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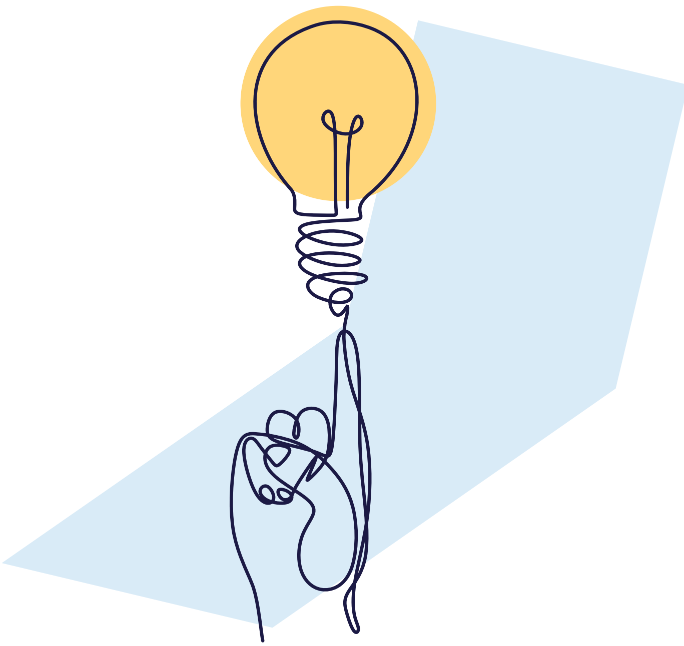
BOOK OF STORIES 3.0

PRACTICAL SUPPORT FOR EVOLVING CLIENT NEEDS



CHARLES STANLEY

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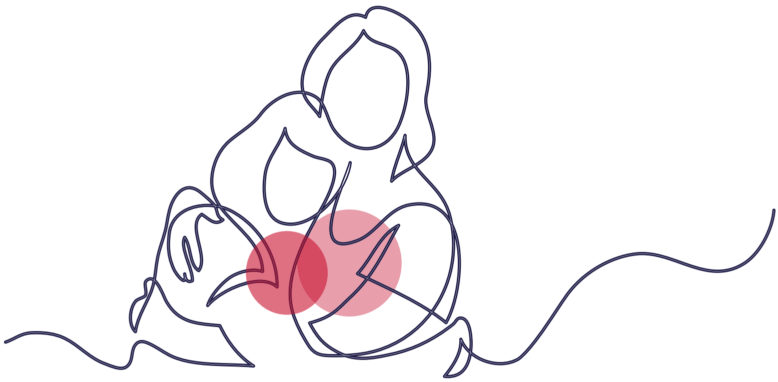
INTRODUCTION FROM CHARLES STANLEY

By Sean Osborne, Group Head of Sales, Charles Stanley



Welcome to the third instalment in our Book of Stories series, which seeks to give advisers the necessary tools and insights to work effectively across the generational divide.

Story telling helps to bring to life situations, adding the human-interest element. They allow us to take quite difficult conversations and convey them in a way that allows the recipient to understand how an adviser helps their clients who are in similar situations. It can depersonalise sensitive subjects whilst also making them more engaging and more relatable.

Since the publication of Charles Stanley's previous Book of Stories, the world has changed considerably. Trends like digital acceleration, a heightened focus on environmental, social and governance issues (ESG), and altered family dynamics have radically impacted the moments that matter to individuals. The global pandemic has accelerated this, bringing about a shift in client priorities, which has profound implications for the role of the financial adviser. The role has progressed from a traditional model of just providing facts and figures or tax planning services, to one of a 'trusted adviser', whereby the relationship and advice provided for clients has deepened and goes beyond financial services.

Advisers have had to expand and diversify their skillsets. They are not only expected to be a master in their field, but they are also increasingly challenged with the need to offer emotional and practical support to vulnerable clients. Clients no longer only seek traditional financial advice from their adviser. Our research found that a third (34%) of advisers agree that their clients need more emotional support in the wake of the pandemic than financial. Clients now also look for an adviser who can go above and beyond the traditional role and demonstrate their skillset as a counsellor and a trusted confidant.

The third iteration of our Book of Stories provides a deeper insight, driven by quantitative research, into the different attitudes and behaviours toward financial planning across generations, cultures, and social class, in addition to their perceived value of advice. It builds on our earlier research, exploring how this has changed since the global pandemic began.

Since our last Book of Stories report, several themes have shone through that we will explore in greater detail throughout our third iteration:

- Client interest has continued to grow in the area of intergenerational wealth planning
- External factors are impacting people's finances, leading them to question their current financial plans. For example, whether to delay their retirement
- Clients are feeling more vulnerable than ever before and are requiring more support and guidance
- Virtual meetings are here to stay for some, but many are keen to get back to a face-to-face experience with their adviser
- Client interest in ESG continues to grow, but many still do not feel confident in their own knowledge

METHODOLOGY:

- A nationally representative quantitative survey of 200 financial advisers was carried out between October and November 2021.
- A separate nationally representative survey of 1,021 general consumers aged 18+ who have previously, or currently utilise financial advice also took place during the same time frame.
- In addition, qualitative commentary from Charles Stanley clients was used to inform the newly collected data.

The first Book of Stories drew on the expertise of Charles Stanley's team of investment managers and their experience of handling money for multiple generations of families. The second took a qualitative approach to the subject of generational financial planning and surveyed more than 2,000 British adults and 177 financial advisers. This report took a quantitative approach to analyse how the interactions between advisers and clients had changed in the past 12 months as we continue to deal with the consequence of the global pandemic and the accelerated trends it brought about.

BOOK OF STORIES 3.0
SURVEY IN NUMBERS

1,021	200	12 months
British adults	Financial advisers	How the interactions between advisers and clients had changed in the past 12 months

EXECUTIVE SUMMARY

THE NEW CLIENT CONTRACT:

- The world is changing at an incredibly fast pace and financial advisers are having to navigate various transformations in digitalisation, ESG, family dynamics, ways of working, and communication simultaneously. In many ways, the pandemic has accelerated each of these trends, which has in turn facilitated a shift in the moments that matter to individuals in their lifetime. Subsequently, it's shifted the role of financial advisers too.
- What was once a role predominantly focused on facts and figures, the adviser role has expanded into one that now incorporates much more client engagement. The reasons why clients may seek advice have fundamentally changed, moving from just traditional tax planning and investment advice to deeper conversations about complex family situations, what they are fearful of, or what legacies they want to leave for the next generation. Consequently, clients now expect and ask for a lot more from their advisers. They look for and require additional support beyond their financial affairs and pure advice. Financial advisers' roles, which are already increasingly multi-faceted, are being tasked with providing an 'always-on' service to their clients and being accessible via a multitude of platforms.

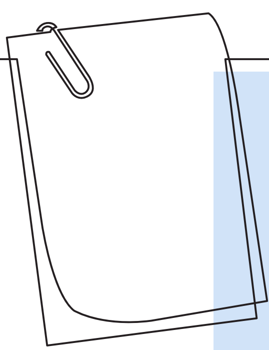
95%

Our research shows 95% of advisers have discussed ESG with their clients in the last 12 months.

- There is a heightened sense of risk and uncertainty among clients. Financial advisers must navigate the impact this is having on clients' life decisions, but also understand how they emotionally feel about their finances.
- 2021 saw a boom in ESG and sustainable investing, and heightened concern around environmental issues. Our research shows 95% of advisers have discussed ESG with their clients in the last 12 months.
- The COP26 event was another defining moment for net-zero targets around the world, and concerns are trickling down to clients on a more personal level, including what it means for their portfolios and financial legacies.

VULNERABILITY:

- Client vulnerability is not always obvious, nor is it always surfaced clearly. Some consumers may not want to be labelled as 'vulnerable', meaning that unless prompted or offered unaided in conversation by clients, vulnerability can be tricky to spot, even though it is a key characteristic advisers must be aware of when handling clients.
- External factors, including the pandemic, has exacerbated the number of vulnerable people in the world, and advisers recognise this with an overwhelming number, stating they have seen an increase in client vulnerability.
- How advisers interact with clients can help them identify who is vulnerable and who is not. Regulation and practice policies have tightened, and harm can arise to advisers, and their clients, if not aware of these. For their own protection, advisers who document, create an audit trail, and consider actions that can be taken at the earliest opportunity for their clients will be the most likely to help and support those who find themselves in difficult situations.



TOP TIP!

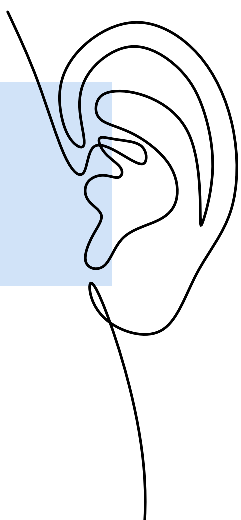
Advisers who document, create an audit trail, and consider actions that can be taken at the earliest opportunity for their clients will be the most likely to help and support those who find themselves in difficult situations.

INTERGENERATIONAL TRANSFER OF WEALTH:

- The great wealth transfer is underway, and advisers need to get ready, particularly as client interest in this area continues to accelerate. The need and value of advice has never been greater, and some advisers have already noted that the conversation with clients has changed since the pandemic because of a greater interest in estate planning and wealth transfer.
- The advice, products, and services that clients require are often dependent on what life stages they may be in. Are they thinking about their first home, starting a family, or retiring, for example? However, there is not a one-size-fits-all approach, so it's important not to categorise clients based on the simple assumption of age.
- Advisers need to probe and really listen to what is being said and asked by their clients.
- Advisers need to take into account clients' relationships with their family, as well as the habits, values, and financial wisdom that may have been passed on. This will help establish greater understanding of the motivations and triggers of when clients – new and existing – seek financial advice.
- There is a greater need for intergenerational planning, but advisers are split down the middle on the role it plays in client conversations. Some families may be more willing to open up than others. Roughly half suggest it makes client conversations confused, tricky or difficult, while the other half believe such conversations make it more straight-forward.
- Families are growing and becoming increasingly complex, and people are living longer. Where wealth traditionally used to be passed down in stages upon the passing of a family member, wealth transfer is now a lot more convoluted. The decision making and participation process is becoming complicated. Yet, with a growing number of people involved, discussions around intergenerational wealth can be more productive.

TOP TIP!

Advisers need to probe and really listen to what is being said and asked by their clients.



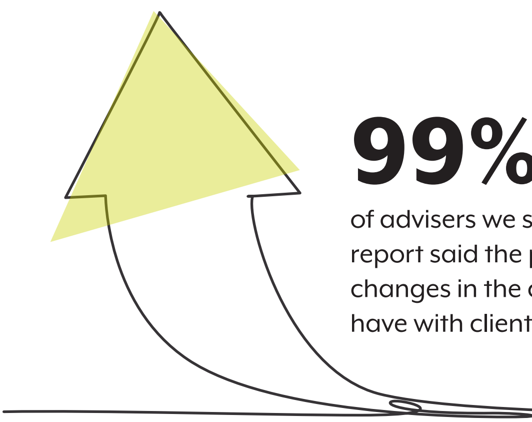
Chapter 1

‘THE NEW CLIENT CONTRACT’

The Covid-19 pandemic fundamentally changed how businesses carried out their day-to-day activities for the best part of two years. For some, it offered up the chance to work from home and save some money, whilst for others it meant being furloughed or losing their job altogether, and therefore having to rely on savings to meet mortgage or rent payments.

In response to what became the ‘new normal’, 99% of advisers we surveyed for this report said the pandemic had led to changes in the conversations they have with clients.

In this chapter we will cover how those conversations have changed and offer advisers some tips to stay on top of clients’ new expectations.



99%

of advisers we surveyed for this report said the pandemic had led to changes in the conversations they have with clients.

AWARENESS OF RISK AND UNCERTAINTY

A common theme advisers noticed when talking with their clients during the pandemic was that risk and uncertainty seemed to be driving their financial decisions – or preventing clients from making them altogether. More than a quarter (27%) of advisers noticed more reticence around investing and associated risks. Although they recovered quickly, the nosedive seen in markets around the world in March 2020 may have spooked clients. At such a stage it is up to advisers to remind clients of their long-term plan, reminding them that investing is about time in the market – not timing the market.

A similar number of advisers (27%) found clients were considering delaying retirement due to financial uncertainty and delaying planned life events. In contrast, the pandemic forced the hand of some clients; 22% of advisers said some were considering retiring earlier due to a job loss or business closure. Although most, if not all, Covid-19 restrictions have been lifted, other external factors continue to amplify uncertainty.

“Early on in the coronavirus crisis there was some panic. Some people thought they were going to be infected and die and wanted to make sure their affairs were in order. But more recently we’ve been having conversations with older clients along the lines of: ‘It isn’t looking good for Jack or Jill and their job. They have just been put in the redundancy group. They have got a mortgage – wouldn’t it be good if we could pay it off?’ It is interesting the level of sacrifice that some parents are willing to go to help their children. And the children are not always deserving of such generosity. It is then my job to help the parents estimate how much they can afford to give the affected children.”

LONDON-BASED FINANCIAL PLANNER

IN THE MEETING ROOM

The pandemic forced advisers to adopt virtual practices so they could continue to adequately communicate with clients. Doing so apparently provided a better environment for talking openly about money, as nearly a quarter (22%) of advisers said families found it easier to discuss family planning together digitally rather than in person.

Regarding what clients wanted from a meeting during the pandemic, almost a third (31%) of advisers reported clients most wanted their questions answered during a meeting, and the same percentage of respondents said clients valued using real life examples when discussing their financial situation.

A similar number of advisers (29%) said their clients wanted to be provided with calculations and projections when discussing their financial position. They also valued information being simplified to aid their understanding. Some 29% of advisers also reported their client wanted them to understand their personal situation.

"I have moved completely online, and I will stay that way. Clients are more comfortable."

ADVISER, SOUTH EAST

"They've introduced a son or daughter into the meetings. They've wanted them to be involved so it's quite useful."

ADVISER, WALES

"I use cash flow modelling which helps to visualise where they may go – the mortality is set to 100 and different scenarios are visualised. I love being able to do this with clients and see it on screen."

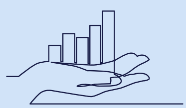
FINANCIAL ADVISER, SOUTH EAST

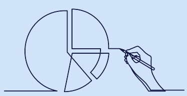
THE CONSUMER VIEW IN NUMBERS: WHAT MAKES RECEIVING FINANCIAL ADVICE A GOOD EXPERIENCE?

40%
Understanding their situation

39%
Answering any questions

32%
Simplifying information



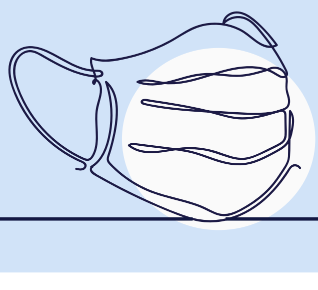


25%
Providing calculations and projections

24%
Providing examples

22%
Holding scenario exercises for real-life situations

20%
Using real-life examples



THE GROWING ROLE OF ESG

A trend that is impossible to ignore is the growing importance of sustainability in finance. 2021 saw a boom in ESG and sustainable investing, and heightened concern around environmental issues. The COP26 summit was a defining moment for net-zero targets around the world, and ambitious plans set out by the Government and companies are trickling down to changing day-to-day consumer behaviours. The pandemic also shed a light on the current climate situation, and when asking if it affected consumers' concerns for environmental matters, more than half (54%) said it did.

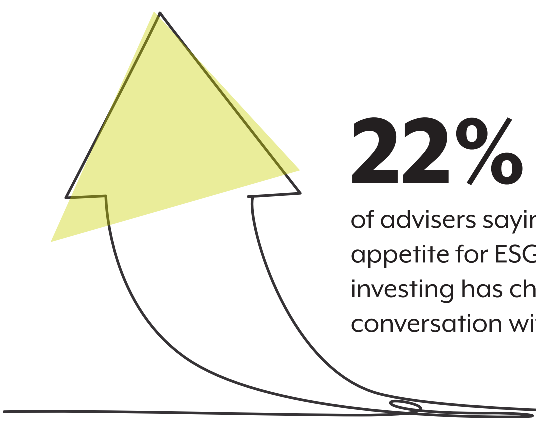
This has filtered into financial priorities, with 22% of advisers saying a greater appetite for ESG and sustainable investing has changed the conversation with clients.

The headline takeaway is simple: clients want to invest responsibly.

A large majority (95%) of advisers said ESG had come up as a topic in the last 12 months with their clients, and a similar number (94%) believed their clients care about how sustainable their investments are.

Despite this, there remains a knowledge gap among financial advisers. More than a third (37%) said they need to upskill in terms of their knowledge and understanding of ESG funds available, and 16% said they did not feel confident enough in recommending sustainable/ESG funds.

ESG will not be the primary motivator for all clients, but if advisers want to ensure they are able to service their clients to the standards required by the regulator and stay relevant as younger generations increasingly seek financial advice, it is crucial that advisers brush up on their knowledge in this area.



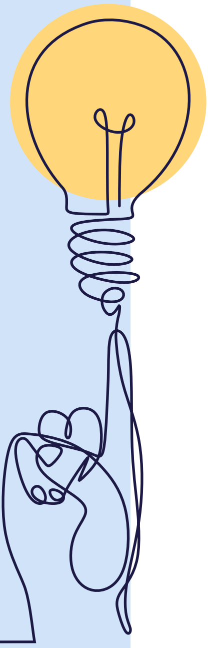
22%

of advisers saying a greater appetite for ESG and sustainable investing has changed the conversation with clients.

TOP TIPS!

- **Use simple, relatable resources to explain a client's goals and financial position.**
  Doing so will also communicate to clients that you have fully understood their position and needs.

- **Consider client preferences when designing meetings in the post-pandemic world.**
  Those families that find it easier to be open about their finances via video link would be best placed to have conversations about subjects like wealth transfer virtually. For others, the scenario may be the opposite, and a face-to-face discussion may be preferable.



- **Remind clients of their plan.**
  Uncertainty and market volatility could worry clients, yet it may not be appropriate to change their financial plan. Reassuring them of the long-term benefits of investing may help ease these worries.

- **Wise up on ESG.**
  There are countless resources available online to better understand ESG, including webinars and guides. You can also communicate with your investment manager or asset managers to gain a better understanding of the funds available to the market.

Chapter 2

VULNERABILITY

A vulnerable person is, according to the FCA, “someone who, due to their personal circumstances, is especially susceptible to harm – particularly when a firm is not acting with appropriate levels of care.”

Vulnerability is a broad term. Obvious examples include a person with poor mental or physical health, or a person with limited literacy or numeracy skills. However, the spectrum of what could be considered vulnerable is far greater; a person could be in debt, for example, or have just lost their job. Vulnerability is therefore a characteristic advisers must be aware of when handling clients.

This chapter will look at how the Covid-19 pandemic has impacted vulnerability and what advisers can do to assist vulnerable clients.

COVID-19 AND VULNERABILITY

The coronavirus pandemic also appears to have had a significant impact on vulnerability. The FCA’s Financial Lives coronavirus panel survey found that 53% of adults displayed characteristics of vulnerability, which equates to an additional three million people facing a situation that could leave them susceptible to harm since February 2020.

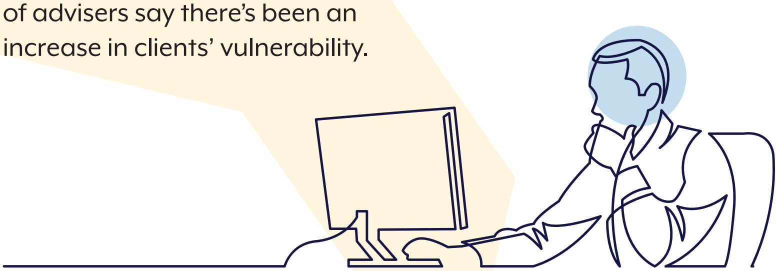
The increase in vulnerability among clients is also evident from our survey. More than nine in 10 (93%) of our adviser respondents reported seeing an increase in client vulnerability over the last 12 months, and a quarter (25%) said their clients had been under greater financial pressure.

Clients of all age groups under 65 experienced an increase in vulnerability, according to our surveyed advisers, with those aged 25-34 and 55-64 particularly impacted. Those aged 65 and above were not considered to be more vulnerable in the last 12 months, which could be as a result of being considered already vulnerable due to their age, or being retired, and therefore not at risk of losing their job as a result of the pandemic.

Younger people were more likely to have lost jobs because of the pandemic, or been furloughed, meaning their personal finances were more likely to have taken a hit. Meanwhile, pre-retirees could have become particularly vulnerable if they lost their job before their retirement.

93%

of advisers say there's been an increase in clients' vulnerability.



THE GROWING ROLE OF FINANCIAL WELLBEING

Although the Covid-19 pandemic forced virtual meetings to become the norm, a third (33%) of advisers surveyed said they had seen an increased demand for face-to-face meetings since stringent Covid-19 restrictions were lifted. This could be explained by clients feeling more vulnerable in the wake of the pandemic.

Also, likely to be linked to vulnerability, 35% of advisers reported clients wanting to have more frequent contact with them, whether that be face-to-face or via virtual means. Similarly, 34% of respondents said clients needed more emotional support than financial.

These findings suggest clients feel more nervous about their personal finances in the wake of the pandemic and require greater assurances from their financial adviser than they did a year ago. Rising inflation and more volatile markets are likely to add to this concern.

34%

A third of advisers say their clients need more emotional support than financial, such as more guidance and support with day-to-day lives.

Covid-19 restrictions promoted the need for more digital engagement with the rise of Zoom-style meetings, resulting in face-to-face meetings halving from 52% to 24%. Video conference calls increased from 20% to 32%. Despite this, a third of advisers (33%) have confirmed that the demand for face-to-face contact has since increased. A quarter (25%) of advisers say clients want to continue with virtual meetings.

Ways in which clients conducted meetings with their advisers	Pre-Covid-19	Post-Covid-19
Video conference calls (i.e. WebEx, Zoom, Skype, Teams etc)	20%	32%
Phone conversations	32%	35%
Face-to-face meetings	52%	24%
Emails	32%	35%
Social media engagement/ messaging (i.e. LinkedIn)	14%	18%

But whilst clients are seeking assurances, nearly two in five (37%) advisers acknowledge they need to improve their ability to emotionally support their clients, and a similar number (38%) said they need to work on their listening skills.

Clients want to feel understood and listened to, and they want to feel like their adviser is on hand to assure them of their financial position.

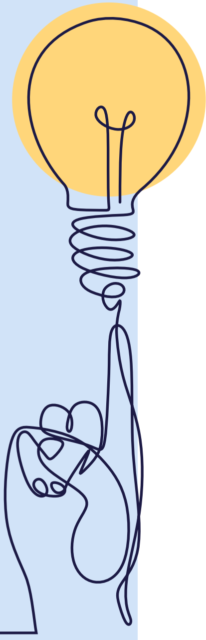
Advisers should see financial wellbeing as a tool in their arsenal to help deliver positive outcomes for vulnerable clients. The Initiative for Financial Wellbeing defines financial wellbeing as "the study and application of how money can make us happy". Poor mental health and issues with money are often linked together, and by becoming better accustomed to financial wellbeing, advisers can help clients free themselves of damaging spending and saving patterns or help to put them at ease when thinking about their personal finances.

TOP TIPS!

- **Brush up on your soft skills:**
  Work on listening to your clients and effectively communicating that you have understood their needs. Consider signing up to webinars on financial wellbeing to gain a deeper understanding of it.

- **Develop your skills to identify vulnerability sooner.**

- **Adopt an inclusive policy on client preferences:**
  Some clients are keen to get back to face-to-face advice after a long hiatus, others would rather keep things virtual. If your business model allows it, offering a hybrid model could provide your clients with more options that meet their needs.



Chapter 3

INTERGENERATIONAL TRANSFER OF WEALTH

A theme that comes up consistently among clients is the intergenerational transfer of wealth. More than four in five (82%) advisers told us there has been a jump in client interest on the subject, while more than three-quarters (77%) of advisers said estate planning has become more important to their clients in the last 12 months.

This is hardly a surprise. In the UK alone, some £5trn is expected to pass from baby boomers to younger generations in the coming years. The transfer of wealth between the generations has been widely described as the "greatest wealth transfer in history" – and advisers need to get ready. This chapter will look at how advisers can help to facilitate open conversations with clients and their families about the transfer of wealth and look at what to consider when advising younger clients.

"You can leave as much as you like on your death bed, and you will never see the impact that money can have on their lives. So why not make gifts whilst you're alive and help to change your family's lives, help them, influence them maybe – but above all, enjoy it. That encourages many people in their 70s and 80s to make some fairly significant gifts without the feeling that they are distorting their lives."

WEST COUNTRY FINANCIAL PLANNER

TALKING INTERGENERATIONAL WEALTH

Families are growing and becoming increasingly complex and people are living longer. The decision making and participation process is therefore becoming complicated. Advisers need to account for life expectancy and how this can affect the planning process.

As money is passed through the generations, something advisers should be focused on is bringing on board the children of currently advised clients. However, our research suggests advisers are split down the middle on the role intergenerational planning plays in client conversations, with roughly half suggesting it makes those conversations confused, tricky or difficult, whilst the other half believe such conversations are more straight-forward.

Of those advisers who said intergenerational planning makes client conversations more challenging, more than a third (34%) said it was because generations do not want to disclose information in front of other family members. In chapter one we mentioned that our research found some families found it easy to communicate about money issues via video link, so advisers struggling to get families to speak openly about their finances in the same room may benefit from trying virtually.

"We have become pretty adept at encouraging parents to become lenders on broadly commercial terms. So instead of paying interest to the bank or building society, the borrowers pay interest to their parents. That doesn't always go down well, but it does allow for the loans to be forgiven from time to time and in effect just be gifted – say at a wedding or whatever."

FINANCIAL ADVISER

If advisers hope to take advantage of the immense wealth transfer set to take place in the coming years, they must consider what is important to younger generations, and how their financial plans differ from their parents or grandparents.

WHAT MATTERS TO YOUNG PEOPLE?

According to our research, millennials – those aged between 24 and 38 – want additional support from their adviser. This is likely because their financial needs are getting more complicated, and classic ‘trigger points’ to seek advice, like the birth of a child, marriage, or the death of a loved one, are starting to feature in their lives. In addition, they are likely to be considering buying, or have bought, a property, they are starting to invest, and they are aware they need to save for retirement.

Millennials are also the most likely generation to be concerned about their investment strategy, as reported by 39.5% of advisers, and the generation most worried about being responsible with their money (36.5%). Financial wellbeing, therefore, may be a useful tool in an adviser’s armoury when advising these younger adults.

Advisers looking to gear themselves up for the younger generation may wish to spend more time holding scenario exercises for real life situations, like marriage, divorce and having a family. Our consumer research, which surveyed 1,021 UK adults who have previously, or currently seek financial advice, found those aged 18-45 were significantly more likely to see such exercises as a good experience, versus those aged 46 and above.

ESG is also likely to play a bigger role for advisers looking to take on younger clients. More than 50% of consumers aged between 18 and 55 consistently said their concern for environmental matters had increased in the past 12 months compared with fewer than 50% for those aged 56 and above. The picture was similar when they were asked about their desire for sustainable investments, although those aged between 22 and 25 and 36 and 45 were on average slightly less interested in the concept than other age brackets under 56.

“It’s mainly the youngsters who are interested in where the money is going – the ethical dimension if you like. They say things like: ‘I would like to make sure it’s going to good causes – purposeful investments. I don’t like arms.’ I have to say that in my client base the senior ones have never discussed where the money is going in these terms. They say: ‘I don’t care where the money is – just make sure it doesn’t go down in value.”

MANCHESTER-BASED FINANCIAL PLANNER

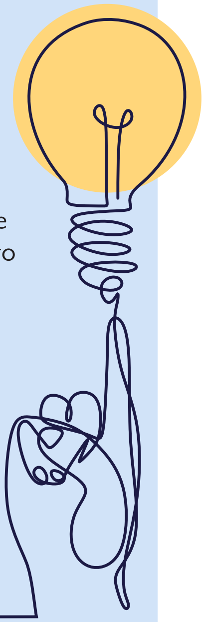
TOP TIPS!

- **Wise up on wealth transfer tools.**
  As new tax changes have been introduced, ensure you're comfortable answering any questions your clients may have. Additionally, ensure you are aware of various products and wrappers that could help guard clients against inheritance tax.

- **Bring in the experts if necessary.**
  Specialist solicitors can be a useful third party when considering wealth transfers as they have expertise in vehicles like trusts.

- **Facilitate a safe space to have an open discussion about wealth with a family.**
  Speak with clients and find out if they and their family would prefer to have an in-person discussion about the transfer of wealth or create separation via video link so they feel more able to speak openly.

- **Make use of real-life scenarios when advising younger clients.**
  Create a series of common scenario case studies which you can share with clients. At Charles Stanley, we have our Conversation Starters to help support advisers and their clients. Contact ist@charles-stanley.co.uk to request access to these case studies.

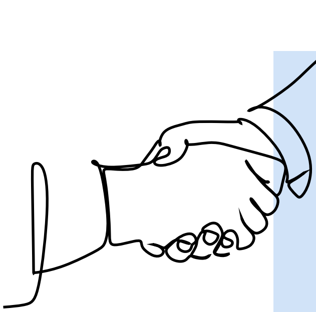


SUMMARY – THE FINAL WORD

The world is a more complicated place than it once was, and there are clear challenges ahead as we remain uncertain what the future will look like. The pandemic, among other societal events, has undoubtedly set some trends into motion whilst accelerating others, such as digitalisation and ESG, and it has implications for what services advisers provide to clients as well as how they work.

Many consumers are now more engaged with their finances, and ultimately there is an opportunity for growth among financial advice firms to serve them. The value of advice is being recognised among consumers, and notably there is a more involved younger audience, but there is more advice firms can offer in attracting wider target markets. Advisers can shift the dial from people only seeking advice until they are presented with financial concerns and issues to using this service from the get-go. Involving families in wider conversations is a fundamental part of this.

There is a hesitance from clients when it comes to intergenerational planning and bringing family members together in a calm and controlled setting requires skill from advisers. Different generations have different priorities and expectations, making it a difficult situation to navigate. Advice firms need to consider the implications of their offerings, what they may need to expand, but also whether they need to outsource for them to excel in their expertise.



TOP TIP!

Consider the implications of your offerings and what you may need to outsource to excel in your expertise.

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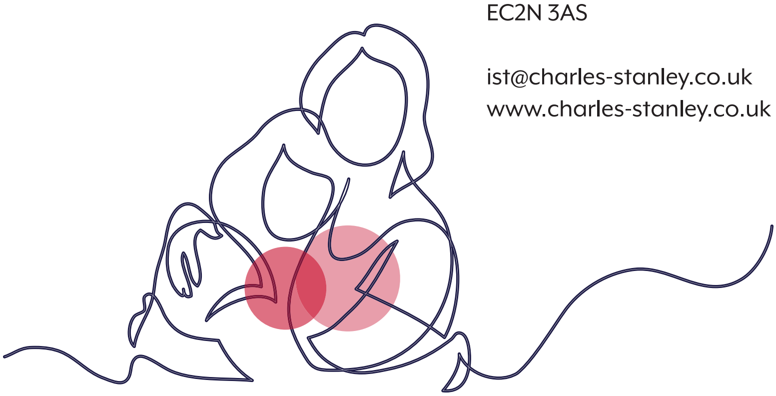

BOOK OF STORIES 3.0

PRACTICAL SUPPORT FOR EVOLVING CLIENT NEEDS

Get in touch to discuss the topics raised or set up a meeting to understand how Charles Stanley can help you

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