWealth's recent survey is the performance of the client's portfolio. If the client's key objective is to generate returns, then this is a demonstration of good outcomes. The high level of value attached to this is understandable, given it is a measure that has been widely used for a long time now and is also heavily benchmarked. Benchmarking presents an easy way to show that the adviser is working at a similar or higher level to their peers and one which is widely accepted by all.

However, how often advisers measure portfolio performance for their clients can vary depending on what the client needs or wants.

One technical development director from an advice firm in Hampshire with 12 advisers, said:

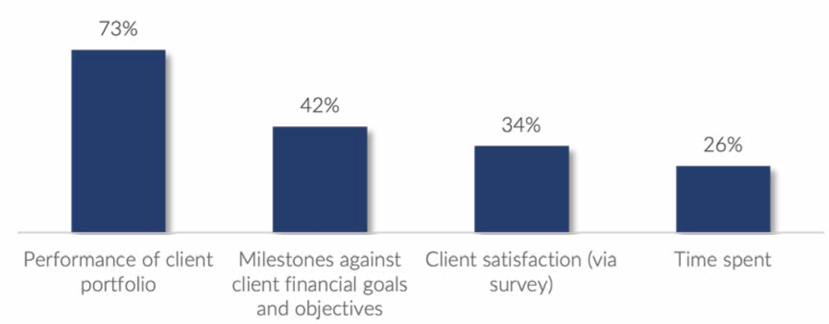
*"We offer different approaches to documenting portfolio performance. If one client wants a bespoke performance on a quarterly basis, we do that for them. We've got some clients ring us up for values on a weekly basis. So, there's lots of different little bespoke things that we do, where we're quite client focused, in that respect."*

Another way to determine performance success is by measuring milestones against client financial goals and objectives. This approach was taken by just over two in five (42%) advisers responding to the survey.

A compliance director from a 17-adviser firm in London, said:

*"We've got some clients with lots of wealth, where we didn't actually think we could do anything for them. But we did cash flow, and we showed them that they had more money than they needed over their lifetime. And that allowed them to make a decision around 'we can retire early, we can spend more, this is amazing'. So that to me is adding value."*

Figure 2: How are advice firms documenting value




**Action points:**

- ☐ What more could your firm do to articulate the value delivered to clients, particularly when portfolio performance is more volatile?
- ☐ If your firm offers goal-oriented financial planning, how are you making use of milestones as benchmarks against which to monitor performance?
- ☐ Are you clear on what those benchmarks are, and that they are set at an appropriate level?

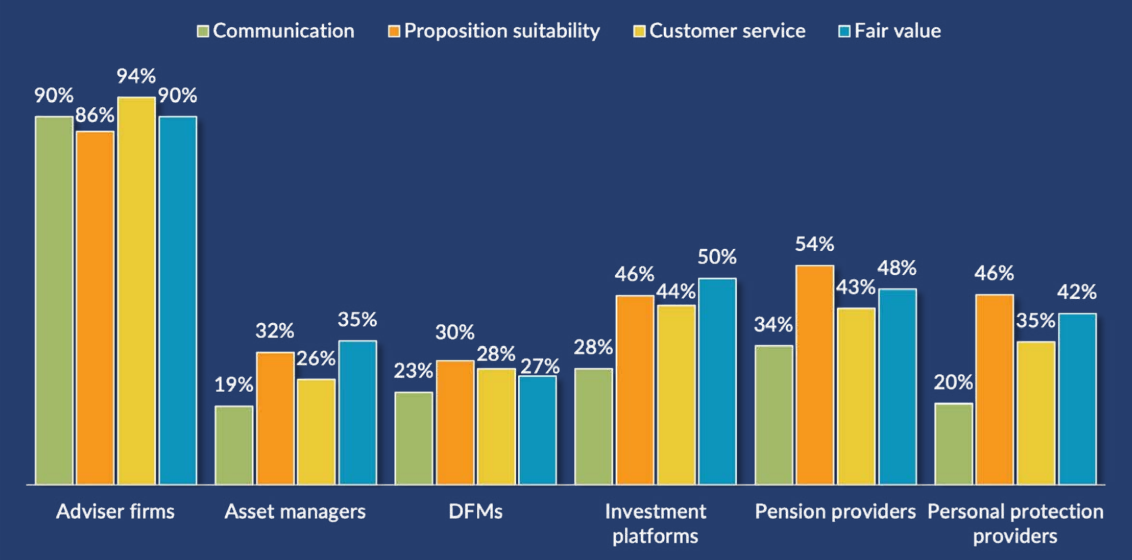
# Delivering value across the chain

Communication is a major part of the value equation [more information is to come on this in the third guide of this series], after all if you are not talking to your clients or they are not talking to you, how can you be sure they are getting any kind of value from your recommended products or service?

Client ownership is very important for advisers, so it is little surprise that almost all financial advisers believe it is primarily their responsibility to ensure communications are clear, products and services are suitable and that clients receive fair value.

However, as the Consumer Duty regulations come into force, each separate part of the supply chain will need to communicate effectively and collaborate for the good of the end client. There will need to be greater engagement between each of the partners in the supply chain to ensure that the products are created and priced at all stages to provide value to the end user.

Figure 2: Responsibility within the value chain




For now, it is clear the advisers are taking charge of the way their clients are dealt with and the kind of products they are offered. It is likely they will be the leaders when it comes to ensuring value for their clients in terms of price and treatment from providers too.

# Consumer Duty requires greater collaboration

Taking these figures at face value, one obvious concern could be that advisers feel they are the only ones in the supply chain that has any significant level of responsibility for the suitability of the proposition, communication, customer service or fair value. Given the Consumer Duty rules apply across all financial institutions, it would be hoped these views will change in the coming months. But time will tell.

To fully deliver on its objectives, the Consumer Duty will require greater collaboration between parties across the supply chain. In NextWealth's interviews, financial advisers acknowledged that while they are responsible, they will rely on others across the chain for the support they need in terms of pricing and value. As mentioned earlier, the ownership of the client relationship remaining with advisers is important, and several people commented on this as part of the survey.

A compliance director from a 15-adviser firm in London, said:

> *"At the end of the day, it's our responsibility. We're the ones presenting the information. If a platform or a provider has literature, then it's for us to interpret that literature to suit client's needs...Don't get me wrong, providers can always help they're usually the ones with the bigger marketing teams. But I don't think it's down to us to fully rely on them. I think it's up to us as a firm, to manage the process and present the information with our own tone of voice to clients."*

## What can platforms and providers do to help?

Two key requests from advice firms for an improvement in the support they receive from providers are faster turnarounds and clearer, more easily comparable product costs. One response highlighted the difficulties presented to advisers by poor admin from providers, which is an area the regulator may need to take action on.

Others are keen to see a better layout for platform charges information, and for a standardisation of key information presented across a variety of products so they are easier to compare.

One financial adviser added:

> *"Platforms could state the costs of each fund next to the current valuation and the value of that fund at the last valuation – all to be totalled at the bottom with the platform fee and the adviser charge added, thereby giving a complete breakdown of costs and a view of the progress of the portfolio."*

Another adviser would also like to see them *"provide information across all products in the same format so it makes it far easier to compare costs".*

## Evaluating outsourced partners

However, advisers may also need to consider how many DFMs, for example, they work with and what charges are imposed by them on their end clients. The detail in this survey shows that advisers don't feel asset managers and DFMs have the same approach to clients as advisers do, so it will become more important for the adviser to filter out service and charges that they feel are not appropriate for the client to pay.

## Value assessments

The value assessments that fund managers will need to give to those distributing their products before April 30, 2023 will offer additional insight into the charges that clients will face from providers, which will also help advisers segment their charging structures more clearly.

The Assessment of Value was implemented by the FCA in September 2019, as a way for firms to improve the outcome for investors, something which advisers are already used to using to measure value against a set of criteria, including fund performance, economies of scale, and comparable market rates offered by external fund managers.

The requirement for all manufacturers to provide the outcome of value assessments including all charges will extend this concept more widely.

By having such detailed information about the charges imposed, it may also help advisers determine which providers to continue working with for the longer term, as well as what their own charges can be. This will help them to improve their offering. After all, knowledge is power.

### Action points:

- ☐ Do you have the inputs your firm needs to calculate "total costs of solution" charges for your clients, combining your fees with the other charges they will pay to ensure the products and services still deliver fair value?
- ☐ The services delivered by outsourced partners and the costs associated with those need to be regularly assessed. What framework does your firm have in place for evaluating outsourced partners?
- ☐ Can improvements be made in how you collate pricing information from your platforms and providers?

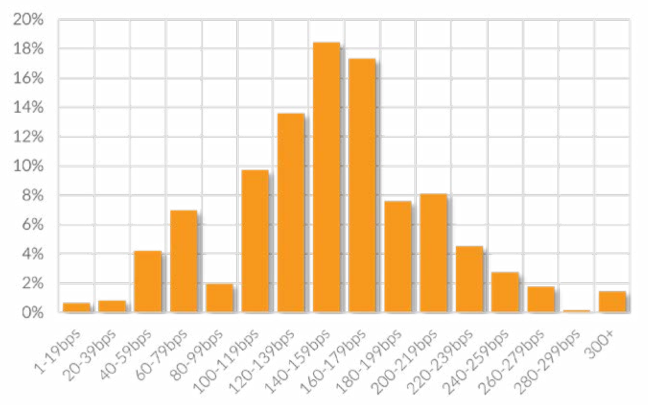
# Benchmarking advice fees

To provide guidance as to whether advisers are charging competitively and, more importantly, fairly for their services, NextWealth has begun creating industry benchmarks for costs to help improve the visibility of charges. More collaboration in future will help establish where different adviser charges - and other charges in the supply chain - sit relative to competitors.

As a starting point, NextWealth asked financial advice professionals the average fees clients pay for on-going advice, funds, portfolio management and the platform as a starting point for benchmarking these fees. This data is self-reported from 605 financial professionals. This is important as only 9% are fully confident they are able to benchmark fees and charges, which is why the work done by NextWealth in providing benchmarking data is so important.

It offers the initial research to allow advisers to understand where their fees come in the wider market and allows advisers to identify where other service providers – such as platforms and DFMs – are overcharging relative to their peers. The likelihood is that further research will need to be done, but this provides the perfect platform for this to be developed over time.

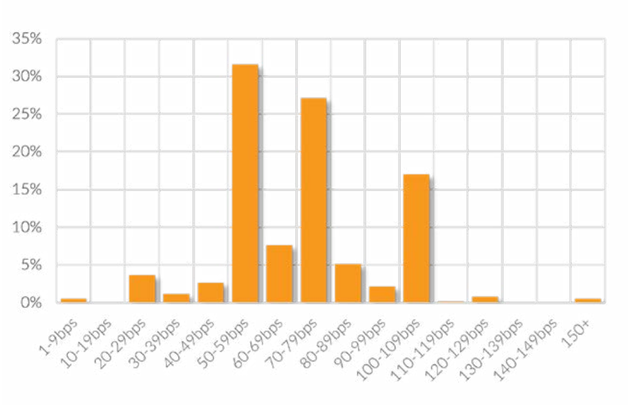
Figure 3: Total fees, including advice, funds, portfolio management and platform




Most overall charges land in the area between 140 and 179 bps – in fact, 36% of clients pay fees within this band. Nearly one in five (19%) pay more than 200bps and 13% pay less than 80bps. So, the range of fees charged is very wide.

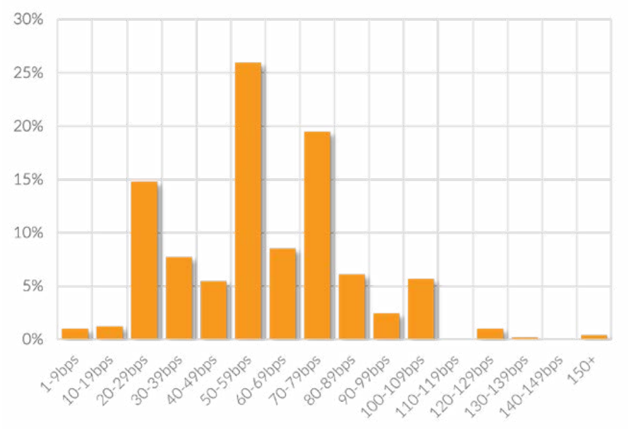
These charts show the fees overall, for on-going advice, fund management (including transaction charges) DFMs, and the platform. We think these types of external benchmarks will be critical to supporting financial advisers in creating their own assessment of value.

Figure 4: On-going advice charges



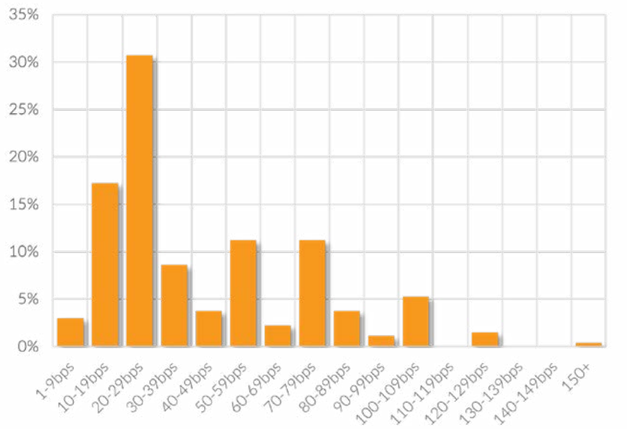

When it comes to ongoing advice charges, there are three distinct peaks at 50-59bps, 70-79bps and 100-109bps. The average paid across all regions is 68bps, but the figures vary considerably by region. In previous research, we have noticed some clear regional differences. Clients using advisers in London pay an average of 80bps, while clients using advisers in the north west of England and in Northern Ireland pay 60bps on average. Again, this creates a broad range of fees, which in future must be justified under the Consumer Duty rules.

Figure 5: Fund management fees



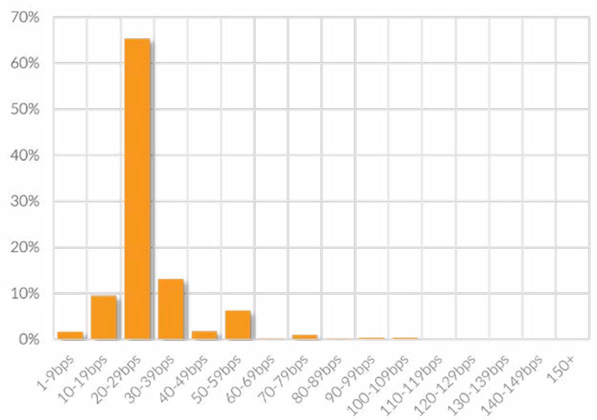

For fund management fees, including transaction fees, once again there are three main clusters – 20-29bps, 50-59bps and 70-79bps.

Figure 6: Portfolio management and platform fees




Fees for financial advisers that charge for portfolio management, both bespoke discretionary, or managed portfolio services (MPSs), are clustered under 30bps, which tallies with NextWealth's ongoing analysis of Discretionary MPSs. Some vertically integrated firms charge higher MPS fees, the smaller more expensive clusters upwards of 70bps are likely representative of bespoke discretionary offerings.

Figure 7: Platform Fees




Platform fees should be among the most competitive – financial advisers negotiate hard on behalf of clients and several consultants publish rate card comparisons. Platform fees cluster in a single peak between 20 and 29bps, representing some degree of competition in this space.

However, the importance that will be attached to fair value under the Consumer Duty legislation is making some advisers reconsider aspects of their proposition. A representative of an asset management firm at NextWealth's event reminded the audience that the exercise of producing an assessment of value has forced focus, even if the individual reports aren't widely read.

This sentiment was echoed in interviews with financial advisers. One compliance manager at a 50-adviser firm, Nationwide, said:

*"Even though customers and advisers often don't read these [assessment of fair value] documents, the process of undertaking the assessment forces a focus and brings attention to the question of 'value' within the firm. The process of reviewing this ensures that service and fee-models, as part of the overall proposition, remain suitable to the end client and their needs."*

A managing director of a 15-adviser firm in London, added:

*"It will allow us to have a framework to rethink how we're giving advice and segment clients around service proposition. At the minute we run one proposition that fits all, but I think there's a good opportunity now to say, 'is that right'? Should we be running one or two or three different propositions?*

*"How do we charge our clients for different propositions? Is it fair? Can you represent value from how do we demonstrate value? It's about saying although we intuitively know that we're doing a lot of this stuff, how do you actually evidence it? So, I see it as a really good way to bring forward probably a load of projects we would try to get to in the next two or three years and just go 'right, we need to do this now'."*

The Consumer Duty has pulled into sharper focus the need to appraise charging structures and make fees more reflective of the complexity and level of service required by clients. We expect to see more firms segmenting their clients by criteria other than assets and designing tiered pricing structures to suit different target client propositions.

These pricing structures may take a 'cap and collar' approach, with both a minimum fee for a client segment as well as a cap on total fees. But as mentioned earlier one potential risk is a widening of the advice gap as firms examine whether they can commercially serve certain client segments at a cost which still delivers fair value.

**Action points:**

- ☐ Have you undertaken a benchmarking exercise to understand how your total advice fees compare with peer group firms?

## Conclusion

The approach to fair pricing and value is something many advisers will feel they have pinned down already.

But others have a lot more work to do to meet the standards expected from the new Consumer Duty.

Given the complexities of measuring value, calculating total fees, and getting precise about the costs involved in delivering service to clients, it's no surprise that only one in five advisers felt fully prepared to meet the new requirements at the time of our survey.

As one of our interviewees commented, *"we're questioning price and value all the time"*. That's an approach that will move the industry towards better outcomes. This won't be a one-time exercise. And it's not just an internal conversation. As the same adviser mentioned, *"that's something we're putting to clients"*.

Data is increasingly key for advice businesses. Consumer Duty demands that firms sharpen up how they collect and use data about their business and clients, including properly interacting with the data they already have. Better data and more understanding of clients and their full financial picture and needs and aspirations will help businesses work more effectively with the clients they have, and to look after more of those clients' assets. And that can only be a positive move for advice businesses and their clients.

Similarly, the new rules require more collaboration and openness across the value chain. Not only will this help advice firms piece together and compare total costs across products, but it should foster greater engagement in creating, delivering and pricing solutions that benefit the end client.

Advisers are valued by their clients; often at a much deeper level than some other comparable professional service providers. That requires a more nuanced way of measuring value than pure numerical performance data, particularly when markets hit turbulent times and portfolio values decline just as the potential value that advisers can deliver becomes so much more important.

We hope the insights shared and questions posed in this first guide provide some points for discussion at your firm. In our second and third guides in this series, we'll be looking more at how advice firms describe their services to clients and how they measure and monitor outcomes.

## About Aegon

In the UK Aegon is a leading provider of pensions, investments and protection. Our purpose is to help our nearly four million customers achieve a lifetime of financial security.

Aegon's roots go back more than 175 years – to the first half of the nineteenth century. Since then, Aegon has grown into an international company, with businesses in the Americas, Europe and Asia. Today, Aegon is one of the world's largest financial services organisations, providing life insurance, pensions and asset management.

Contact Susan.McDonald@aegon.co.uk for media enquiries. For more information visit aegon.co.uk/consumer-duty.

## About NextWealth

NextWealth is a research, data and consulting business helping firms to adapt and thrive amid disruption. Our customers are platforms, asset managers, technology companies and financial-advice businesses.

We publish syndicated research reports and industry metrics, perform bespoke services and host public events and private roundtables.

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The NextWealth Directory lists and reviews all of the tech providers supporting financial advice businesses. It is free to use and already has over 1,400 reviews from people working in financial planning firms. From back office systems to cash flow modelling – we publish ratings and reviews.  Read a review. Leave a review. nextwealthdirectory.co.uk.

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