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BOOK OF STORIES 3.0

THE NEW CLIENT CONTRACT

CHARLES STANLEY

Important Information

The value of investments can fall as well as rise. Investors may get back less than invested. Past performance is not a reliable guide to the future.

CONTENTS

HOW ADVISERS' RELATIONSHIPS WITH CLIENTS ARE EVOLVING

Advisers need to recast their role and relationship with their clients. Giving investment advice has traditionally been central to advisers' work but - investment functions have increasingly been transferred to in-house or third-party specialists. This means that much of their time and energy is devoted to providing valuations and other information that could be automated and produced more efficiently.

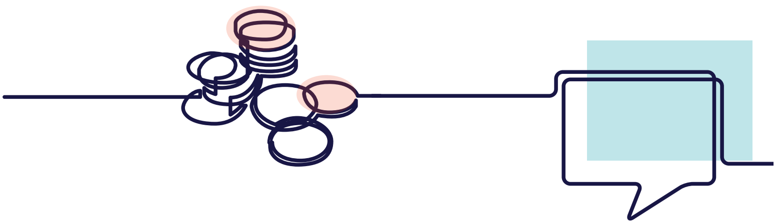
Advisers have the closest and strongest links with clients, but they need to step back and think about how they can retain and renew these crucial relationships so that they can focus on the need to:

- Listen to their clients about their real concerns especially in these times of inflation and market turmoil
- Help clients understand what they really want and what is financially realistic in terms of investment returns and the wealth they can pass onto their families
- Ensure they are truly connected to the key members of a family – spouses/partners and the next generations
- Advise the clients about the outcomes of various courses of action – or inaction – especially around retirement but also tax and estate planning
- Solve specific financial problems
- Arrange appropriate investment and insurance products, explain them and then over time adapt them as needed and as circumstances evolve

This changing relationship is what we call 'the new client contract' and it is all about providing real value to the client to drive value for advisers' businesses. Virtually all (99%) of the advisers we surveyed told us that the conversations they had with clients had changed as a result of the pandemic.

THE ROLE OF TECHNOLOGY

Technology provides advisers with the capacity to continue to evolve, while a range of other factors are driving the move to a new and deeper relationship. Clients are expecting much more from their advisers than data and factual reporting.



"People want to engage with their money. If you can't articulate value to your client, what are you doing? That's all going to be wiped out by technology."

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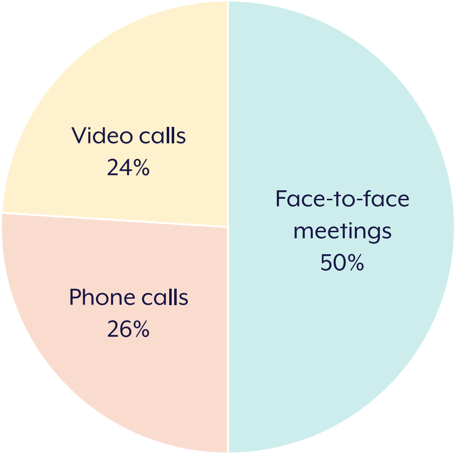
Using technology properly has two main benefits for advisers and their clients. Technology can:

- Free up time for advisers and their teams to focus on what clients really value – such as personal contact rather than just written reports
- Enhance the client experience. For example, the speed and convenience of video calls allow advisers to contact clients more frequently

The pandemic accelerated the use of video calling and other technologies, but since then, advisers have reverted to at least half of their meetings with clients being face to face as is clear from Figure 1 below. Nevertheless, remote meetings now constitute a much higher proportion of encounters than they did back in 2019 and earlier. Largely this is because technology has opened up the possibility for advisers to be in more frequent contact with clients, often with shorter but more timely meetings.

Figure 1: What proportion of your (oral) client contact is conducted through:



Source: Platforum, July 2022. Base: 306 financial advisers.

"From personal experience, I think clients like the face-to-face interaction with an adviser, rather than having to make the decisions themselves. You will always get clients who like being able to do their own thing, but still have a need for the face-to-face contact."

FINANCIAL ADVISER

DRIVERS OF CHANGE TOWARDS THE NEW CLIENT CONTRACT

The pandemic accelerated the introduction of a technology change for advisers – but several other recent key developments in business and wider society have impacted on financial advisers and their businesses. Drivers of change to the new client contract include:

- **A polarisation in the demand for services and rising expectations** - Most of us generally expect standard services – such as buying things and getting simple information – to be efficient and therefore fast and cheap. But we also demand that personalised services should be expert and specific to us. Increasingly clients require advisers to devote their time, expertise and empathy to help solve problems that are – or feel – unique.
- **The capacity of tech to enhance service** - More and more clients are expecting advisers to use tech to make their personalised service the best it can be. For example, cash flow modelling is increasingly used to help clients envisage possible future scenarios and measure potential risks. Better comms tech will make digital meetings even more acceptable and widely used to make the best use of both client and adviser time.

"I use cash flow modelling which helps to visualise where client scenarios 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."

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- **Self-directed investing (D2C)** - Around a third of UK adults use financial advisers; however, only 8% have an ongoing relationship with an adviser to whom they delegate the management of their investments and financial affairs. So, we know that many clients look after their own investments through D2C services or consult an adviser intermittently. However, a proportion of these clients do feel the need to get financial advice when they reach retirement or other major turning points in their lives, as some of the D2C operators have discovered. The growth of D2C investing with some limited human intervention could present competition to some advisers but other advisers are already seeing the potential for looking after lower-value clients.
- **The need to provide value to clients** - Client demand and regulatory encouragement will cause some clients to question the value if their advisers just provide very standard service levels. If the output of firms is an annual routine meeting and valuation, clients could ask what they are getting in return for substantial and increasingly visible fees. If short-term investment returns, and therefore adviser fees, fail to match inflation levels, advisers may find themselves tempted to increase fees over and above normal percentage-of-funds levels.
- **The FCA's consumer duty and other regulatory developments -** If this turns out to be effective – and the FCA is putting great emphasis on it – firms will be under great pressure to provide better value. Value statements have already started to shake up asset management and are likely to have a similar impact on advice, although most advisers are currently not sufficiently aware of these impending developments.

"I think [advice is] very much going to be regulation driven. You know, it's whatever the regulator decides they want to do. They're becoming much more heavy-handed."

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- **The impact of rising tax** - One of the most powerful ways to create added value for clients is tax planning – especially during times of disappointing stock market returns. The financial returns from saving tax have been characterised as 'tax Alpha' – and for good reason. Tax savings are certain, palpable and clients easily understand them.

"I think there will be a lot more emphasis on IHT mitigation going forward. They said on a recent news report that the government got about £6 billion in IHT receipts*. I think that's going to flag up for people not wanting to pay any more tax than they have to."

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* The Office of Budget Responsibility (OBR) estimated in April 2022 that IHT receipts for 2022/23 would be £6.7bn https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/inheritance-tax/

- **The general increase in wealth -** People are getting richer and this increase in wealth is already powering the advice sector. The slow demise of DB pensions outside of the public sector and the growth of DC pensions provides major opportunities for the financial advice sector. And the reducing importance of pensions generally as a proportion of the wealth of the most prosperous clients will stimulate the need for tax planning-based financial and investment advice.
- **The huge intergenerational transfers of wealth -** The richest generation in history is starting to pass on its wealth to their families. This transfer will open up new relationships that the advice firms which are prepared for change will create and benefit from.

THE IMPACT OF INFLATION ON FINANCIAL ADVICE

The pandemic changed advisers' conversations with clients. Now the cost-of-living crisis is changing discussions with clients and already prompting them to seek financial advice. It is not surprising that conversations with clients are changing now that inflation is back from decades of dormancy.

- More than four out of five advisers say they are reacting to the inflationary leap by discussing real returns with clients.
- It is perhaps more remarkable that fewer than half of advisers (45%) are adjusting the inflation assumptions in cash flow projections. This may be more of a technical issue; several advisers have told us that they are increasing clients' spending assumptions for the next few years rather than altering the long term expected rates of inflation.
- Rather more (49%) of advisers are looking more carefully at how clients' cash is managed.
- Some 8% of respondents ticked the option 'Other' in relation to the impact inflation is having on their advice. Specific answers include: 'none/no change', 'increased conversations', 'reviewing risk profiles', 'not much concern/see it as short term', 'difficult conversations with clients about their money (losing it, spending too much)'.

49%

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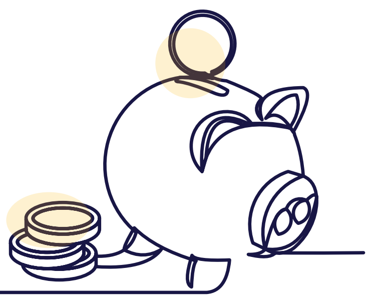
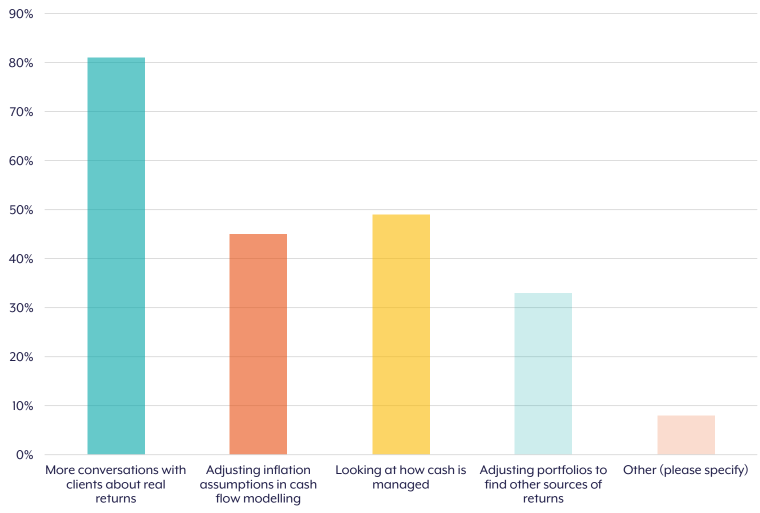


High inflation has introduced a new and unwelcome element into financial planning discussions. It will affect clients and their families in different ways and advisers will need to listen carefully and not make too many assumptions about how clients will continue to react to the new development. Inflation at current levels will be a novelty for younger clients, but those who remember the 70s and 80s will be all too familiar with the phenomenon.

What impact is increased inflation having on the advice you give.



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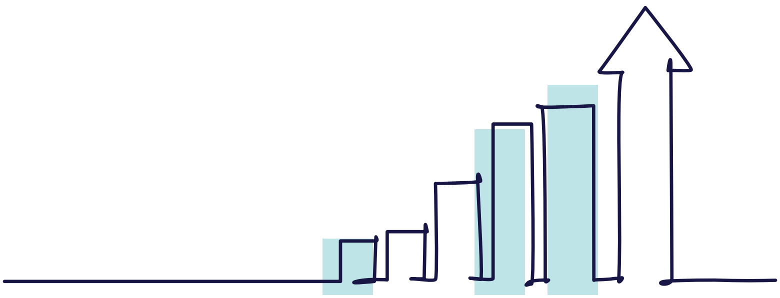

TOP TIPS

The most successful advisers of the future will adapt to the demands implicit in the new client contract. Advisers should increasingly aim to work in teams with advisers and other staff with a diversity of ages, genders, backgrounds, levels of knowledge and specialisms. Trends that will help adviser firms meet rising client expectations include:

- Many advisers (in some firms most advisers) lose the business when a client dies, and their estate passes to their family. Often the initial beneficiary is the client's spouse or partner. All too often advisers ignore the spouse or partner who didn't take the lead in the original relationship, and they lose the business. And it's the same – or worse – with the links to younger family members. Advisers should use a range of approaches to make sure that the business from the family is retained within the firm. This involves teamwork, diversity, appropriate comms, and reaching out to spouses/partners and younger family members.

"Planning-led investment management allows us to build a professional team. That consists of one investment manager, with one financial planner, with a paraplanner, and an administrator."

FINANCIAL ADVISER

- ESG is a priority for some clients and the proportion is increasing, especially – but not exclusively – among younger investors. The subject has received more attention from the regulator, and it has become clear this won't be a passing fad. It is essential for advisers to bring their knowledge of this area up to date and to keep refreshing their understanding because the topic is still evolving.
- Advisers who continue to improve their 'soft' skills are likely to be able to form the deepest and most productive relationships with clients. Advisers' coaching skills need to be developed to a much greater extent and become an integral part of the function of teams.
- Firms must invest more in tech that is joined up, user-friendly and produces the right results for both clients and advisers. As tech develops and improves, firms will need to invest on a continuous basis and with an annual budget that is likely to be significantly greater than now. The investment in training advisers and staff looks to be far too low in many firms.
- Advisers should use technology to enhance the client experience as well as making themselves more efficient. Client access to a portal to view portfolios and ask investment-related questions via secure messaging is a good example. Too often tech mainly benefits the adviser.
- In times of uncertainty clients need to hold onto their long-term goals and the plans their advisers have designed to help them reach these. Helping clients through the turmoil may require advisers to have listening and coaching skills of a high order and that is where much of their real value rests.

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.

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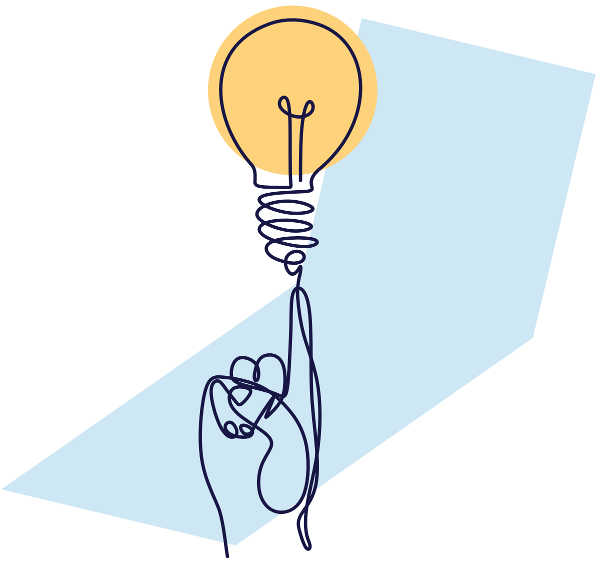

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To find out how Charles Stanley can help you and your clients create a more secure financial future, contact

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