NEXTWEALTH

Regulatory disruption of UK retail wealth management

Prepared by NextWealth for Momentum 2023

Regulatory and legislative disruption have had a bigger impact on the UK wealth market than technology, customer behaviour and competitive pressure

Learning objectives

- Describe the UK Consumer Duty regulation
- Understand impact of the regulatory change on UK wealth management
- Explain early impact of the Consumer Duty
- Project potential future implications
- Consider the impacts of similar regulatory change in your own market

Retail Distribution Review
2012

Pension Freedoms
2015

MiFID II
2018

Consumer Duty
2023

Retail Distribution Review
2012

Improve transparency and objectivity of financial advice

Pension Freedoms
2015

MiFID II
2018

Consumer Duty
2023

RDR – 10 years on

Then: Pre-RDR	Now: Post-RDR
Financial advisers	
41k	28k
Paid product commission	Paid on-going fee for advice
All in cost c2%	All in cost 1.75%
Minimum level 3	Minimum level 4, 20% of firms Chartered

RDR – 10 years on

Then: Pre-RDR	Now: Post-RDR	Unintended consequences
	Financial advisers	
41k	28k	Advice gap
Paid product commission	Paid on-going fee for advice	M&A and PE investment
All in cost c2%	All in cost 1.75%	Fees unchanged
Minimum level 3	Minimum level 4, 20% of firms Chartered	

RDR – 10 years on

Then: Pre-RDR	Now: Post-RDR	Unintended consequences
	Financial advisers	
41k	28k	Advice gap
Paid product commission	Paid on-going fee for advice	M&A and PE investment
All in cost c2%	All in cost 1.75%	Fees down slightly
Minimum level 3	Minimum level 4, 20% of firms Chartered	
	Platforms	
Product centric	Tax wrapper centric	
Paid by product providers to list funds	Clients pay a fee (c24bps)	
	Investment solution	
Single strategy funds	Multi-asset funds and model portfolios	

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"No one will have to buy an annuity"
Chancellor George Osborne

Fee disclosures
Service for on-going fee
Suitability requirement
Performance reporting
Call recording

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Chancellor George Osborne

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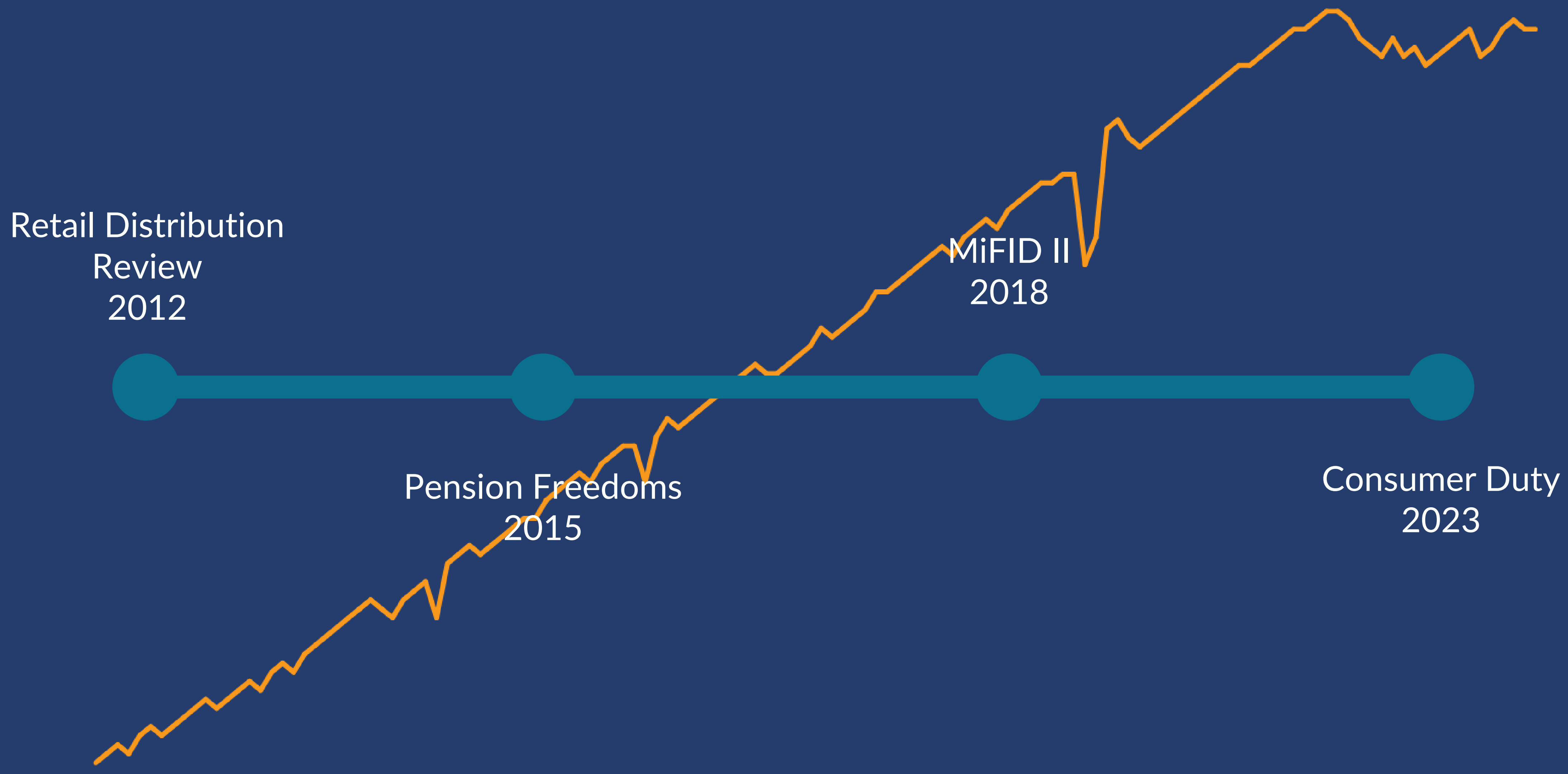
Consumer Duty
2023


Retail Distribution Review 2012
Pension Freedoms 2015
MiFID II 2018
Consumer Duty 2023

FINANCIAL CONDUCT AUTHORITY

Consumer Duty

Our new Duty sets higher and clearer standard of consumer protection across financial services, and requires firms to put their customers' needs first

- Cross-cutting rules
- Rules relating to four outcomes

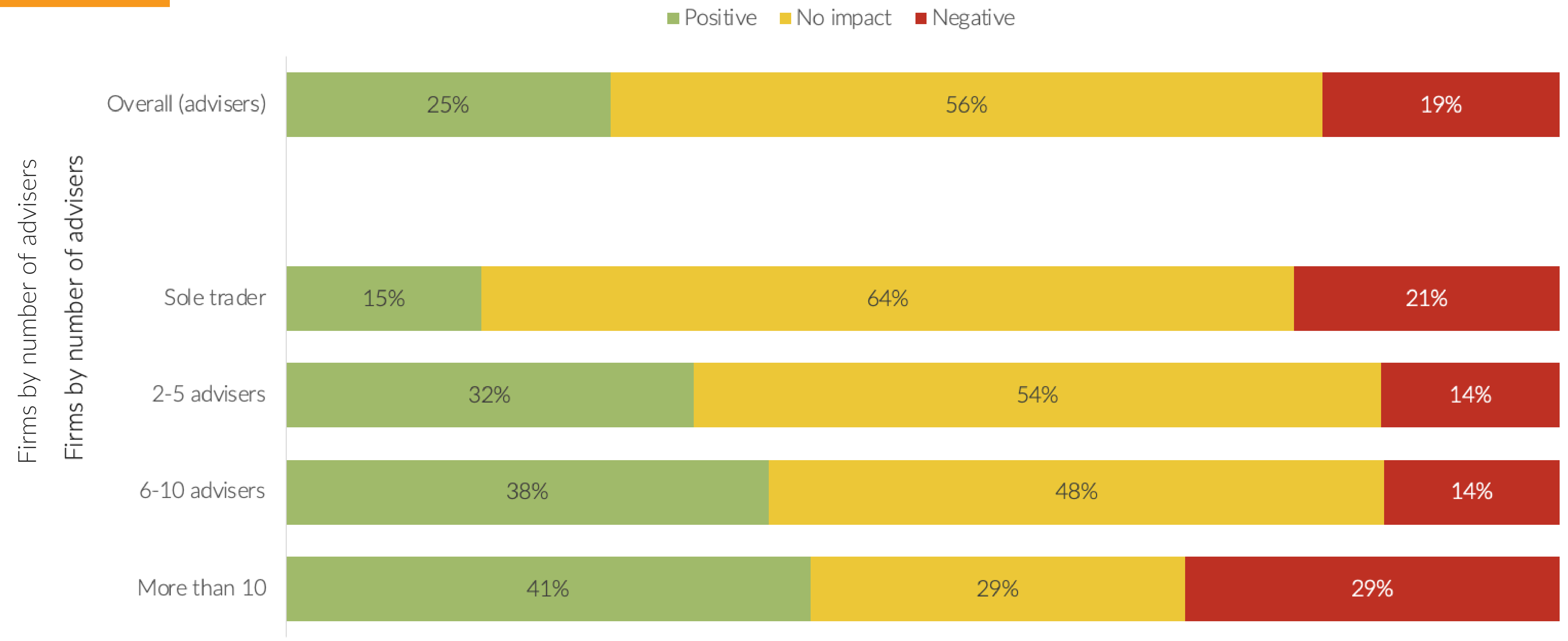
Consumer Duty

Products and services	Price and value
Consumer understanding	Consumer support

Consumer Duty: Early impact

Anticipated Impact of Consumer Duty
56% expected NO impact

BEFORE



Data from survey of 327 advisers conducted in August, 2022
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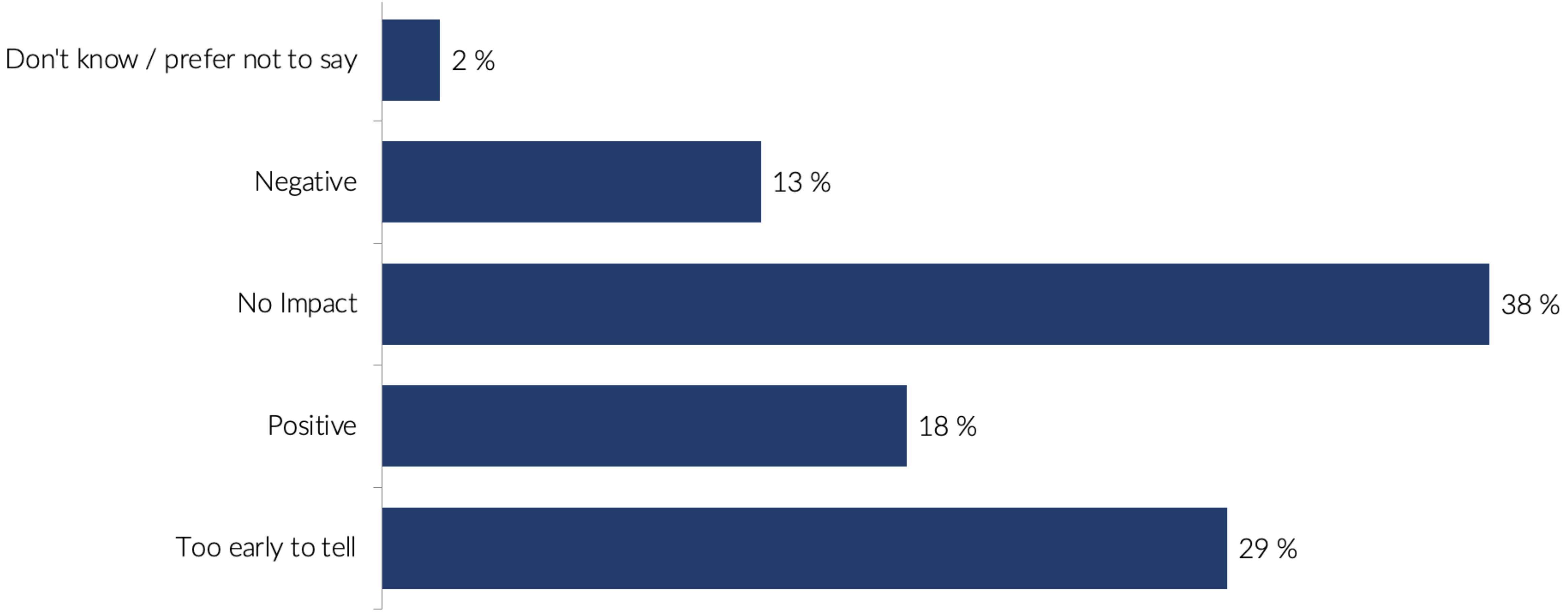
Impact of Consumer Duty so far
38% NO Impact, 54% if remove ‘too early to tell’

AFTER



Biggest business challenges

AFTER

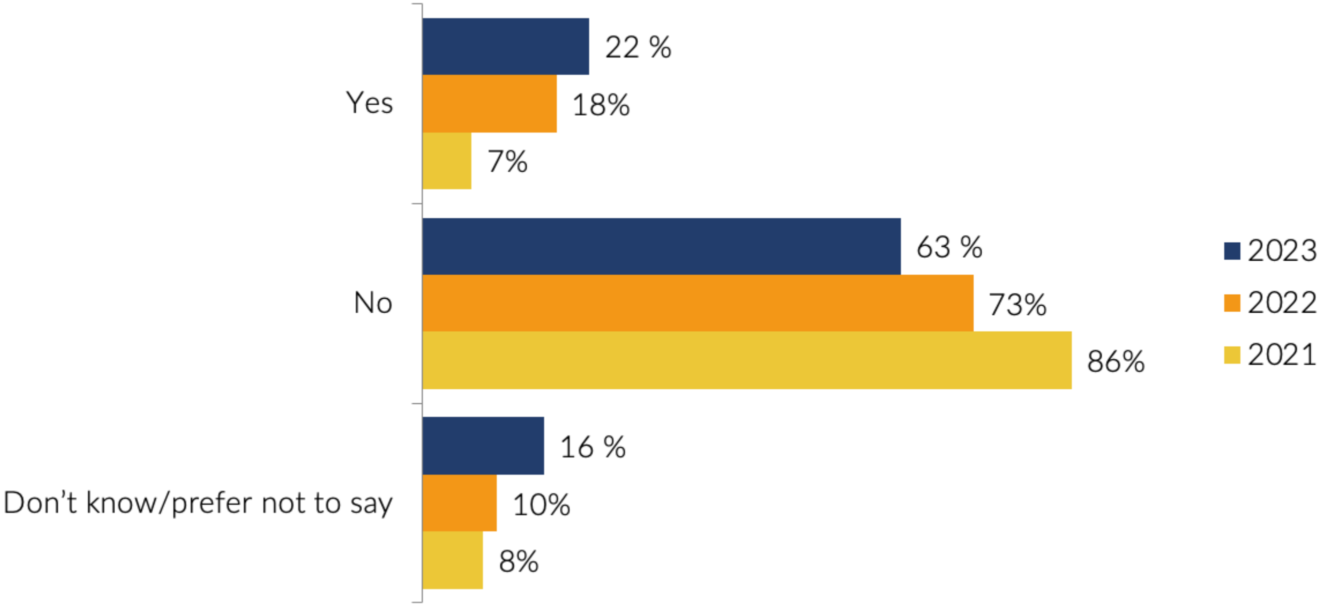
3/4

of advisers say Consumer Duty is biggest business challenge

Data from survey of 327 advisers conducted in August, 2022

Consumer Duty Impact: Fees and charges

In light of the FCA's focus on fees and the value of advice, is your firm currently exploring any different fee models?

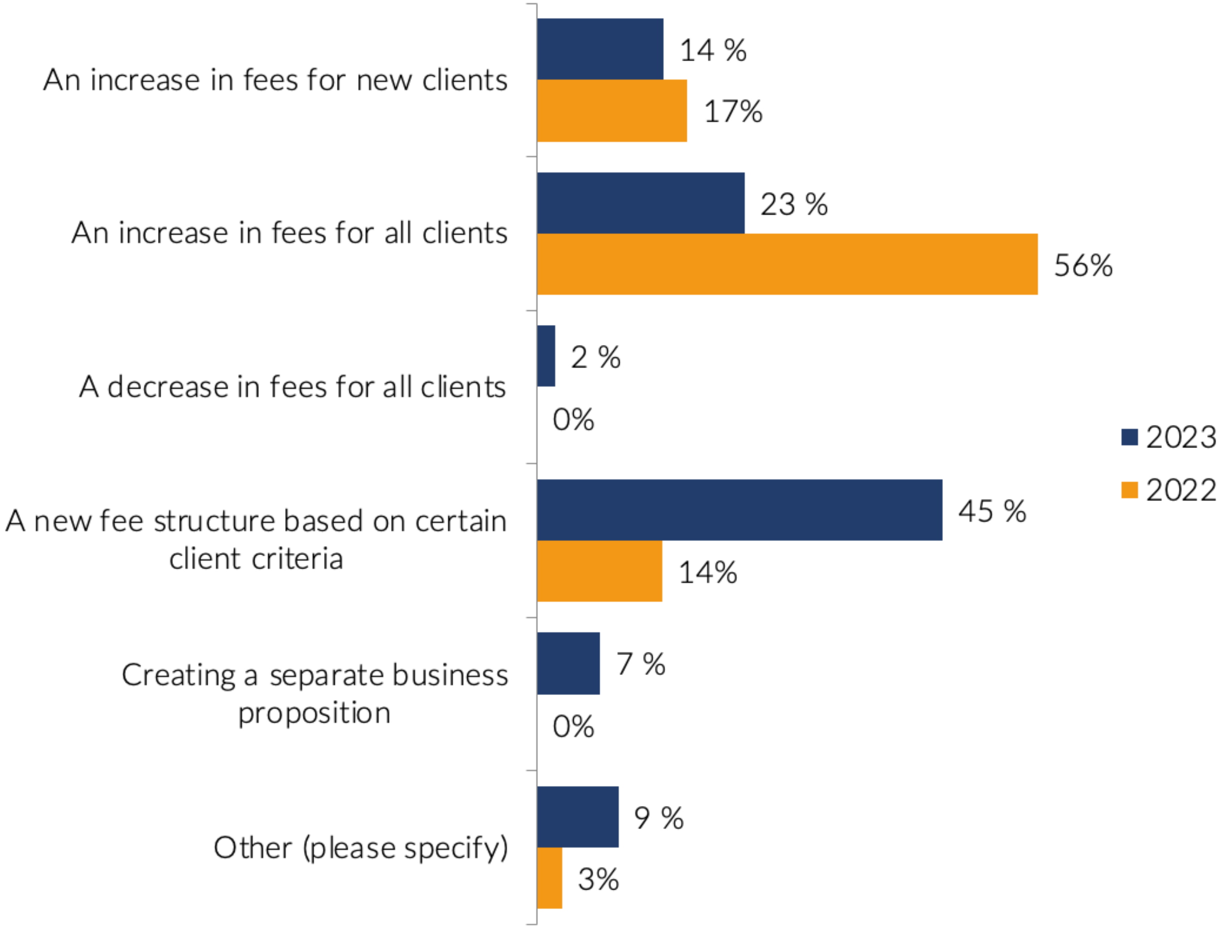


There is an increasing amount of advisers reporting that their firm is examining fees year-on-year

Fixed fees are cleaner…easier for clients to understand. Business owners, for example, who have used solicitors and accountants for a long time, who typically do fixed fee stuff or hourly rate [understand it]. And particularly as I'm working with ultra-high net worths, it might just be cleaner."

We definitely have a greater lens on fixed fee charging. because it's clearer to the client. What they're being charged for the advice and more importantly, what they're getting for that charge. You can demonstrate it far more clearly."

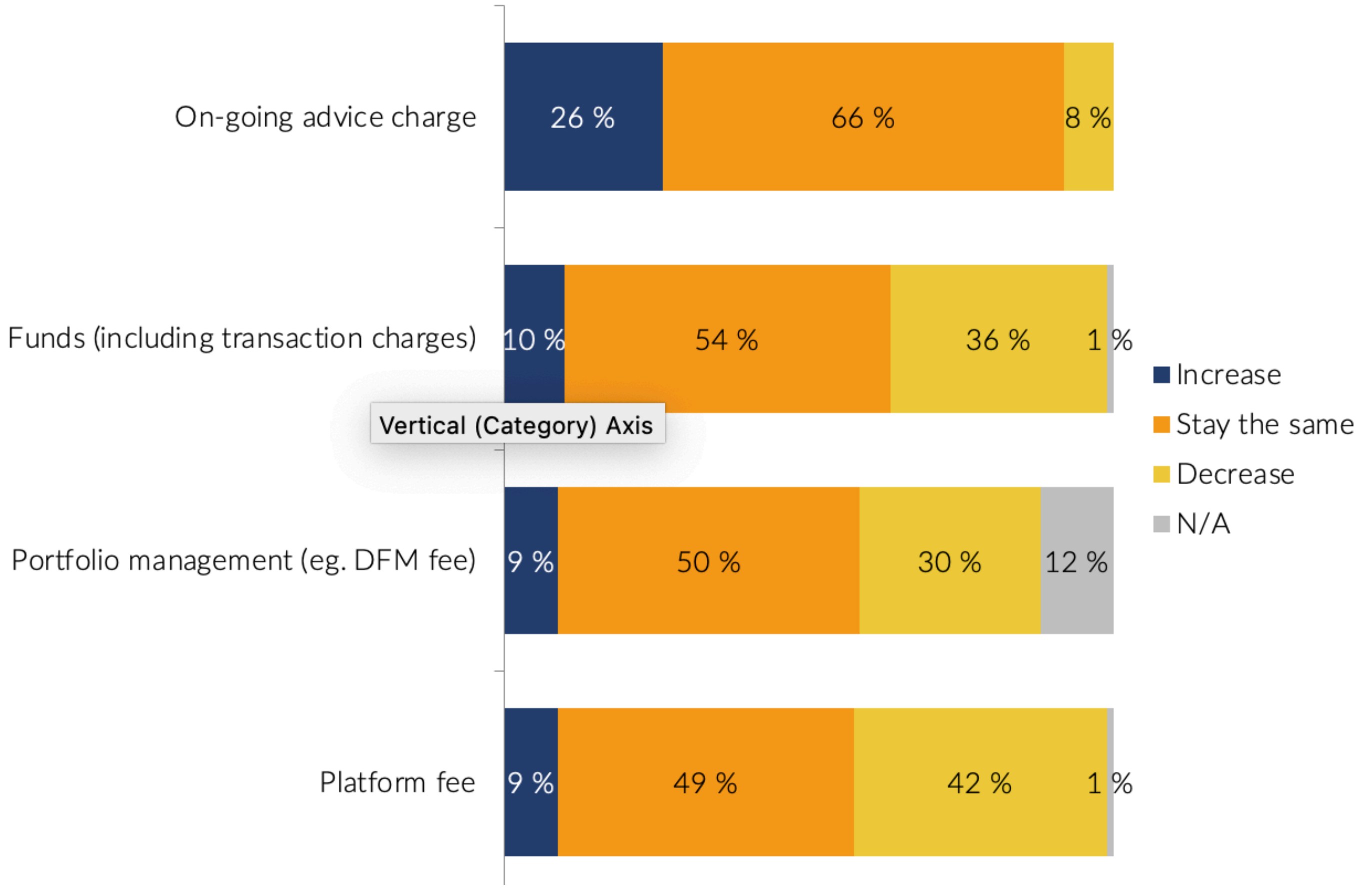
You have stated that your firm is currently exploring different fee models. Which of the following is this most likely to involve?



Before: Increase fees
After: New fee structure for certain clients

"We've moved away from ad valorem percentage base charging, [because, for example], we might have a client who's got a million pounds, but it might be in a pension, that they're not doing anything with, it could just be sat there, because it's the inheritance pot, you know, they they're drawing off other assets that, well, if we're charging 1%, on that 10 grand a year, to do an annual review, there's no way on earth that I can justify charging a client 10,000 pounds for a two hour annual review meeting. That's absolutely ludicrous…We don't believe that, just because clients want more assets, means that necessarily goes hand in hand with more complexity and therefore, more cost."

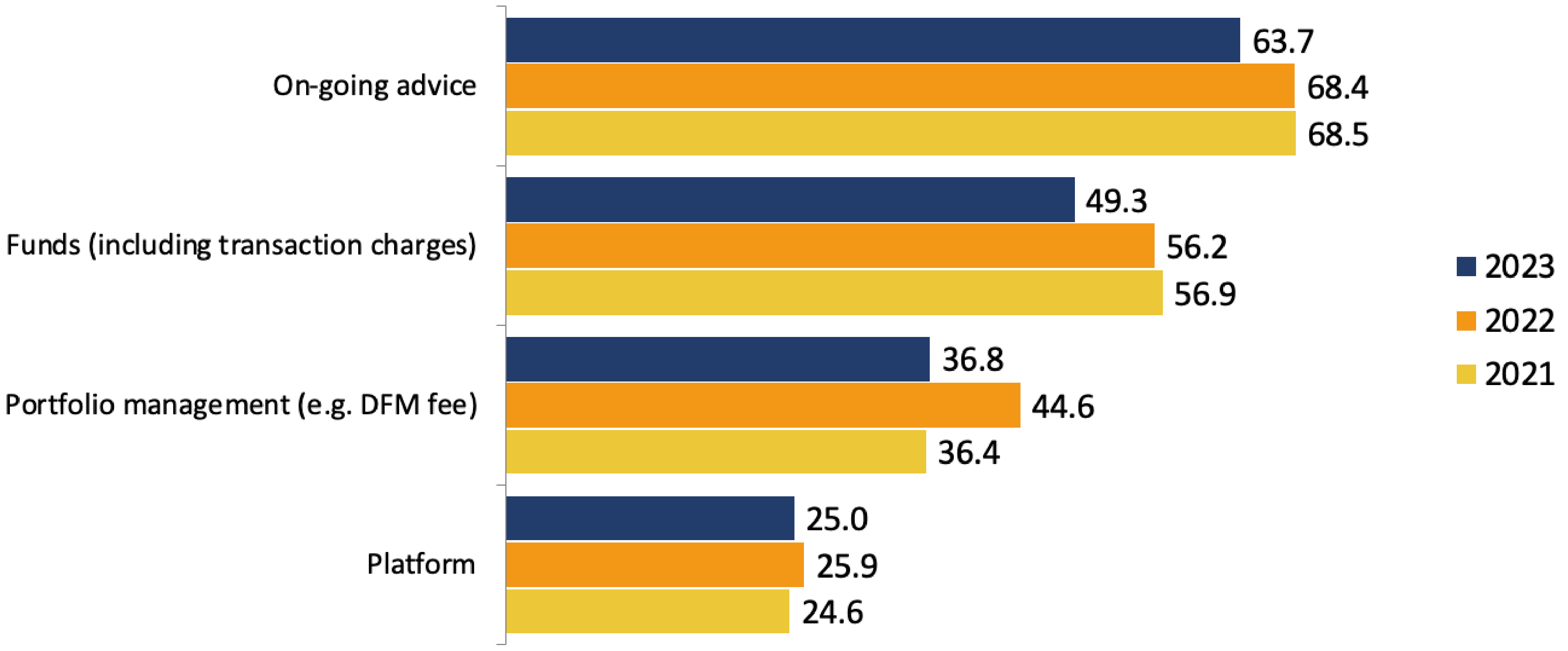
Looking ahead three years, do you expect the fees that your clients pay for the following components to change?



Advisers expect their fees to remain unchanged

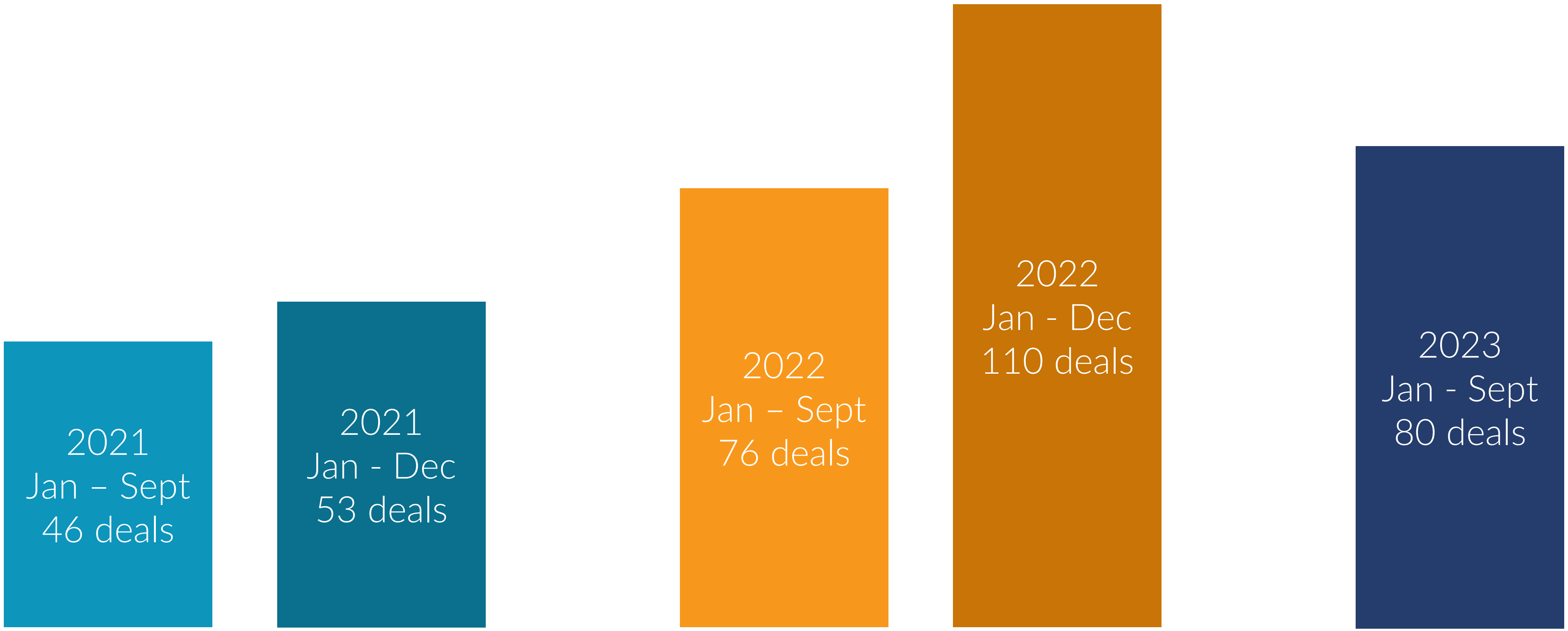
What I'm doing is moving clients off platforms into bespoke portfolios because I don't think the platforms have been that great. You're paying a fee for a platform and actually when you drill down performance has not been that great....And the administration is not great."

Fee comparison YoY



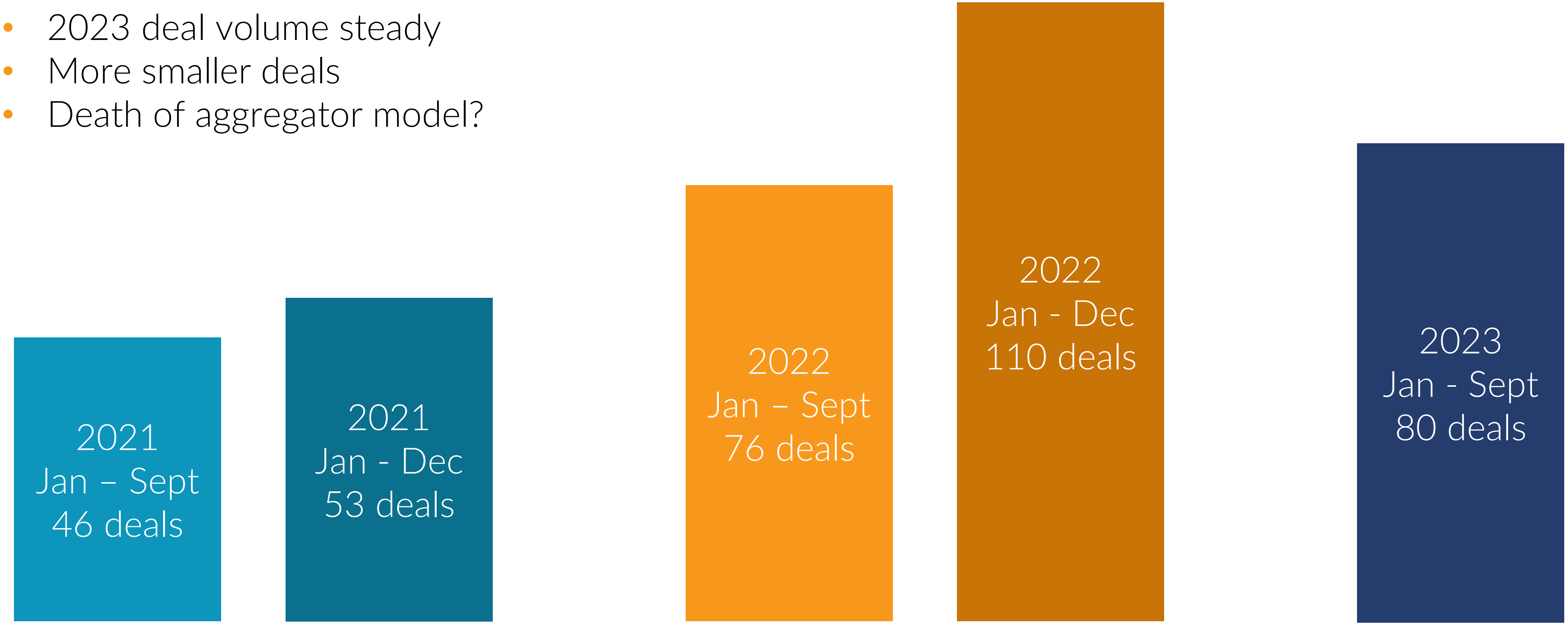
Consumer Duty Impact: Consolidation and Aggregation

Deal volume: Announced acquisitions of financial advice businesses

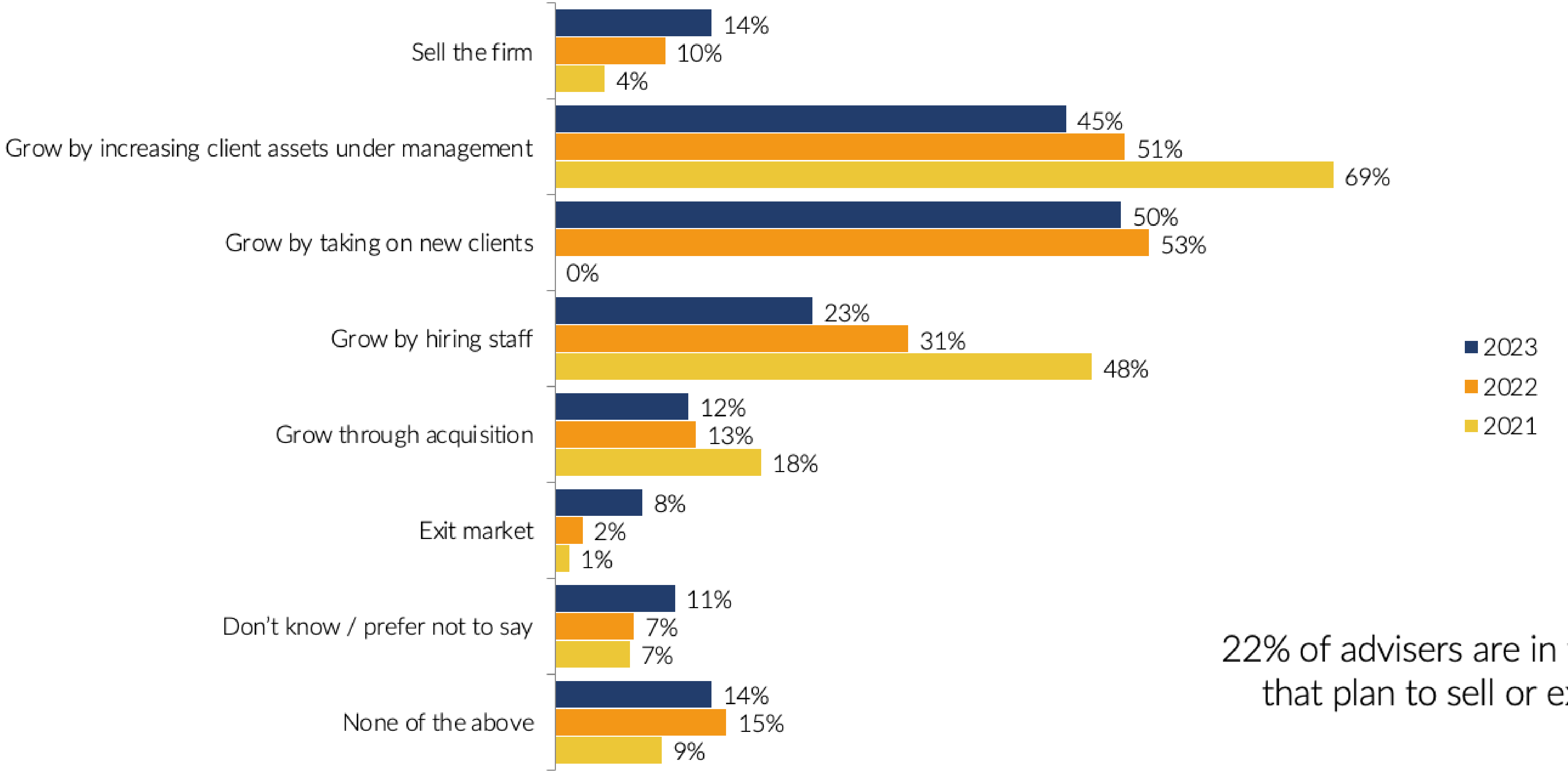


Deal volume: Announced acquisitions of financial advice businesses

- 2023 deal volume steady
- More smaller deals
- Death of aggregator model?



Over the next 18 months, does your firm intend to do any of the following?



22% of advisers are in firms that plan to sell or exit

Death of aggregator model?

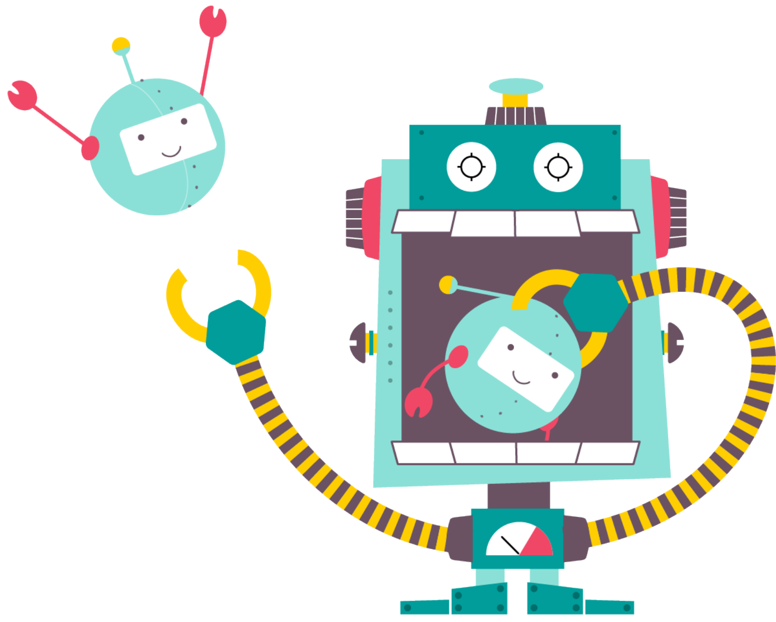
Consolidation:
Intention for client assets to be moved to the acquirer's platform and investment solution post-acquisition. Attractive downstream buy-out option for financial advisers looking to retire or exit the market.

Aggregation:
Acquirer buys firm to support growth – geographic, size, etc. They allow the adviser to remain independent and support acquired advice firms to grow under the banner of the acquiring firm.

"The cost of servicing our debt has increased from about 1% to 11%. We need to make the numbers work."

"We spent a six figure sum on Consumer Duty. We need to recover that cost and it won't all come from advice charges – it can't."

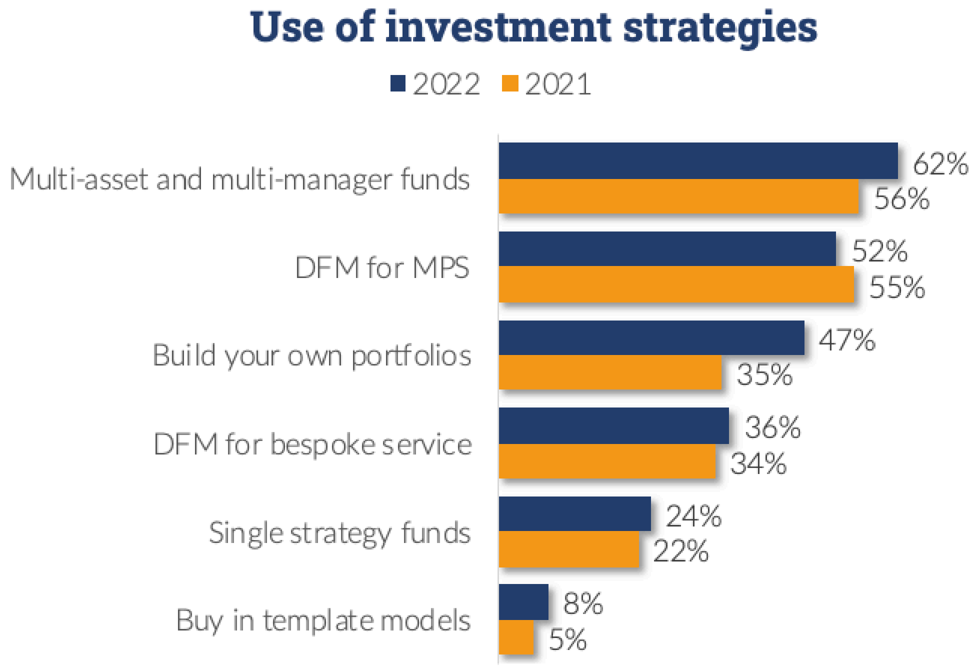
"We are going to need everyone to stick closer to our CIP. We just can't do the due diligence and reporting outside our known universe."

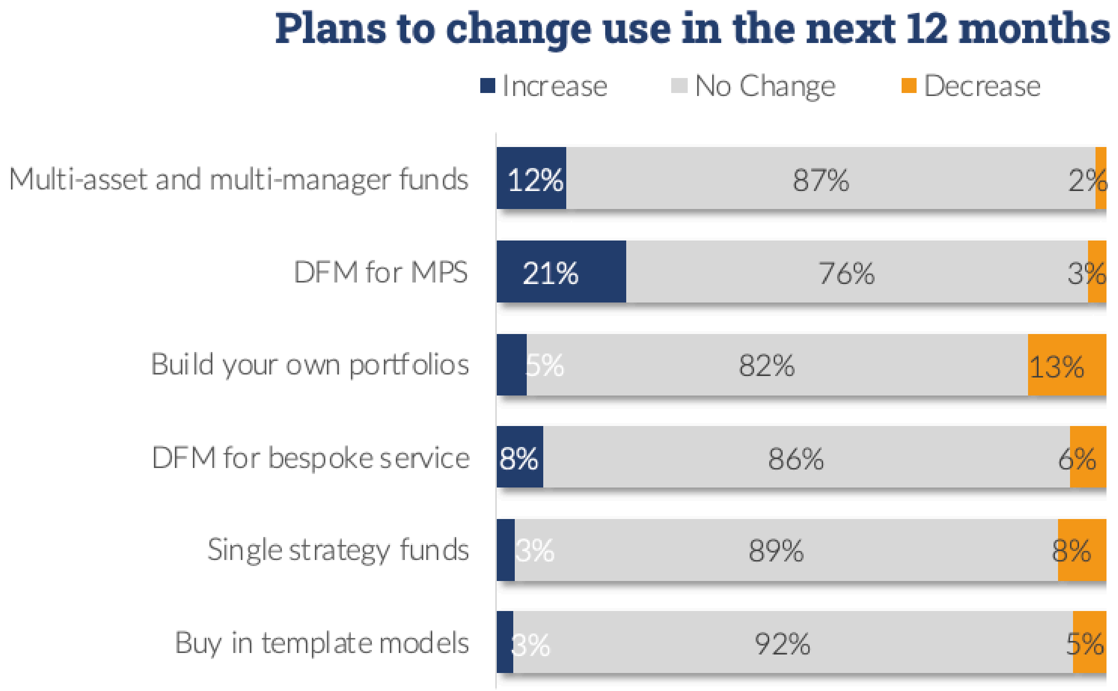


Consumer Duty Impact: Product

Continued shift to investment solutions

- Half (52%) use discretionary MPS and 21% expect to increase use in the next 12 months.
- They also use multi-asset funds for new client money and, to a lesser extend, build your own portfolios.
- We expect to see a continued shift from adviser models to discretionary MPS. We were therefore not surprised that 13% of advisers expect to decrease use of building your own portfolios.



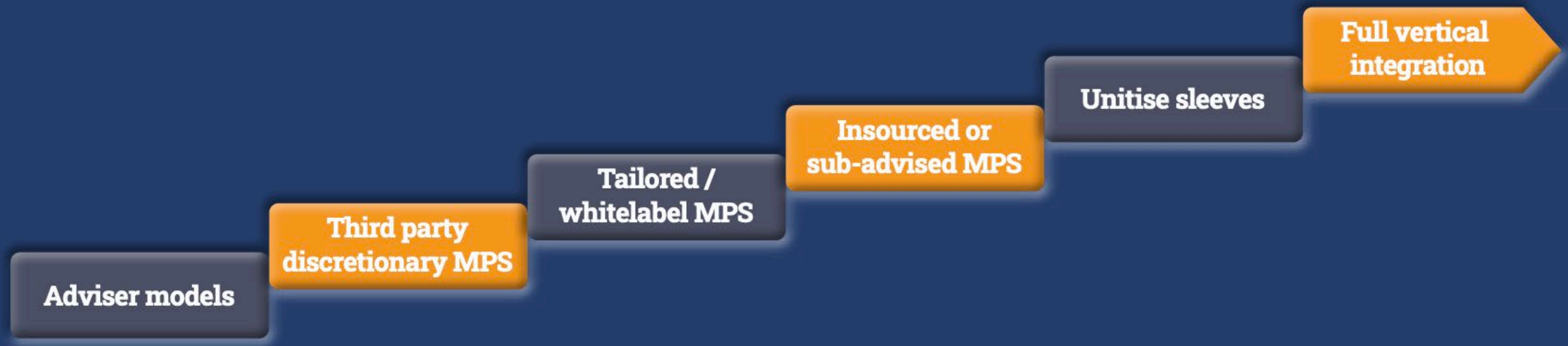


Shrinking number of DFM partners

Year	Average Number of DFMs Used
2022	2.2
2021	2.4
2020	2.5

- Financial advisers are shrinking the number of investment partners they work with.
- They are looking for deeper, strategic partnerships.
- We are seeing a rise in adoption of tailored models.

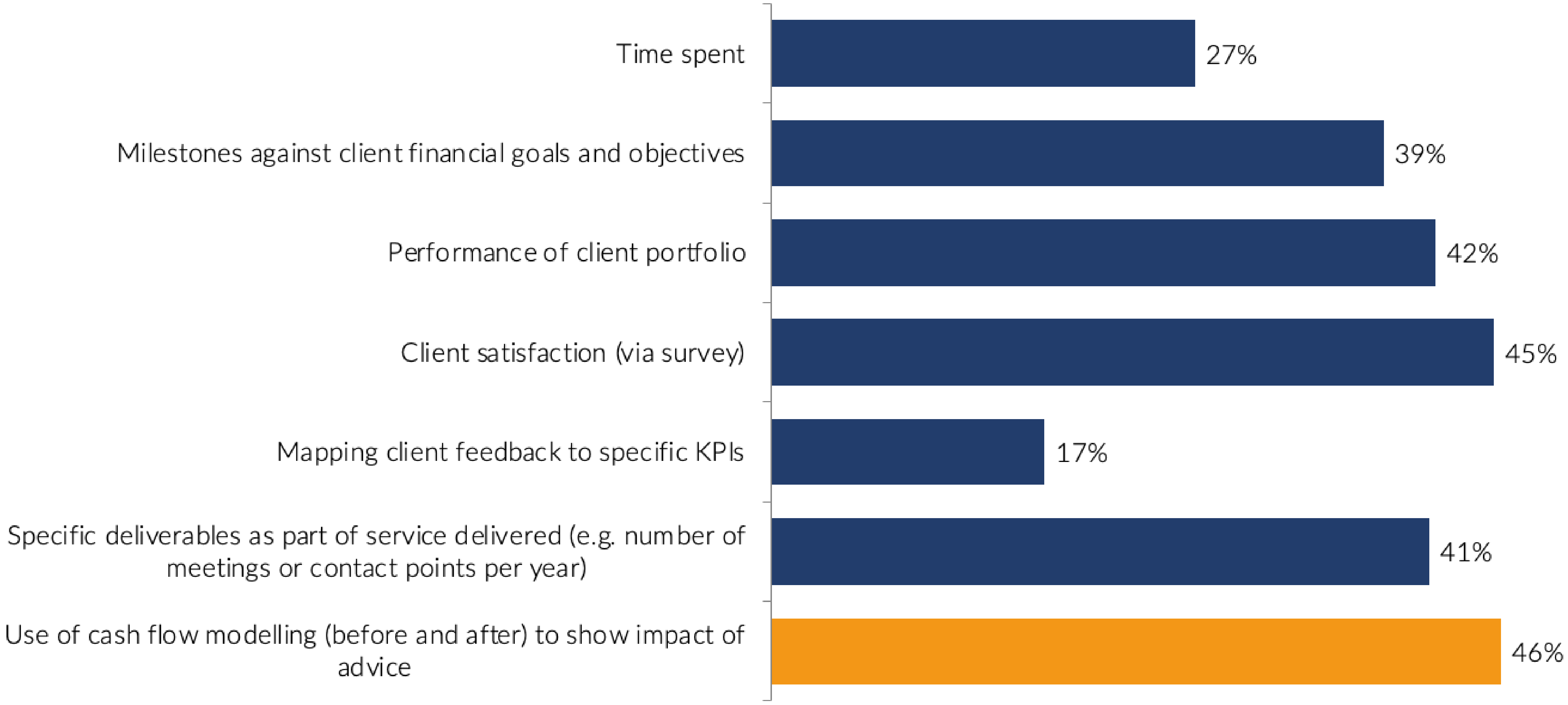
More integrated partnerships with solution partners



Source: NextWealth MPS Proposition Comparison Report 2022

Consumer Duty Impact: Process

Which, if any, of the following criteria does your firm utilise to demonstrate the value of advice delivered?



Evidence value

72% of financial advisers use cashflow modelling

Evidence value

"When we think about value it's the whole client experience from communications, onboarding, understanding of recommendations, cash flow modelling. Just cash flow modelling on its own, I don't think is a particular determinant of value, but it helps us -it's a big jigsaw of things."

Director, large firm with integrated asset management, pensions, wealth management and tech, £1.2bn AUM

"It is central to our proposition - that cash flow modelling piece. It was before Consumer Duty and will remain so because it does give them that visual, it is interactive, and it is something you can come back to each annual planning review or if their circumstances change."

Financial planner, 3 adviser firm, AR

… and prevent foreseeable harm

"We've had a few clients that joined our firm in the past five years who haven't seen much growth and are now seeing 5% plus rates on cash. Cashflow modelling and risk profiling help us navigate those difficult conversations to help clients stay invested."

Director, 12 adviser firm

Consumer Duty Impact:

Greater adoption and reliance on cashflow modelling

Products and services

Shrink number of partners

Reduce number of partners

Price and value

Client costs remain c2%

Emergence of new fee models

Cost pressure on providers

Consumer understanding

Cashflow modelling – show not tell

Consumer support

TBC

Unintended consequences

More small firms to retire/ sell

Greater financing pressures on acquirers

Widening of advice gap

Providers opening back books

Large providers exploring hybrid advice

NEXTWEALTH

Q&A

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