a meeting of MINDS

XXVI

Tuesday 27 November 2018 – The Lanesborough Hotel, Hyde Park Corner, London, SW1X 7TA

THE FINDINGS

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Contents

1. SUMMARY

The twenty-sixth Meeting of Minds Advisory Distributors took place on Tuesday 27 November at The Lanesborough Hotel in London. 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 Sofia Aldatz at Owen James: sofiaaldatz@owenjamesgroup.com or you can contact her on 01483 861 334.

2. THIS REPORT

The Roundtable sessions were facilitated by:

- *Rod Bryson,* ***Capgemini Consulting***
- *Richard Clarke,* ***Independent Consultant***
- *Brod Whiting,* ***360 DotNet***
- *John Chapman,* ***Owen James***
- *Roderic Rennison,* ***Rennison Consulting***
- *Richard Parkin,* ***Richard Parkin Consulting***
- *Paul Miles,* ***Silverbacks Consulting***
- *Martyn Laverick,* ***Soprano Consulting***

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

Clients now understand exactly what they are paying for and have a range of investment tools available to them – is this affecting their investments preferences and how they go about constructing portfolios?

Expert: John Adu, JP Morgan Asset Management

Facilitator: Roderic Rennison, Rennison Consulting

Headlines:

1. Clients now have a right under MiFID II to know exactly what they are paying for and their advisers have a range of investment tools available to them; is this affecting their investment preferences and how advisers go about constructing portfolios and to what extent do ETFs play a part for retail clients?

2. The rise of passive investing with the resultant downward pressure on fees along with the increased costs of research under MiFID II rules are squeezing profits margins, but ETF is not just about passive funds

3. Additionally, Socially Responsible Investing (SRI,)/Environmental Social Governance (ESG) are playing an ever-greater role in some clients' investment preferences and it provides investment managers with an opportunity to build and sustain closer client relationships by demonstrating knowledge and professionalism.

Bursting common myths:

1. The ETF Industry is too big

   - US$5trn has been invested in ETFs to date
   - 80% of ETFs are passive and 20% are active and currently, ETFs comprise 6% of the corporate equity market, there being circa 4,000 ETFs, 6,000 mutual funds, and 8,000 securities
   - It is still arguably a market still in its infancy and is projected to grow to US$30trn by 2030.

2. If the market drops, ETFs will suffer

   - It is argued that ETFs have not been tested, but they have been think back to 2008-10
   - The ETF is simply a wrapper and even when the market is down, ETF flows continue to persist as is evidenced by what took place between 2008 and 2010.

3. You (JP Morgan Asset Management) are late to the party

   - The statistics show that ETFs are doubling every five years and if there is US$5trn in ETFs as of 2018, there is projected to be US$30trn in 2030 so ETFs are not yet being used to their full extent.

4. There is also a myth that there is a cost to ESG; it's not the case.

- JP Morgan have two elements to their ESG framework; integration (including advocacy), and exclusions
- ESG factors are an explicit part of the portfolio construction process; there is investor-led targeted ESG engagement as well as negative screening of selected issues and sectors
- ESG Integration & Exclusions: ESG factors are incorporated where material and relevant; there is positive engagement with companies on ESG issues, and negative screening of selected issues and companies. ESG factors are incorporated where material and relevant and there is positive engagement with portfolio companies on ESG issues.

Key challenges:

1. How should ETFs be promoted to the retail market?

- The US market is already actually 50% institutional and 50% retail. ETFs are versatile and lend themselves to both markets
- JP Morgan are working in partnership with distributors to develop the market and focuses on, amongst other things:
    - Back-testing
    - Governance
    - Cost

2. How does the average investor understand and buy-in to ETFs?

- JP Morgan work through others, specifically intermediaries, to promote the benefits and help them educate clients
- There may be a need to expand the breadth of partners to accelerate the process

3. How are platforms being accessed?

- This is work in progress and JP Morgan are taking the line of least resistance to build relationships

4. Could there be a backlash to ETFs?

- Synthetics may be an issue and therefore how they are used needs to be carefully explained
- There is a strong understanding about the responsibility to grow the market and reputational risk also needs to be managed

Conclusions and solutions:

1. The consensus was that education is the key constituent for advancing knowledge and use of ETFs.

2. ETFs are in place to provide investment solutions not just to seek to be attractive based on solely on cost.

3. There is an opportunity to further promote ESG by signposting ETFs that are overweight versus underweight in SRI investments.

The future of retirement investing

Expert: Paul Boston & Henry Cobbe, Novia Financial/Copia Capital Management

Facilitator: Richard Parkin, Richard Parkin Consulting

Headlines:

1. Increasingly, pensions are the last asset to be drawn upon - given preferential inheritance tax treatment. Retirement is planning very much an intergenerational discussion. Where pensions are accessed it tends to be to supplement other income through top-ups
2. Equity release is getting a lot more attention. Not necessarily executing on it but allows housing wealth to be brought into retirement planning discussions
3. Cash flow modelling is essential but should not be followed slavishly. Rather it should be used as a tool to discuss and manage objectives
4. Clients still want certainty but flexibility remains key. Older clients becoming more focused on sustainability and nervous about giving away capital

Key challenges:

- Retirement planning is complex. Advisers are spending much more time helping clients to understand issues here than they do for accumulation
- Danger that cash flow modelling is given too much emphasis. It should be seen as an illustration, not an assurance. Whilst useful it can set unrealisable expectations especially if too detailed
- Older clients are starting to move away from focusing on leaving wealth to thinking about how they sustain themselves in retirement
- Limited product development in guarantees space. Client demand for certainty points to guarantees, but reluctant to forego capital

Conclusions and solutions:

- There is no silver bullet solution. A hybrid approach fitted to specific client needs is, as always, the best option
- Cash management to maximise interest income is seen as a core area, especially given clients' predilection for holding money on deposit

Preparing for growth: what can we learn from global high growth advisory firms?

Expert: Martyn Chappell & Steven Greenfield, Dimensional Fund Advisors

Facilitator: Martyn Laverick, Soprano Consulting

Headlines:

1. Some larger firms have higher growth but at the expense of the profit margin
2. All businesses faced the same challenge around how to make existing advisers more productive
3. Remuneration of advisers could have an impact on the need/desire to write new business rather than just look after existing clients
4. In house training works well and all firms have seen the benefit of this especially those that provide a mentoring approach for newer advisers to learn from the top advisers in the business

Key Challenges:

- Trying to get the balance right between looking for new business and servicing existing clients
- Servicing existing clients is becoming more time consuming and potentially stopping advisers taking on new clients
- Monitoring adviser activity clearly shows that it drives up performance but this needs to be implemented with care in order that it is not a case of 'big brother' watching you scenario and there is a clear benefit for the adviser
- You cannot play at acquisitions; you need to invest in resources to carry the function out or not do it as it takes up a vast amount of management time
- As clients become more demanding or firms have to work harder to justify their fees how can this be done in a more efficient and cost effective way

Conclusions and solutions:

- All firms seem to face the challenge of how to get advisers to be more productive. They are possibly the most expensive asset in the firm, so how can more be got from them
- Internal training to pass on 'soft' skills etc is critical for a firm as newer people are very technical but lack the people/sales skills that are required
- There is not one set of ratios i.e. clients per adviser, AUA per adviser etc as all firms run different propositions so it is difficult to benchmark yourself

Who is the CEO of your business?

Expert: Brendan McCurdy, GSAM

Facilitator: Richard Clarke, Independent

Headlines:

1. Client age profiles, volatile equity and low interest rate market conditions and technology, regulatory and fee compression forces could all reduce advisory firms' revenues in the next few years
2. One great source of increasing revenue would-be to engage with new client groups, especially women and beneficiaries of intergenerational wealth
3. Millennials offer long term asset growth potential, but they are hard to acquire, and require a different level of engagement and potentially service provision
4. Millennials value face to face over robo advice, are unlikely to use their parents' adviser out of pure loyalty and may have more interest in ESG and private equity type investments opportunities rather than mutual funds
5. Women feel less in control (38%) about their financial future than men (51%), are twice as likely to refer their adviser to men and are 26% more philanthropic than men – they see financial advice as male dominated and want a different level of jargon free engagement

Key Challenges:

- Rags-to-riches-to rags (or clogs-to-clogs) in three generations is a good reminder to clients of why to involve children in financial planning conversations
- The majority of face-to-face advisers are over 50 and have limited natural rapport with millennials
- If a male client dies and you're trying to keep the wife as a client, there can be a perception issue if all of your advisors are men
- There are far too few women in the advisory market in leadership (e.g. woeful representation at Meeting of Minds conference) and face-to-face advisory (as opposed to paraplanner type) roles which does not help attract women into the profession and many female clients would prefer dealing with a female adviser
- More risk needs to be taken to hire staff with the right interpersonal skills (empathy, ability to listen, to tell a story) willing to learn the financial technical skills rather than starting off with people from financial backgrounds
- If you ignore millennials because they don't yet have enough wealth to invest you risk finding they have already got a different adviser by the time they start to be attractive 'profitable' clients
- Ethnic diversity in the advisory is even worse than gender diversity – the industry needs to wake up to change and work much harder to attract new graduate talent into the industry, to compete with future medics, lawyers or accountants

Conclusions and solutions:

- Involve children in the advice process: pair older and younger financial advisers to cover a family, each covering their age bracket within the family
- Invite clients to include their children in the meeting to listen in (e.g.by Skype)
- Bring forward the talk with clients about death. This motivates them to bring their kids into the conversation
- Pru model of sitting in the living room and having a tea and talking to the children: if you wait until parents are 65 and kids are 40 to have these conversations, it's likely to be too late
- To increase women advisors, try hiring from outside the direct industry. Finance can be trained, but empathy and trust-building skills much less so
- How important is it to get more female and 'younger generation' advisers on board for you as a business owner? You can make it happen if you want to! Don't pay lip service, be a maverick!
- When clients' children are about to head off to uni, one adviser has a chef husband who teaches them how to make a spaghetti bolognaise and she shows how to budget their student finances.

Senior managers and certification regime (one of the strictest personal accountability frameworks in regulated financial services in the world) – are you geared up?

Expert: Alan Hughes, Foot Antsey

Facilitator: John Chapman, Owen James

Headlines:

Three elements:

1. Senior Managers Regime
2. Certificate Regime
3. Conduct Rules

- FCA are trying to raise standards in the industry on conduct risk and corporate governance
- Firms must document their governance structure, appoint SM's and train staff appropriately
- Review existing processes in the business
- Conduct an accountancy mapping exercises
- Aware of the timeline
- Need for advisory firms to fully understand the implications of SMR and Certification
- Potential for these new regimes to substantially impact on business models

Key challenges:

- Process development for managing 'fit and proper' processes for advisers and other staff
- Develop M.I. (Management Information) to assist senior managers in managing their responsibilities
- Senior managers must understand they have a duty of responsibility
- This could be the biggest catalyst for change in business models that we have seen in a number of years
- Could we see a move towards the Network Model?
- Certification of advisers now changes with OMS on firm to approve new advisers and review annually
- To understand the implications of SMR in the business
- Know the revised certification process
- Consider the role of TC (Training and Confidence) in the future
- Map the existing business and areas of responsibility/activity into the SM & CR regime
- Understand implications of the new regimes on the business model
- Do you have the correct people in SM positions?

Conclusions and solutions:

- They must consider carefully who are the most appropriate people to assume responsibility in each area
- Ensure each senior manager has sufficient visibility, MI and authority to discharge their duty in that area
- Develop training plans for all staff to understand their conduct responsibilities
- Start with a detailed organisation chart and a "root & branch" analysis of the current business structure and what is required in the future
- Review business model – is it appropriate and aligned with governance structures
- If running an Investment Committee defines terms of reference, roles and selection processes
- Consider if running your own Central Investment Proposition is appropriate
- Conduct a review of assigned process & map
- Think about your organisation change now being an accountability quest
- Ensure the SM has sufficient visibility, M.I. and authority to discharge their duty in the area
- Ensure certification processes are in place for annual processes and new starters

Price versus value: the 21st century financial advisory conundrum

Expert: Mark Parry, BMO
Facilitator: Brod Whiting, 360 DotNet

Headlines:

1.Who are BMO?

2. The true costs of investments

3. The value of advice

4. The FCA applying pressure with CP17/18 and Consultations to provide good value for money and spot persistent underperformance.

5. Hybrid advisers using technology and face to face to provide efficiencies and value

Key Challenges:

- Differentiation of what represents good value is it all about high returns?
- What are the FCA looking at, they want a solution for the masses, and greater price transparency
- How can Investment Managers justify their charges
- To keep charges down should everybody just avoid active managers
- Do advisers feel confident that they can justify their charges
- How do advisers demonstrate their value when they are about so much more than just the performance of investments?

Conclusions and solutions:

- Advisers need to be able to articulate their total service/value to clients. Suitability reports are already too lengthy and just focussed on the investments. What about the tax savings, the reassurance and peace of mind how do you include that within the already lengthy document or do a separate document
- Advisers should seek investments that are reasonable in costs but still offer the opportunities for growth or ongoing returns that clients require.
- Advisers must utilise technology to improve efficiencies and keep costs down but at the same time provide the personal services that their clients need and value
- It is unlikely that the advisers will ever be able to offer mass market advice

Delivering value in the digital age - customers' attitudes to data sharing, trust and how this will define future propositions

Expert: Richard Howells, Experian

Facilitator: Paul Miles, Silverback Consulting

Headlines:

1. Other markets are way ahead of Life & Pensions in terms of how they engage with customers/clients
2. Behaviours are changing
3. Don't wait to see what is going to happen, the future is now
4. 43% of the population have access to voice instruction
5. The digital experience needs to be safe, it needs to deliver insight, and it needs to be consolidated
6. It is expected that data is current and accurate
7. The movement of data should be simple
8. Customers/clients identify with dashboards and scoring systems

Key Challenges:

- Only 21% of the general public are happy for the Financial Services market to share data
- Consumers/clients are concerned about their privacy but want others to solve the problem
- Legacy back office systems scene as an issue for data integratory, it is generally shocking and not trusted
- Few of the existing client portals provide a truly consolidated view and offer a poor integration with third parties.
- AI versus Face-to-Face

Conclusions and solutions:

- It is recognised that data is second only to clients in terms of importance and therefore firms must begin to clean up their data now. However, it was accepted that this will be a difficult project with the state of many legacy systems, which are spread like a rash across the industry
- Customers/Clients expect data to be accurate, consolidated and available, Firms should not wait to begin the process of being able to provide this. It will take an investment and it will be disruptive to the business
- It was suggested that face-to-face engagement should be considered a premium and that it doesn't have to be physical
- Third party integrations should be improved with the introduction of quality API's that have the ability to transfer data two ways
- The financial services sector needs to simplify the way it provides data, as well as general communications, which will assist in the education process
- To service inter-generational customer/clients, future propositions will need to incorporate a digital experience.

Talent of the future: from adviser to technical analyst and everything in between. Finding them, training them and keeping them.

Expert: Stuart Phillips, The Private Office

Facilitator: Roderic Rennison, Rennison Consulting

Headlines:

- There has never been a more challenging time to recruit advisers and technical analysts/paraplanners. With an average adviser age that it is estimated to between 48 and 53 and with Paraplanners being so challenging to find and recruit – it is not surprising that more financial intermediaries are now looking at alternative sources of recruitment. These can be school leavers, university graduates as well as more mature candidates and those with previous careers – for example ex-military personnel

- Some intermediaries have recruited on an ad hoc basis whilst others have decided to set up more structured recruitment and training processes

- The participants outlined their experiences after Stuart Philips set out how The Private Office recruit process works, and the remainder of this document sets out what processes are used in different firms, what has worked well – and what hasn't.

The Private Office Approach

- The starting point is culture and work ethic; The Private Office (TPO) has a distinct culture and that forms part of the recruitment process where the company will look for and test for a range of attributes in an assessment centre held over two days with previous participants being part of the process. This follows an initial sift of CVs and a telephone interview prior to face to face interviews

- TPO has so far recruited 12 graduate trainees; all but two are still with the business. (One departed after a week because they were homesick, and the other after a year when it was agreed that he did not fit in with the culture.) All but two are now QCF Level 4 qualified

- Trainees rotate round departments spending three months in each over a period of two years, and if they show an aptitude, they may stay – for example, if they exhibit strong marketing skills

- There is no presumption that trainees all want or will become advisers nor that that they will become paraplanners as part of the journey

- Stuart was clear that TPO gets value from the trainees over the two-year period

- He also made the point that TPO are pragmatic so that they also recruit others as a second career such as ex-army officers

- From the graduates that TPO interview initially, 50% are taking Financial Services degrees, with the balance across the whole spectrum of subjects and it is noteworthy that that at second interview stage, many of those studying financial services do not get hired

- In addition, TPO holds regular events for its staff to enable new recruits to mix with other in the company to understand the business and culture and to help reinforce values

- Furthermore, the company has introduced a share scheme in which all employees have been included

- One other notable aspect of TPO's approach to building their business is positive female discrimination.

What has worked well in other firms

- It was generally agreed that recruiting graduates has been positive for the firms around the table that had done so though most had not recruited in such a structured fashion as TPO has done

- Another point made was that many graduates are very IT literate and can rapidly become more productive than established administrators and can be very useful when introducing new technology and processes

- Additionally, contrary to some assumptions, graduates tend to be hard working and they have the benefit of not for the most part having family commitments and so are happy to work longer hours when necessary on projects - for example, dealing with legacy data

- It was also agreed that whilst graduates often make excellent advisers, the majority will be "farmers" rather than "hunters" – i.e. they will tend to do better looking after existing clients as opposed to finding them. This therefore needs to be factored in to any firm which is seeking to grow where it will self-evidently need advisers with different skills. In TPO for example, those advisers who find clients are paid to reflect this.

What hasn't worked well

- One participant who recruits self-employed advisers to then run their own businesses made the point that those from military/service backgrounds did not do well as they tend to need more structure and are better suited to employment where there tends to be more structure and support.

Soft skills versus hard skills

- There was consensus that training - especially amongst graduates – needs to focus on developing soft skills whether via role plays or on the job training and that many firms spent too little time on this area of development.

The Future

- Firms that want to grow will increasingly need to focus on recruiting from school and university rather than seeking to find experienced advisers and paraplanners and need to plan accordingly. It will be a clear differentiator in helping to build value.

The future of platforms

Expert: Simon Farrant, FundsNetwork

Facilitator: Paul Miles, Silverback Consulting

Headlines:

1. Many firms are reviewing their platform partner
2. Choose a Primary platform
3. What is an acceptable platform charge and who should pay for it?
4. What do platforms do and could Back Office Systems provide the same?
5. Many platforms do not have 'modern technology' and therefore integrations can be poor
6. More quality two-way API integration capabilities

Key Challenges:

- The recent disastrous Platform client migrations have highlighted the problem of moving from one Platform to another
- Platforms keeping up to date with improvements in technology
- Limited access to the Data held on most platforms
- Poor integrations with third parties
- Transparency

Conclusions and solutions:

- There should be no barriers or penalties to transfer from a platform, this is seen as poor and break current rules
- It was accepted that there is an enormous range of platform charges, not always transparent, and most platforms need to continue to charge to try and become profitable
- There is some confusion around training and events being considered an inducement – it is believed that it must contain something about the product. It was felt that there is a lack of joined up thinking within different areas of the Regulator
- It was accepted that platforms provide Custody and Trading and that everything else is seen as adding little value
- All Data held by the platforms should be made available to financial adviser firms
- When considering which or how many platforms to use, you should consider who would be right to be the primary platform

What would you do with an extra hour? By adopting technology, advisory firms are realising time savings in their business by generating greater efficiencies and smoother processes.

Expert: Paul Morely, Intelliflo

Facilitator: Martyn Laverick, Soprano Consulting

Headlines:

1. Adoption of IT is not just for generating greater efficiencies but also for managing risk/de risking the business
2. Integration of systems is key i.e. keying in data only once
3. Signs of innovation from a small number of firms but it doesn't feel as if we have moved on in the last 10 years
4. Without a proper training programme in place around new IT systems the outcome is generally poor and the system does not deliver what it was designed to do

Key Challenges:

- Keeping pace with fast moving IT landscape
- Getting systems to integrate with each other
- Getting advisers on board for new IT processes otherwise they can often be a blocker to progress
- How to interact with the children/grandchildren of existing clients as they do not favour the traditional ways
- Open banking is increasing the pace of change and enabling greater services to be delivered easier but are we ready

Conclusions and solutions:

- Not a massive amount of innovation present in the way businesses currently interact with clients but there was a view that we are on the cusp of change and things will now move quicker than they have
- To date the conversation around IT has been focussed on the back office and not the client and there is a real danger that 'traditional' firms are not ready for change
- Integration of IT systems is critical but often a key piece of the jigsaw is over looked and that is the relevant level of training also has to be given