This document is intended for investment professionals and eligible counterparties only.

WEBINAR Q&A SUMMARY

What the Ongoing Services Review Means for Advice Firms.

Monday April 29th

Contents

Expert Insights: What the Ongoing Services Review Means for Advice Firms

with Michael Lawrence, Christian Markwick & Ash Weston.

Webinar Review:

Thanks to those of you who joined us on the webinar where we discussed all things OSR.

Here is a quick reminder of the main points; for those unable to make it, feel free to check out the recording or read the main pointers below.

CLICK HERE TO WATCH ON DEMAND

The OSR is proving genuinely sand-shifting for the financial services industry, and it's crucial to stay au fait (even though the majority is common sense!).

So, where do we start? What are the main topics to take away from the webinar?

Importance of ongoing service reviews

As a wise man once said, if you haven't been doing regular service reviews, what have you been doing? Joking aside, it's important not to let this slip and ensure everything is noted in the client's file.

Client data and record-keeping

You can bet your bottom dollar that the regulator will dig deep into client data and record-keeping and pull you up on even the smallest anomalies. It's probably time to look at new technology and perhaps the assistance of AI?

The role of compliance and adviser support

Historically politely described as a relationship similar to cats and dogs, it's all change for compliance and advisers today. Compliance should be your first port of call with any issues, queries, or suggestions, and they also offer a degree of protection from the regulator.

Consumer Duty implications

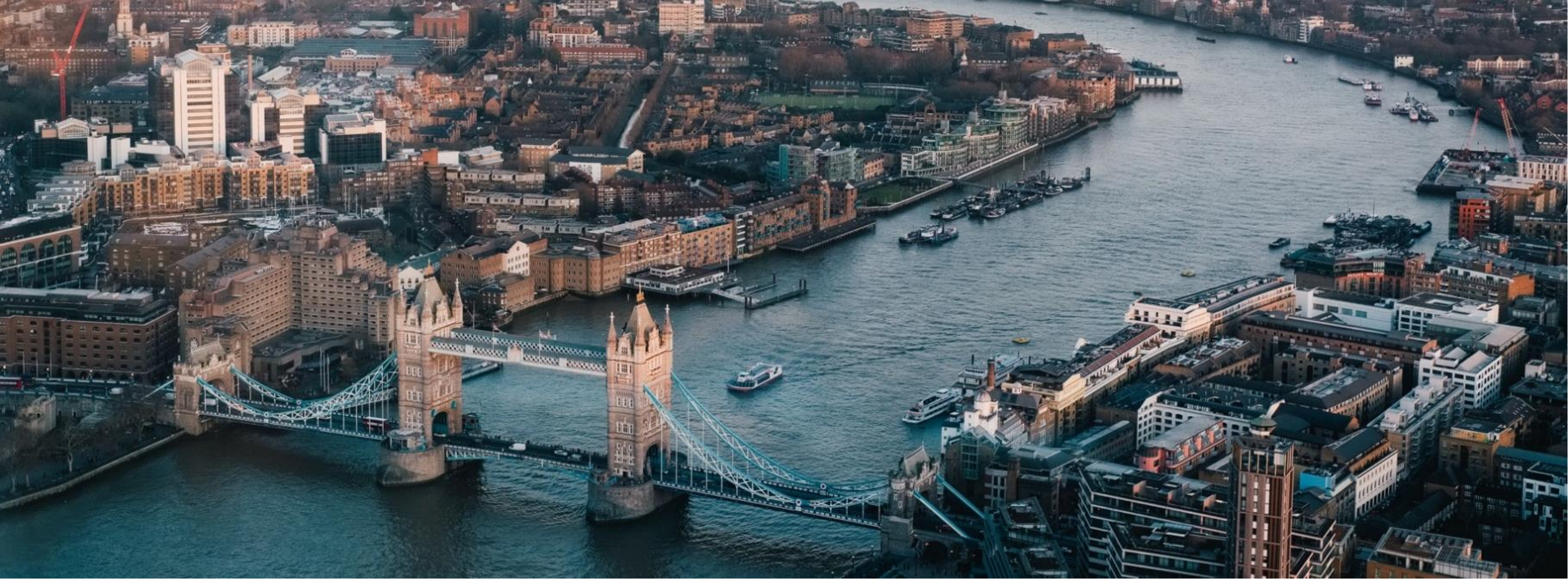
Similar to the importance of ongoing service reviews, if you're not advising in a client's best interests, focusing on fairness and the quality of advice, what are you doing? While a little tongue in cheek, you get the idea, it may be time to double-down on this area.

Impact of fee structures on fair value

Is it fair to suggest that most clients were happy with your existing fee structure before the regulator's enhanced interest? If they made a complaint, you addressed it and made the relevant changes. Is this a case of the regulator complaining in the name of people who don't want to complain?

Client segmentation and service appropriateness

Using the correct service model, in simpler terms, reflecting the client's risk/reward profile, your advice must match the client's financial goals. One note of caution here: clients will only give you the right answers if you constantly ask the right questions. Their risk/reward profile may be changing in their heads, but did they remember to tell you? Does your process remind you to ask them?



Periodic suitability reviews and client changes

Is it not the role of an adviser to review a client's investment portfolio and long-term approach to personal finances? Clients can and do regularly change their minds, refocusing efforts in a specific direction, but whether this is always appropriate and in their best interests is a different matter.

Technological integration in service delivery

In a word, 'technology'. Maybe that's a little too simplistic. There is undoubtedly scope to enhance the use of technology behind the scenes, covering some of the more mundane tasks and leaving more client-facing time. It's essential to find a balance between integrating technology and creating a non-human face for your business. Old style technology tends to be siloed and where systems can't talk to each other or share data, you get inefficiency and suboptimal outcomes.

Regulatory focus on client outcomes

The older among us will be aware of the self-regulatory environment of the 1980s, which wasn't perfect but certainly seemed to act in the client's interest. There is obviously a need to maintain high standards of practice, but is there a danger of moving to never-ending tick-box exercises at the expense of client relationships?

WEBINAR Q&A

Question 1:

How do you put a price on peace of mind?

If your client wants your ongoing service, arguably they value it.
Does that demonstrate fair value?

Christian Markwick answers:

“There is a fundamental difference between an ongoing service and a client having peace of mind. Your service proposition should be linked to the clients’ needs and, in my mind, based on the complexity of their needs.

So, if a client’s financial needs are fairly simple and all the client needs is peace of mind, then they are likely to need a lighter touch service from you and as such, should pay less than a client with complex needs, who needs lots of your time and efforts to meet those needs”.

Michael Lawrence answers:

“I think it’s important for firms to think about what the phrase ‘peace of mind’ means in reality.

Because if that peace of mind comes from knowing that a skilled professional will assess their needs and objectives, recommend a solution to meet them, and then review whether that remains suitable on an ongoing basis (as well as making changes where necessary), then those are clear benefits that can considered as part of the value assessment”.

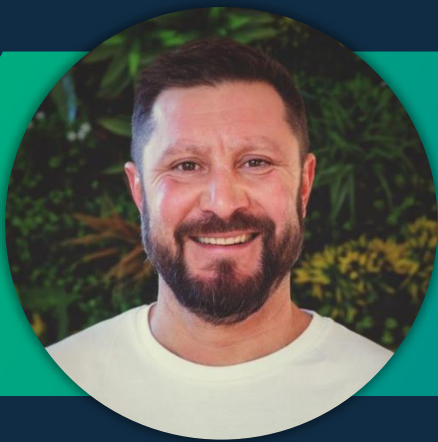
As long as firms’ services are delivering genuine benefits tailored to client needs, at a price that relates to the activity that’s undertaken, then they should be in a good position.

Question 2:

I appreciate that 0.50% on a small amount in real terms justifies the cost of the work, and 1.00% of a large amount may not be justified by additional "work" required.

Is the FCA going to drill down to the pounds and pence charged rather than the headline of rate of the percentage of assets?

Christian Markwick answers:



"Michael can probably answer this better than I can, but here is my take!!

I would expect the FCA at some point to scrutinise the amount a client physically pays vs a percentage as its impossible to understand what they are paying and getting from a headline percentage of assets fee.

How far they go with this will likely depend on their findings when looking at the approach firms have taken as part of the OSR and their ongoing supervision".

Michael Lawrence answers:

"I'm not aware of any current FCA plans to mandate how firms charge and so there's continuing flexibility for firms to determine how they set their charges, whether that's fixed fees, hourly rates, percentages of assets under advice or a combination thereof.

But what the FCA is expecting under the Consumer Duty is for firms to review the relationship between what clients end up paying relative to what they're getting in return and consider if that's reasonable.

That's why many firms with percentage-based charging models have implemented features like tiered charging and minimum/maximum fees to try and maintain a better 'fit' between the price and the benefits of their services".

Question 3:

What process/method for transferring clients who are all on a standard service to a different range of services would you suggest and over what time period is reasonable?

Michael Lawrence answers:

"The process firms take to moving clients between services should be informed by the results of their Consumer Duty assessments.

If firms have identified that clients could be suffering harm from the solution they're in currently – such as total fees undermining the purpose of the advice (a so-called 'self-defeating transaction') or clients paying for a service that delivers minimal benefits to them - then I think the FCA would expect this to be dealt with on a timely basis.

But if there's no clear, immediate client harm and it's more of a question about whether the existing service is the most appropriate then assessing this at the next annual review (i.e. in the next 12 months) should be justifiable."

Christian Markwick answers:

"We've been talking to firms about creating a proposition they are truly proud of, then assessing how much work is required to align their current clients to this proposition.

Moving clients up or down (fee and service) isn't going to happen overnight and we've seen many adopt an approach to have this completed as part of the client's next annual review meeting, and potentially over an 18-24 month period if difficult conversations need to be had (so over the next 2 reviews for a small percentage of their clients).

Question 4:

The recent changes to pensions legislation (on the lump sum allowance and lump sum death benefits) have surely shown that all pension clients need ongoing service in some capacity?

How can we quantify this particular aspect of our work (continually reviewing legislation etc) that may or not need any direct action for that client, but does cause a large amount of work and application of expertise from advisers?

Christian Markwick answers:

"There are some fundamentals that all clients should expect to receive from their adviser/planner, one of which is changes to regulation and legislation and how those affect them personally.

This may well be outside of the financial planning conversations you're having with them, but if you're receiving an ongoing fee from a client and carrying out a periodic review, then you need to ensure that fee is going to cover any work like this, which will never stop!

This is one of the reasons firms have really had to work hard to understand their base cost of advice (new and ongoing) to ensure they are being paid sufficiently for all the work that they have to do for a client on an ongoing basis".

Michael Lawrence answers:

"As Christian has said, one of the significant benefits of ongoing advice is the ability of advisers to ensure their recommended solution remains suitable for client needs.

Taking account of changes to regulation and legislation, as well as other important factors like investment performance and client circumstances, is a key part of this.

Some of this activity will apply to all clients and some will be specific to certain groups, so firms should hopefully be able to reflect it in their charging model".

Question 5:

What would you suggest with respect to clients with simple needs but who are very time consuming, requiring lots of access to the adviser and ongoing reassurance?

Michael Lawrence answers:

“I don’t see an issue with firms basing their charging model on a number of factors, including both the complexity of client need and the level of service they require.

Many firms already do this based upon the number of touchpoints they have with clients over a certain period.

But it is important that firms make sure the services they offer can deliver genuine benefits to clients once the fees are taken into account.

And it’s also important for them to make sure that clients end up in the right service and are paying the right fees relative to their needs.

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Christian Markwick answers:

“A client’s level of complexity could be linked to both their literal financial complexities or the level of care needed to reassure them.

I don’t think it’s unreasonable for a firm to set out the touch points a client will get from them over the course of the year and if the client wants or needs more than this, that they charge accordingly”.

Question 6:

We have a level 5 service where we just send out a valuation to the client on an annual basis and we charge 0.50%.

We have been told that this should be classed as an "admin" level of service and we shouldn't be charging an OAC for this.

However, in the background we provide an annual report to the client with the valuation which includes a newsletter about us and the markets.

We also in the background monitor the ongoing suitability of funds held by the client through 1/4 investment committee meetings and the client has a retainer status where they can contact us for any financial queries or requests as they wish.

Do you think this is fair value?

Christian Markwick answers:

"Is this and investment management fee or a financial advice/planning fee?

If investment management, then it's likely to be meeting the needs of the client, if however, this is for a periodic suitability assessment of the client's current arrangements v's their ongoing needs, I don't believe it does.

I'd be expecting to see some form of review of their current circumstances (updated FF, risk profile, objectives, are they on target to meet their goals) for this to be classed as a 'ongoing review' and to justify an ongoing fee.

I'd also want to know what the 0.50% actually costs, because fair value is subjective and we may all agree that for example £500 for this service is fair value but £5,000 isn't, but either way, from the limited info I have, I don't believe this would meet the periodic suitability assessment requirements".

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Question 6 cont..

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Do you think this is fair value?

Michael Lawrence answers:

“The FCA has emphasised the need for firms to make sure that they provide a ‘genuine’ ongoing service in its past thematic work.

As part of this, it queried whether administrative duties linked to the initial advice, maintenance of client records and being ‘at the end of the phone if needed’ met this test and highlighted the risk of clients being treated unfairly (see thematic review 14/21) .

So, I think firms need to tread carefully here, especially given the heightened requirements under the Consumer Duty.

There are a few questions firms can ask themselves to help assess this:

(1) do the activities that I’m carrying out add genuine value for my clients,
(2) can I evidence this, and
(3) are the fees I’m levying for this reasonable?

A good test for the last question is to look at the relationship between the ‘cost to serve’ and the fee being charged”.

Question 7:

Why can’t we do suitability reviews over 2/3 years where clients are below minimum feasible- they still need looking after just can't always afford an annual review?

Christian Markwick answers:

“In short, MIFID II.

Since 2018 there has been the need to carry out a periodic suitability assessment at least on an annual basis, where you have committed to and receive an ongoing fee for a review.

If you don’t believe the client needs or can afford an annual review, why offer one?

The client could be reviewed every 2/3 years, and you charge for each review as it happens.

If the client isn’t happy to pay for this when offered, I’d suggest they are not seeing value in the service being offered.

Or can your ongoing service be carried out more efficiently.

You don’t need to physically ‘see’ a client.

Could the review be carried out online, with the client having updated their FF, ATR etc and if there is a need to ‘see’ them.

You’re required to review their circumstances and ensure you’re comfortable that their current arrangements are fit for purpose.

If nothing in the updated data you are reviewing has changed, then this could be a simple ‘review, no change’ review and letter to the client.

Conclusion

Those who dismiss the ongoing services review do so at their peril, but in theory, most of the questions and queries raised by the FCA should be straightforward. Overall, the regulator is requesting (or should it be said 'demanding'?) a more formal, structured approach to what most advisers have been doing for years.

As we've seen in the press, failing to dot the I's and cross the T's could lead to unwelcome headlines and significant financial penalties.

We'll see you at our next webinar, another important tick-box in your professional development and CPD.

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