a meeting of MINDS

ADVISORY DISTRIBUTORS

XXV

Tuesday 26 June 2018 – Pennyhill Park Hotel,
London Road, Bagshot, Surrey GU19 5EU

THE FINDINGS

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1. SUMMARY

The twenty-fifth Meeting of Minds Advisory Distributors took place on Tuesday 26 June at Pennyhill Park, Surrey. This document summarises the key issues raised in the topics discussed during the roundtables that took place on the day.

A Meeting of Minds Advisory Distributors is a biannual strategic forum organised by Owen James. It is an opportunity for some 60 plus CEOs/Managing Directors - who are responsible for setting the business strategy of their organisations - and CIOs/Heads of Investment - who set the overarching investment strategy for the organisation, to come together with product and service providers keen to engage with them on a strategic level. These Meetings provide a neutral environment where they can examine industry issues, opportunities and develop business strategies to address them.

Participants enjoy access to strategic insight, active involvement in shaping the industry and networking at the highest level.

The day is a blend of roundtable sessions addressing a pre-researched and pre-agreed agenda with open discussion led by objective and professional moderators; keynotes provided by external speakers whose remit is to spark debate and encourage fresh and original thinking; plus substantial networking both structured and unstructured.

To find out more about taking part, please contact Emily Landless at Owen James: emilylandless@owenjamesgroup.com or you can contact her on 01483 862 698.

2. THIS REPORT

The Roundtable sessions were facilitated by:

- *Neil Baines-Thomas,* ***Venture Development Solutions Ltd***
- *Rod Bryson,* ***Capgemini Consulting***
- *John Chapman,* ***Owen James***
- *Colette Dunn,* ***Milliman UK***
- *Martyn Laverick*, ***Soprano Consulting***
- *Paul Miles,* ***Silverbacks Consulting***
- *Roderic Rennison,* ***Rennison Consulting***
- *Brod Whiting*, ***JoynedUp Ltd***

We are very grateful for the time and energy they have expended on making A Meeting of Minds Advisory Distributors a success and hope you will consider this report an interesting, thought-provoking and accessible read. As ever your feedback is much appreciated.

We would also like to thank the independent experts who were part of the sessions for sharing their knowledge and giving us their time and energy both in the run up to this Meeting and on the day.

3. THE SPONSORS

We would like to thank our sponsors who made the Meeting of Minds possible. The following companies took part and their motivation for doing so is threefold:

- To be, and be seen as being, supportive of the industry;
- To understand the stresses and strains being placed on financial advisory firms and, where possible, respond to them;
- To talk openly with these business leaders with a view to ensuring that their businesses are strategically aligned

4. THE ROUNDTABLE WRITE UPS

Vertical Integration

Expert: Keith Hare, Benchmark Capital

Facilitator: Neil Baines-Thomas, Venture Development Solutions Ltd

Headlines:

- Understanding what is important in the value chain.
- What points are most at risk?
- Vertical integration. Do you need to do it?
- Pricing models.

Key challenges:

- Dealing with the potential conflicts of interest if you are fully vertically integrated.
- Understanding how being vertically integrated impacts their customer outcomes. The biggest risk taker in a vertically integrated model is the client.
- Platform fees - clients don't really understand but they still pay a fee which you could argue benefits the adviser.
- Evolving as an industry. Financial advice cannot be regarded as a profession it is so sparsely spread. IFAs may do ok as individuals but collectively this isn't sustainable.
- Industry is starved of new blood.

Conclusions and solutions:

- Vertical integration is not the "be-all & end all" for a firm. You can still offer a non-vertically integrated model effectively.
- Vertical integrators are trying to take control of the operations and commoditising advice.
- Platforms are the "weak link" in the chain and should be questioned.
- DFMs are also under pressure but at least they have a relationship, albeit less than the adviser.
- The acquisition of Intelliflo sent a shockwave across the industry.
- Communication with clients is key to justifying fees. Firms must have a strong belief in their proposition and have no issues explaining their value in relation to fees.
- Technology is a must to offer an integrated solution- to get people through the pipeline quickly. Participants discussed LEBC (not present in this session) who is using technology well to deal with thousands of retirement advice cases every month. Easy to scale as it's a group of people with the same needs.
- Cashflow modelling has to keep developing.

The Future of Advice in the UK

Expert: James Verner & Sophie Andrews-Legg Mason

Facilitator: Neil Baines-Thomas, Venture Development Solutions Ltd

Headlines:

- The value of advice is and will remain a critical factor. If you cannot add value there will be questions about the sustainability.
- There is/will be an increased focus on technology in the next two years. Fintech market already very crowded.
- The economics of an organisation will play a big part.

Key challenges:

- In an increasingly digital world the value of advice still needs to be demonstrated but how do you do so when clients perceive some of the job is being done by an app!
- The capital requirements to address the increasing demand/need for its solutions.
- The latest clients will require a hybrid of tech and client facing interaction.
- The market sees the likes of Amazon and Virgin entering the market. They are brands the clients already trust.
- Open Banking - friend or foe? Will depend on how the banks act on it. Will they risk their brand and clients' trust?

Conclusions and solutions:

- A cultural change is required in firms to adapt. Advisers need to stop being so protective of their clients. A GP has no issue when referring their patients to the right expert for assessment and then recover the relationship for ongoing care. Advisers should be more open to doing what's best for the client.
- Advisers need to be flexible and multi-tasking.
- Client's trust is paramount. Most searched by clients on internet "Who is Nutmeg and can I trust them?"
- There will be a requirement to continue to justify on-going fees. Could the Australian financial concierge model work in the UK? Reducing the adviser time?
- Clients shouldn't be presented with just the best option. They need to see all the work that has been done for them.
- It is all about consistency of service. No matter how you deal with them, be it face to face, robo or hybrid.
- The asset manager that relies on products for the next five years will struggle.

Achieving your expected growth rate. Identifying the business activities which yield results

Expert: Martyn Chappell & Steven Greenfield, Dimensional Fund Advisors

Facilitator: Rod Bryson

Headlines:

- Advisory firms expect annual revenue growth of 10% per year which aligns to Dimensional's adviser research findings of 12%.
- Based on research, firms with a strategy grew revenue 57% more in 2016 (10.1% vs. 6.5%)
- Advisers expect to increase the spend on technology in the years ahead.

Key Challenges:

- Key challenges for the participants when recruiting and hiring qualified employees; electing and maintaining tech; and thirdly enabling the best process to help the business operate. Dimensional's researched also highlighted systematising work processes, managing compliance and developing marketing strategies.
- Advisory firms have a referral process, but again, find it hard to make this work without training and recording their efforts.
- Most firms have a written business development strategy, however struggle to persuade employees to follow it. They need to keep communicating the same messages on a regular basis.

Conclusions and solutions:

- The industry recognises there are great growth opportunities ahead, but key challenges will continually require focus and people, technology/process for efficiency and client engagement.
- Maintaining regular communication with clients and staff is key.
- The good news is that most firms appreciate activities which add the most value. The challenge is commitment in execution.

Where have we got to with closing the advice gap?

Expert: Andrew Pike, NS&I

Facilitator: Martyn Laverick, Soprano Consulting

Headlines:

- Smaller initial investments are still being dealt with by the majority of firms but there are issues with how to provide an ongoing service for small sums.
- Technology was considered as an answer to part of the problem.
- There is a feeling of some corporate social responsibility to help smaller savers.
- The gap isn't getting any smaller and the majority of firms have not taken any steps towards helping smaller savers.

Key Challenges:

- The industry is dealing with a poorly educated population in terms of financial matters which needs to be addressed at school level, however this is very long term.
- The language and products of the industry are complicated and it seems that there are no "moves afoot" to simplify things. This needs to change.
- Sensationalist journalism does not help promote the financial services industry in a positive light and does not help build trust.
- Whilst technology can help, it can also be dangerous. E.g. by leading people to make important financial decisions without proper thought. There are dangers people could do the wrong thing very easily.
- Clarity needs to be given on the distinction between advice and guidance. Whilst we as an industry may feel we understand this, consumers do not.

Conclusions and solutions:

- We need to make our industry easier to understand and engage with.
- Larger firms are providing some financial education programs for people but this cannot solve the issue of poor financial education. This needs to start at school level.
- Technology and social media can play a very important part in helping individuals understand financial issues and help reduce the cost of delivering advice to smaller savers.
- Firms are looking at ways of dealing with the next generation in order to help retain family assets when they are passed on but this is still a smaller audience.
- Simplification in the language used and clarity regarding advice versus guidance needs to take place to help people more easily engage with the industry.

Time for an update on M&A activity

Expert: John Chapman, Owen James

Facilitator: Martyn Laverick, Soprano Consulting

Headlines:

- Definitely more buyers than sellers in the market place.
- Prices feel high compared with other industries.
- Finding quality is the hard part.
- CIPs have potentially made firms more attractive for acquirers regarding transition process.

Key Challenges:

- Cultural fit is key to any deal.
- Finding quality firms at the right price.
- Dealing with legacy issues.
- Impact of MiFid II on valuations regarding 'Duty of Care' if you are receiving income from the client.
- Cost of doing an acquisition dictates a minimum size and hence there are less of these firms.

Conclusions and solutions:

- The acquisition market place is active and will remain so over the next 5-8 years as ageing business owners look to exit.
- Have clarity on why you are looking to acquire.
- Transition process is key to embedding a deal and making it successful. The hard work starts after the deal is done.
- Look for cultural fit first.

What does ESG & sustainable investing mean to the UK investor today?

Expert: James Tothill, Aviva

Facilitator: Roderic Rennison, Rennison Consulting

Headlines:

- Environmental, social and governance (ESG) refers to the three central factors in measuring the sustainability and ethical impact of a company or business.
- Asset flows into responsible investment continue to grow.
- The demand for responsible investment is changing.
- What does the asset management industry mean by responsible investment?

Key Challenges:

- Policy-makers are driving disruptive demand for Responsible Investing.
- What does the asset management industry mean by responsible investment? Shareholder power to influence corporate behaviour. Investor voice to influence policy-makers and regulators.
- Advocates of ESG argue that these criteria help to better determine the future financial performance of companies and so are arguably increasingly important in the context of investment management.
- ESG has an important role to play as more investors care about what companies their managers invest in.

Conclusions and solutions:

- ESG is an opportunity for advisers, not a threat: an opportunity for advisers to build and sustain closer – and more compliant – client relationships and in the process to demonstrate knowledge and professionalism.
- The changes have the potential to accelerate market developments: Suitability under MiFID II, European Commission Sustainable Finance Legislative Proposal & DWP/FCA consultation on pension trustee duties.

Direct Lending & Peer to Peer

Expert: David Beacham and Jake Wombwell-Povey, Goji

Facilitator: John Chapman, Owen James

Headlines:

A very interesting debate on the merits of investing in this new asset class.

Some key benefits of the proposition were discussed:

- Investments covered by FCSC.
- It is a diversification opportunity.
- API is being developed with Intelliflo for ease of data-sharing.

The product is a fixed interest alternative and the participants agreed that it is suitable for two types of clients:

a) Investors who want to beat a cash return, including corporate clients.
b) Investors who don't want volatility.

Key Challenges:

- Advisers and clients need to understand where the product fits on the risk scale.

Conclusions and solutions:

- Either AKG or a similar organisation to review the product and provide guidance on the risk associated with the product.
- There was an extremely positive feeling that once the product is risk referenced, then there will definitely be a place for it as part of a diversified client portfolio.

What next for long term savings?

Expert: Paul Speight, Canada Life
Facilitator: Paul Miles, Silverback Consulting

Headlines:

- It is no longer the case that all long term savings are linked to earnings.
- Cash savings have increased dramatically.
- The Property Market has had a massive affect on Long Term Savings.
- Divorce has affected property ownership, particularly between the ages of 34 and 54.
- In the participants' opinion, the younger generation may not want to get into the property market (in London this is the case now).
- 39% of millennials would rather invest in cash.
- Auto Enrolment has made people have conversations about savings.
- Restrictive Pension Allowances have crashed investment into Pensions.
- Most investment in ISAs is in Cash.
- Average ISA investment is just £6000.

Key Challenges:

- As a lot more women than men live beyond the age of 90, what advice do they need post retirement, particularly without an annuity?
- What should you do if a Pension Fund is more of an IHT planning solution?
- There is an education issue around Auto Enrolment. People are happy to opt in but make no additional investment.
- Creating a different asset allocation post retirement.
- What products should people be investing in and withdrawing from, and in what order: pensions / ISAs / GIAs / Offshore Bonds…

Conclusions and solutions:

- For women post retirement (obviously depends on circumstances):
  - Advice needs to be holistic.
  - If they only have a pension, then income from pension.
  - What do the beneficiaries want?
  - If in care = big problem.
- Equity Release is now playing a large part in providing for retirement.
- Education is a massive issue and the Financial Services Sector is very poor at communication.
- People often see IFAs for income advice – they want to know that they can do the things they want to do.
- Is it true that the younger generation may prefer to rent property as they do for music, cars, etc…?
- The reasons for low amounts being invested in ISAs may be:
  - The Government's Help to Buy scheme.
  - Salaries haven't increased.
  - People would rather spend money elsewhere.
- There has never been a better time when people need to take professional financial advice.

How do you convince your clients to pay more attention? The digital journey

Expert: Caroline Burkart, Scorpio Partnership

Facilitator: Brod Whiting, JoyndUp

Headlines:

1. Technology is beneficial and vital to their businesses.
2. However unsure of the future of robo advice.

Key Challenges:

- Understanding where your clients actually are with regard to the digital journey.
- Realising where you and your business are on the digital journey.
- Accepting, ignoring or being engaged in robo advice.

Conclusions and solutions:

- There were differing opinions in the room as to what a hybrid solution might look like ranging from having separate trading styles for a robo offering to simply embracing and embedding the latest technology into normal financial planning practice e.g. the use of a client portal.
- Technology: As you would expect some were more forward thinking and engaged in the digital journey with clients than others.
- One firm had actually engaged in a process of segmenting clients in order to match them with the right technology experience.
- Very little understanding of the opportunities Open Banking offers.

AI – is it you or the algorithm?

Expert: Garrett Harbron, Vanguard

Facilitator: Colette Dunn, Milliman UK

Headlines:

Vanguard's view is that the future of the advice business will be more segmented than it is today, with different levels of advice, with different price points, to meet the needs of various clients. They see the most likely segmentation as follows:

- At the low-cost end of the advice spectrum, there are embedded advice solutions, such as Target Date Funds, where there is some generalised investment advice built into the product or service, but it is not a bespoke solution.
- Next in line is 'digital advice' i.e. robo-advisers, where there is some degree of personalisation, but the relationship is entirely digital.
- Moving up from 'digital advice' is the 'digital relationship', or hybrid-advice services where most of the advice is provided digitally, but with a human adviser available via videoconference, telephone, or other digital means.
- Finally, there are 'Wealth Managers', which is highly bespoke, with a face-to-face relationship with a human adviser. This is most like the traditional advice models most advisers are using today.
- It was also noted that algorithms are being increasingly used in the asset management world, for example with automatic rebalancing/hedging in volatility controlled funds.

Key Challenges:

- It was suggested that, in general, Financial Advisers' fees may be reasonably expected to decrease in the future but that margins can be maintained with the use of technology to reduce costs where possible.
- The costs that should be maintained are those that support great client service.
- The group agreed that there is some downward fee pressure from the regulators and from competitors.
- It was also noted that technology has a role in reducing 'back office' costs, even within a bespoke, value-add 'Wealth Management' advisory firm.
- There are 7 areas where a financial adviser can add value and 6 of them can now be done by an algorithm. However this is just the tool, the job still needs doings.

Conclusions and solutions:

- There is evidence that the downward pressure on fees in some areas has subsided and this may reflect a segmentation of Financial Advisers with some aiming for low fees/high technology and others focusing on high value add client servicing.
- There was general agreement in the session about these segments, with most of those present working for organisations that fit within the 'Wealth Management' segment.
- Many agreed that the future is going to be Behavioural Coaching because is about trust and personal touch.

How crucial is it to control all of your client's wealth?

Expert: Vincent Tiseo, Goldman Sachs Asset Management

Facilitator: Brod Whiting, JoyndUp

Headlines:

Increasing the amount of your client's wealth on which you advise could be seen as an avenue for growth. However the counter argument is that having a smaller share of wealth presents a lower risk to your company and indeed the rest of your clients.

1. The delegates felt they were the clients' trusted advisers.
2. They were prepared to introduce business to other areas of expertise where they didn't offer it, so long as they had control of the client.
3. They felt they demonstrated value to their clients.

Key Challenges:

- Demonstrating value of their propositions was a key point.
- There was not much real understanding of the opportunities offered by Open Banking or a willingness to embrace it.
- The value of having a client portal was discussed. However some feared the challenge of keeping it up to date and how information could mislead clients.

Conclusions and solutions:

- Everybody felt that they were their clients trusted adviser and didn't really see competition as an issue.
- No real feeling that having less of the assets was a good thing from a risk perspective.
- The firms in the room didn't see the banks as a threat.

Intergenerational Wealth Planning

Expert: Mark Hayhoe, Russell Investments

Facilitator: Colette Dunn, Milliman UK

We started this session by talking about how the generations are connected financially.

Headlines:

- What your client bank would look like in 10 years' time? Advisers do some limited analysis on this however not enough to paint a full picture.
- Many current clients of Financial Advisers will fit into the 'sandwich generation' who need to support ailing parents as well as children who are not yet financially independent.
- The sandwich generation are set to inherit from their parents with average inheritance expected to jump from £62,000 in 2017 to £91,000 in 2027.

Key Challenges:

- We agreed on the importance of engaging with the children of current clients.
- It was recommended analysing revenue, and revenue per client, by age bands, then overlaying estimated client mortality to estimate the size and shape of the client bank in ten years' time. This was seen as a useful idea.
- Research from the Bank of Canada asked 'How comprehensively were you prepared for receiving wealth?' to which only 0.02% answered that they had been introduced to the individual who would manage the wealth transfer.
- Research from the Bank of Canada also showed that less than 10% relied on Financial Advisers to 'support your children's education on wealth and money'. We thought this was disappointing.

Conclusions and solutions:

- There is not one right way to deal with the next generation. Each firm needs to find what suits them best from setting-up a mortgage arm with the specific aim of engaging with the next generation, to investing in intergenerational activity, for example, with new products, intergenerational mortgages, new technology, and so on.
- A few encouraged family meetings with clients and their children to discuss particular financial issues.
- One of the participants in the session gave an excellent example of how to engage with the next generation. His firm put out a weekly, jargon-free financial information blog on Facebook, LinkedIn and Twitter. This has now 'gone viral' and been viewed by 15 million viewers.

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