

## BRAVE NEW WORLD

An investor perspective of wealth management services in a Retail Distribution Review (RDR) world

CREATED IN COLLABORATION WITH

scorpiopartnership  
what wealth needs next

**Pershing**<sup>®</sup>

  
BNY MELLON

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## What's on the cover?



### Thought Cloud

This thought cloud is based on the following question in the research programme: Which of these words should the wealth management industry aim to be most associated with?



RESPONSES FROM 1,000 OF THE UK'S WEALTHY POPULATION SUGGEST THAT RDR IS DELIVERING POSITIVE OUTCOMES FOR THOSE WHO CAN AFFORD IT. THEIR EXPECTATIONS ARE HIGH. WEALTH MANAGERS NEED TO THINK HARD ABOUT HOW TO RESPOND.

## IN BRIEF—what you need to know in 30 seconds

- ✓ **The outcomes from RDR targeted by the UK's financial regulator are understood and broadly welcomed by the UK's wealthy private investors.** Many have experienced a positive impact on the way they interact with their wealth management providers.
- ✓ **Age is the most significant determinant of investor behaviour.** Those under 45 are most welcoming of RDR, but they are also a highly demanding client segment.
- ✓ **Forty-nine percent of respondents identify themselves as self-directed investors, which is a potentially huge opportunity for wealth managers.** They are value sensitive, but prefer a low-touch to no-touch approach.
- ✓ **Those with less than £500,000 in liquid assets should also not be left out in the cold.** These are no-frills investors who are seeking efficient wealth management relationships.
- ✓ **One in eight of the UK's wealthy are likely to seek more financial advice as a result of the RDR changes.**
- ✓ **When presented with a range of different payment methods for investment advice and services, the UK's wealthy show a preference for fixed consultation fees alongside transaction or project fees.** It seems wealthy individuals appreciate a degree of certainty when it comes to fees for financial services.
- ✓ **Seventy-five percent of the UK's wealthy believe they are receiving good value for money from their financial providers,** despite almost one-third of the UK's wealthy reporting price increases for their financial advice.
- ✓ **Clients expect wealth management to be competitive with other parts of the financial industry.** This begs the question: how can a high-touch service like wealth management differentiate its value proposition at a fair price?
- ✓ **While experiences are positive, sentiment to the wealth management industry remains confused.** RDR has provided a framework for a high-quality experience of financial advice as standard, but it is in the hands of each firm to determine what qualities make their service worthwhile and ensure client happiness.

## INTRODUCTION

In 2012, Pershing commissioned Scorpio Partnership to carry out market research among the UK's wealth managers to assess the likely impact of the UK's Retail Distribution Review (RDR) on the industry and its clients. The report, entitled *Through the Looking Glass: An executive perspective of UK wealth management in a Retail Distribution Review (RDR) world*, published in April 2013, found that the customer value proposition was being rewritten by many operators, with an eye on segmentation, productivity and profitability. Operators recognised that they need to deliver and demonstrate value and efficiency.

A year on, we have asked 1,000 of the UK's wealthy population to give us their views on the impact of RDR and the ways they manage their money.

## THE RESEARCH PROCESS

The research asked a representative sample of the UK's wealthy population questions on how they have adapted to the changes brought about by RDR, the relationships they want with financial providers, and how happy they are with the state of their financial affairs.

The average investable assets of those who took part in the research were £6.7 million. However, 300 of those who took part had personal financial wealth of between £75,000 and £500,000, with an average wealth level of £259,000.

A further 301 had investable assets between £500,000 and £5 million, and 400 have wealth in excess of £5 million. The aim was to gain deep insight into the main UK wealth segments, as identified by wealth management practitioners.

Of note, 40% of the sample was from London and the South East; the remainder were distributed throughout the UK.

The views of the wealthy participants were collected via an online survey in November 2013.

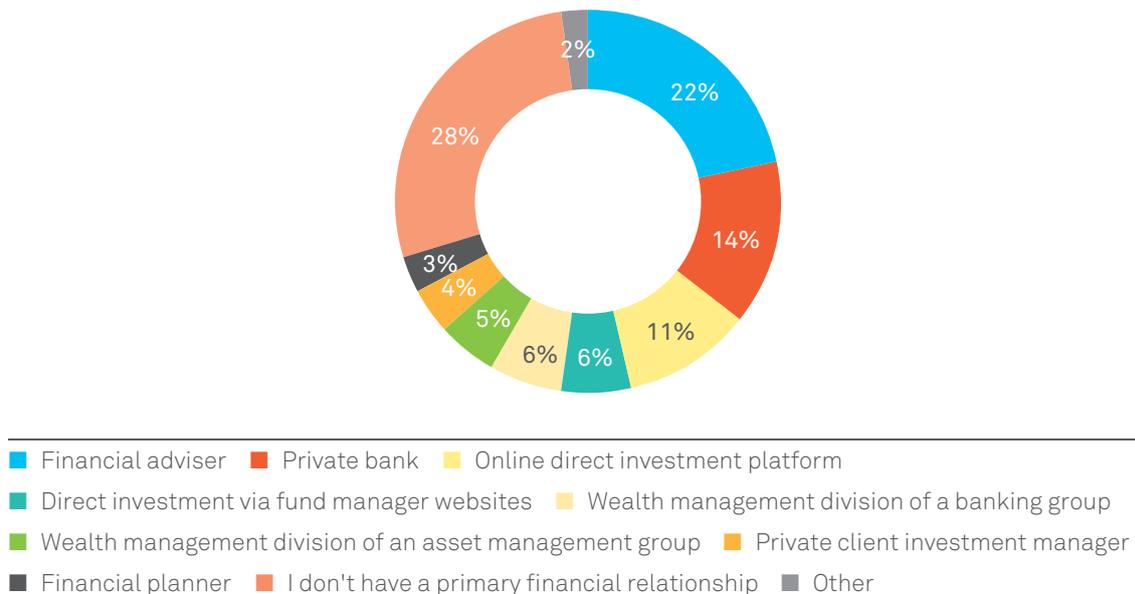
## FIGURE 1—TOTAL SAMPLE DISTRIBUTION

The participants in the research were selected to represent the three main segments emerging in the UK's wealth management landscape: those with financial wealth between £75,000 and £500,000, those with wealth of £500,000 - £5 million and those with wealth in excess of £5 million.



## FIGURE 2—BREAKDOWN OF SAMPLE BY PROVIDER TYPE

The respondents included those who use financial providers to support their wealth management decisions and those who do not. The aim is to understand the views of those who are both advised and those who are not advised. Those in the advised group use a wide range of wealth management providers in the UK. This gives a broad perspective of the views of the UK's wealthy population on the financial services available to them post-RDR.



## A WARM WELCOME

The results suggest that among the UK's wealthy population, RDR is receiving a warm but considered welcome. The outcomes targeted by the UK's financial regulator are understood by the wealthy respondents. More than that, they are being seen as having a potentially positive impact on the way individuals interact with their wealth management providers.

Eighty-nine percent of the UK's wealthy believe the four main outcomes of the RDR changes have the potential to improve the quality of their interactions with financial providers. In simple terms, these outcomes are:

- › The restructuring of fees to remove commissions from investments
- › Paying separately for advice, products and services
- › Clarity about the range of products and services that a financial adviser is able to provide
- › Professional qualifications for financial advisers

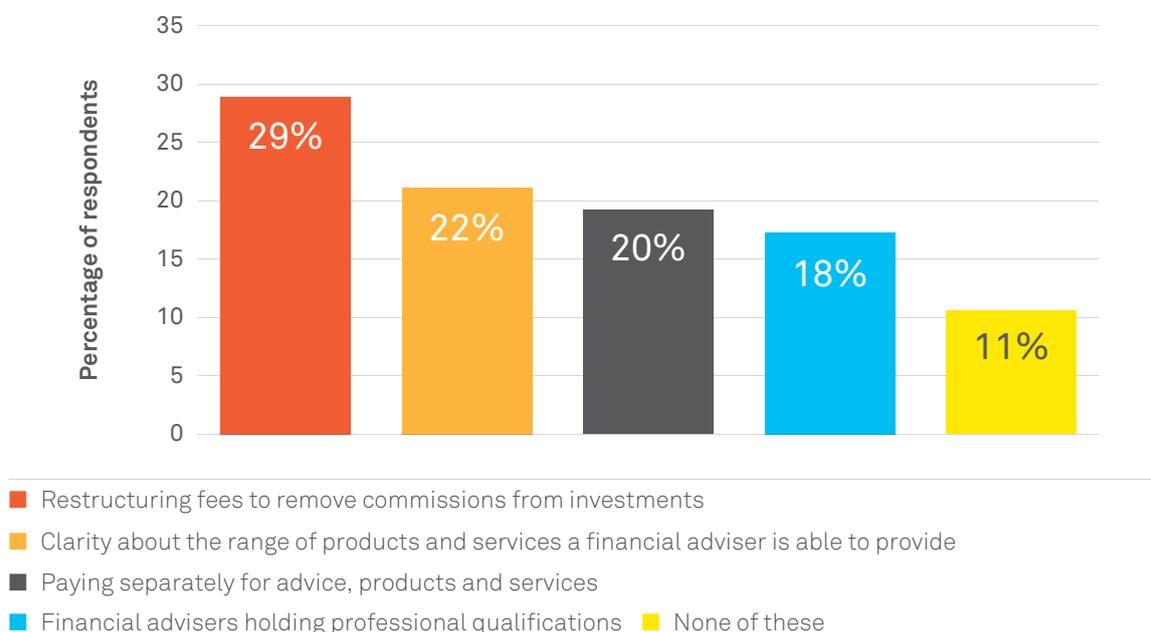
Of these four outcomes, restructuring of fees to remove commissions from investments was felt by many to be the most beneficial change. This comes as no surprise given the amount of coverage this issue has received in the UK media.

- › The judgement of the RDR reforms by the wealthy is considered
- › The welcome is certainly warm

However, the other major outcomes of RDR are also resonating with wealthy private investors. Clarity about products and services, paying separately for advice, products and services, and, professional qualifications were felt by many to offer significant potential to improve their interactions with financial providers. What this suggests is that the UK's wealthy both understand and welcome these measures. In their view, RDR is ultimately a good thing.

### FIGURE 3—RDR OUTCOMES CONSIDERED MOST LIKELY TO IMPROVE THE WEALTHY’S INTERACTIONS WITH FINANCIAL PROVIDERS

The UK’s wealthy population understands the benefits of RDR and the vast majority believe the outcomes have the potential to improve their interactions with the financial services industry.



This is true across the UK; although it appears the most positive impact has been felt among London’s urbanites. London’s wealthy are more likely to have found that financial advice has improved and is easier to access; although almost 40% believe financial advice has become more expensive and 30% have considered changing provider.

Outside the capital, fewer respondents have experienced changes as a result of RDR. However, they too believe the changes—on balance—have been positive.

That said, the ultimate test of whether RDR is a success in the eyes of the UK’s wealthy is whether they will do more business with their financial providers. On this point, their responses are more muted.

Eleven months into the new regime only 13% of respondents stated they are more likely to seek professional financial advice based on the changes brought about by RDR. Two thirds say they expect to take exactly the same amount of professional financial advice as they do today.

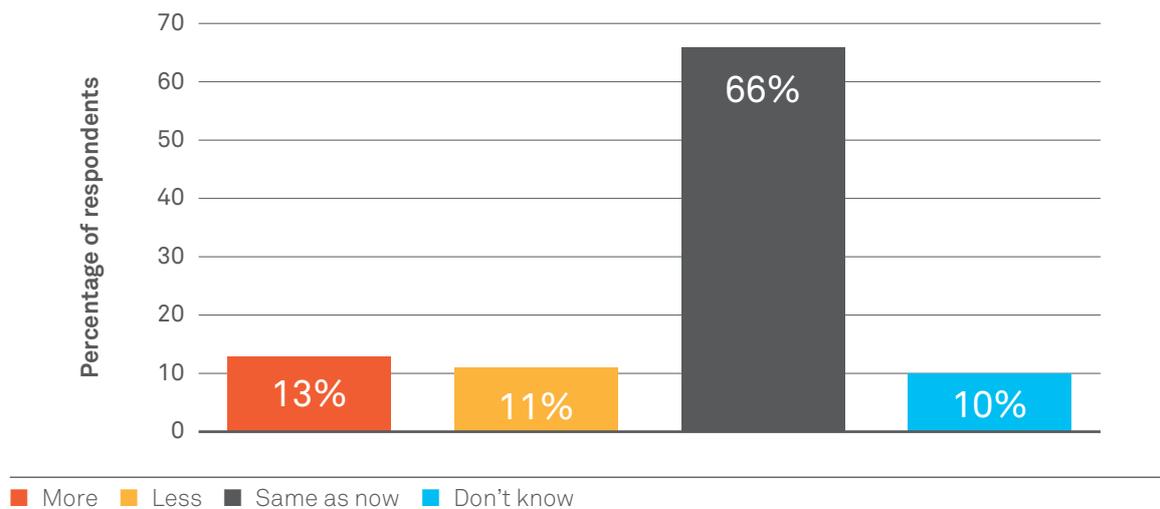
These results suggest that the wealth management industry cannot rely on the generally positive sentiment from wealthy clients to the RDR changes to result in more client advisory business. Respondents may be welcoming of the changes brought about by the new regime, but this is unlikely to translate into a large number making radical changes to their investment advisory relationships.

It is therefore important that financial advisers and wealth managers continue to have a proactive communication strategy to position the benefits of their offering to the UK’s wealthy in the context of the new regime.

- › One in eight of the UK's wealthy are likely to seek more financial advice as a result of the RDR changes

#### FIGURE 4—IN GENERAL, RDR IS NOT LIKELY TO PROMPT THE UK WEALTHY TO TAKE MORE PROFESSIONAL FINANCIAL ADVICE

The RDR changes are seen as positive, but the financial services industry cannot expect this to translate into significantly more business.



The second most important question for the UK wealth management industry is whether their clients may have considered changing provider as a result of the new regime. After all, such a radical overhaul of the financial services industry will undoubtedly have prompted many sophisticated private investors to consider their current financial arrangements.

On this front too, the results are somewhat unsettling. Twenty-two percent of participants in the survey had considered changing provider in the first 11 months of 2013 and twenty-six percent believe that firms are keener to have them as a client following the changes. The UK's wealthy seem to be aware that they are a prized client community for the financial services industry and will weigh up their choices accordingly.

- › More worryingly, 22% have considered changing provider
- › And, 32% believe financial advice has become more expensive

A year on from our first foray into how RDR may change the UK wealth landscape, some of the early concerns about how the industry needs to re-engage with clients have proved to be grounded. Although not exactly flighty, wealthy investors are more aware of their choices when it comes to financial advice.

However, it would also seem that the wealth management industry is rising to the challenge.

While the industry continues to debate whether the long-term impact of RDR will be positive or negative for investors, the views of the UK's wealthy suggest that their experiences this year are trending towards a better quality of service, albeit at a higher price.

Given the infrequent nature of financial interactions, inevitably a large number of the respondents to the survey had experienced little change this year. Among those who have experienced change, the majority are more likely to have felt a positive impact than a negative one.

They feel the trend is towards a clearer understanding of services, better access to advice, and a better ability to compare across the market. However, these improvements are coming at a cost. Thirty-two percent believe financial advice has become more expensive this year, versus only 10% who believe financial advice is cheaper.

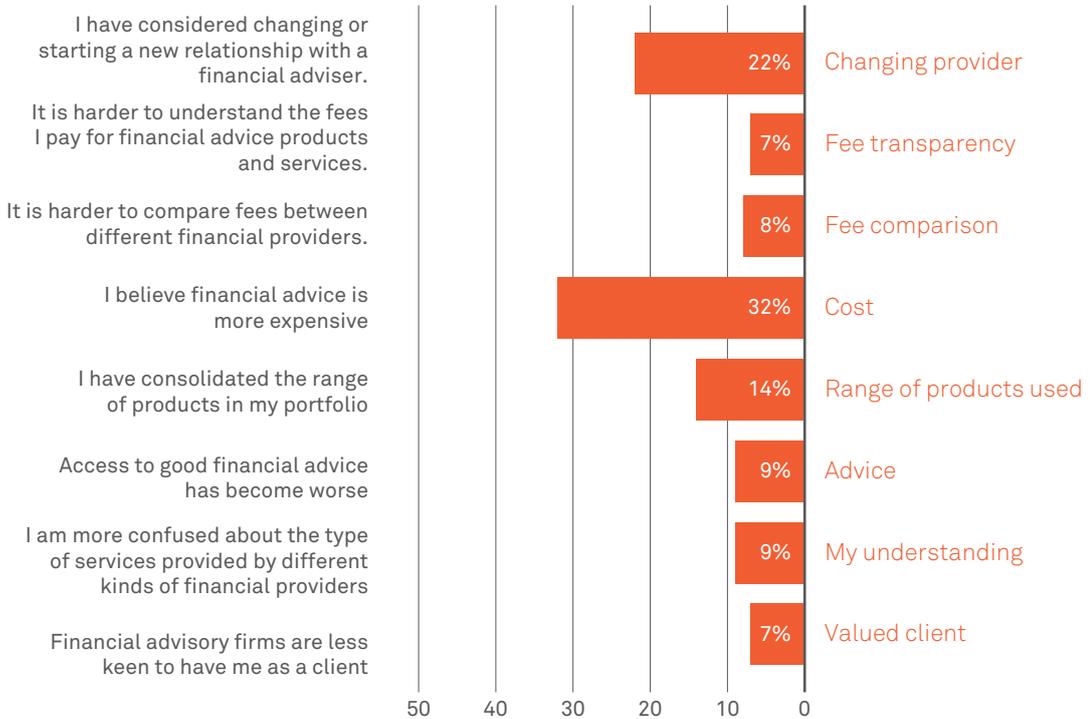
So, while the RDR changes are being received in an overall positive way by investors, the industry must remain vigilant about value. Indeed, it must ensure that the benefits that come from RDR are not seen purely to come at a price. The tightening of the regime must translate not only into a positive client experience, but one that is valued by its most valued clients.

› The wealth management industry must translate the benefits of RDR into a valued service

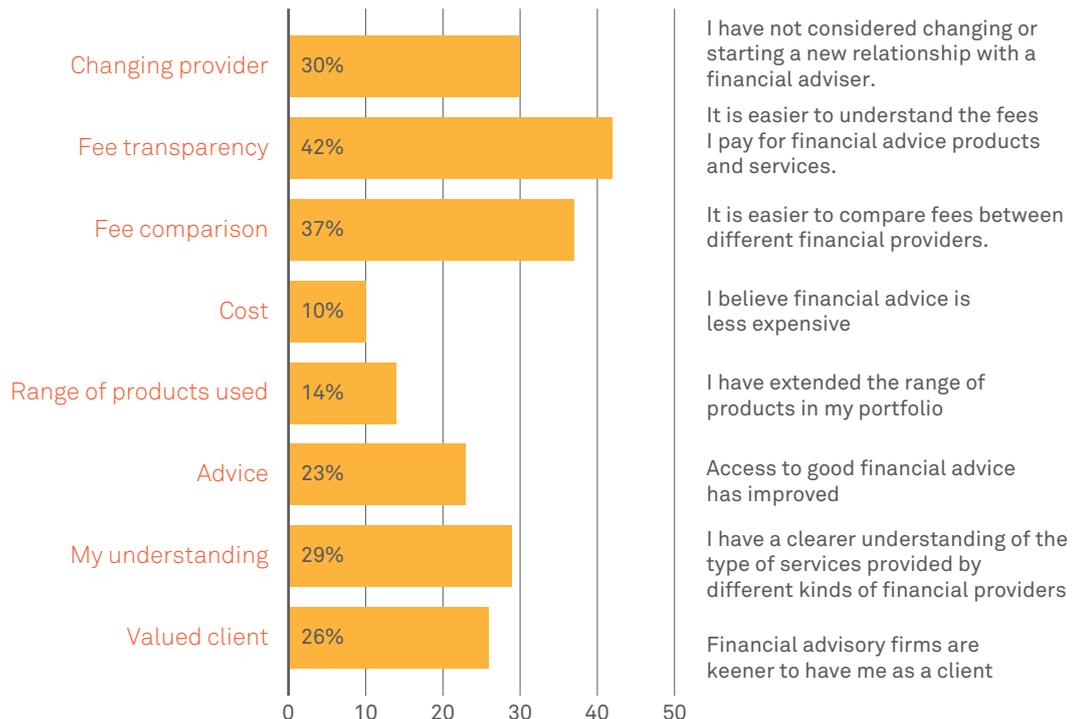
## FIGURE 5—THE WEALTHY ARE EXPERIENCING POSITIVE AND NEGATIVE OUTCOMES FROM RDR IN THEIR DAY-TO-DAY DEALINGS WITH FINANCIAL PROVIDERS

As one might expect this early in the new regime, the majority of the UK’s wealthy have experienced little change in their dealings with financial providers. However, among those who have, there are mixed views on improved quality of the client experience.

### NEGATIVE



### POSITIVE



## A FAIR ASSESSMENT OF VALUE

At present, 75% of the UK’s wealthy believe they are receiving good value for money from their financial providers. Moreover, 77% say they have a clear understanding of how their financial provider is remunerated.

These high scores for value represent a solid “pass” mark for the UK’s wealth industry. Indeed, they suggest that industry concerns that enhanced transparency could present a major challenge to the stability of their relationship was somewhat exaggerated—at least when it comes to the industry’s most wealthy clients.

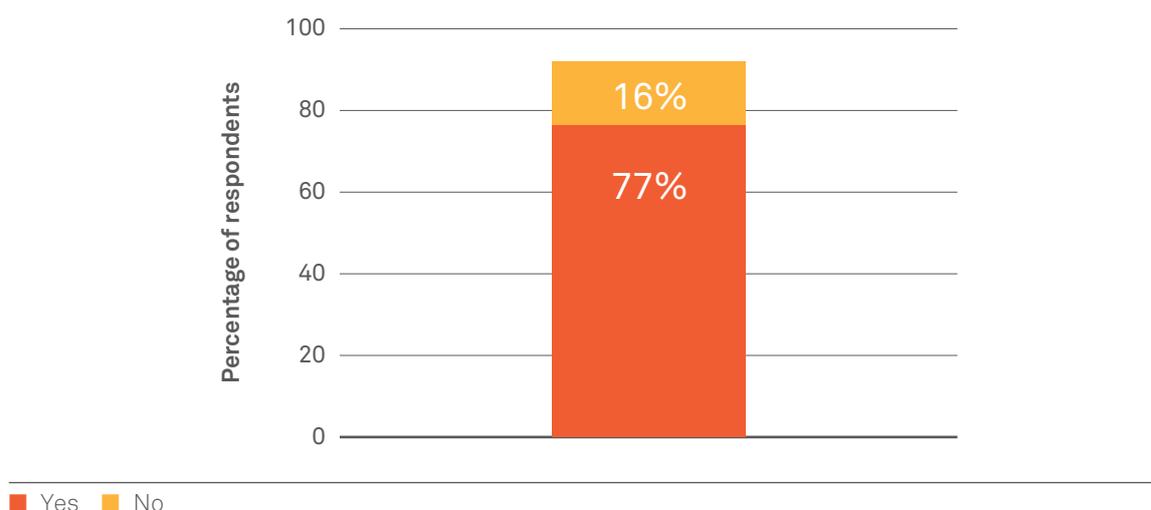
The UK’s wealthy value both the transparency RDR has brought to the market and the relationships they have with financial providers.

However, pricing transparency also changes the nature of the competitive landscape. For a high-touch service like wealth management, the new pricing regime presents specific challenges, as high-touch inevitably means higher cost. Yet, the research also highlights that the UK’s wealthy expect wealth management to be competitive. More importantly, they expect it to be competitive with other parts of the financial industry.

This begs the question, how can wealth management firms differentiate their value proposition at a fair price—especially as almost one-third of the UK’s wealthy are already reporting price increases (or perceived price increases) for their financial advice.

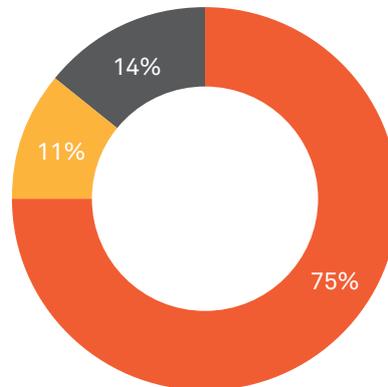
### FIGURE 6—THE UK’S WEALTHY UNDERSTAND HOW THEIR FINANCIAL PROVIDERS ARE REMUNERATED

One goal of RDR was to ensure investors understand how financial providers are paid for their advice and investment services. The majority of the UK’s wealthy say they have a clear understanding of the remuneration practices of the financial sector.



## FIGURE 7—THE WEALTHY ALSO BELIEVE THEIR FINANCIAL PROVIDER OFFERS VALUE FOR MONEY

Not only do they understand how their financial providers get paid, the widely-held view is that they receive value for money.

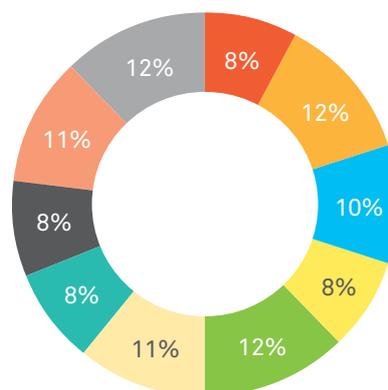


■ Yes ■ No ■ Don't know

The answer to this question is far from simple—not least because private investors themselves have a broad spectrum view of what contributes value to the relationship they have with their wealth manager. Indeed, a true wealth management relationship is a sum of many parts, all of which offer significant value in the minds of clients.

## FIGURE 8—THE WEALTHY ATTRIBUTE ALMOST EQUAL VALUE TO MULTIPLE FACETS OF THEIR RELATIONSHIPS WITH WEALTH MANAGERS

Responses suggest that the UK's wealthy attribute value to multiple facets of their wealth management relationships. Respondents were asked to attribute a percentage value to each of these elements of the relationship. Or, in other words from a client's perspective, they are likely to expect a 100bps fee to be split in these proportions across these different elements of the relationship.



■ Regular reviews ■ Investment management ■ Wealth planning capability ■ Reporting  
■ Knowledge and qualifications ■ Keeping you updated ■ Robust technology  
■ Business model and brand ■ Personal relationship ■ Getting things done

Thus, the answer to the question of how individual firms can differentiate their value proposition almost certainly lies in better client segmentation as different client groups have different needs and expectations when it comes to financial products and services. It is only by understanding these nuances that wealth managers can answer the two fundamental questions: who do we serve well and how can we serve them best?

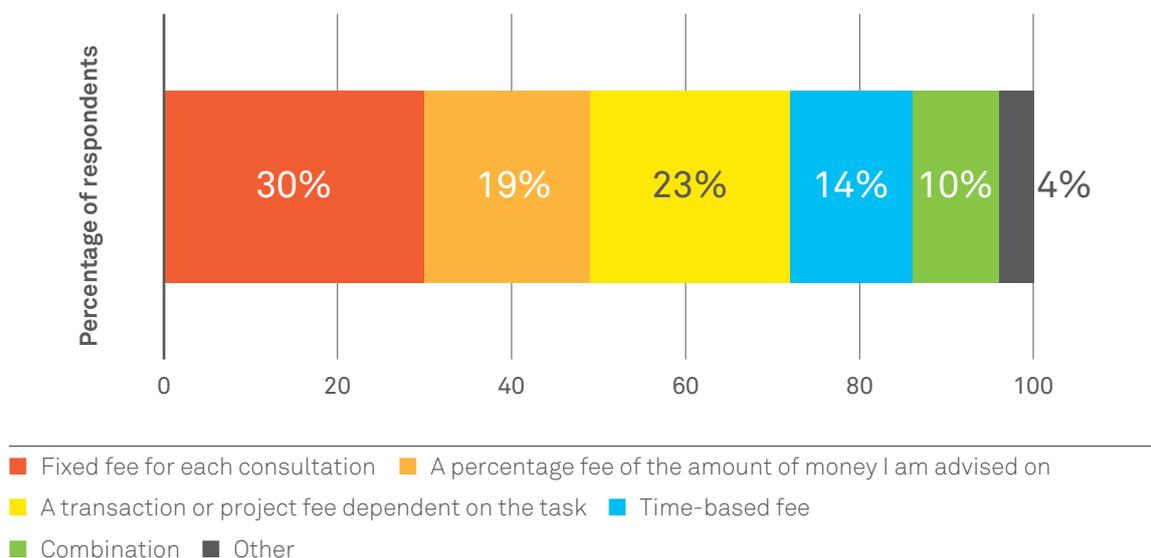
When considering these questions, it is also important to remember that value and pricing are separate—albeit related—issues. Not only do different client groups value different parts of the relationship in different ways, they have different pricing preferences.

## › How can wealth managers differentiate the wealth management proposition at a fair price?

Overall, when presented with a range of different payment methods for investment advice and services, the UK's wealthy show a preference for fixed consultation fees alongside transaction or project fees. The message seems to be that wealthy individuals appreciate a degree of certainty when it comes to fees for financial services.

### FIGURE 9—OVERALL THE UK'S WEALTHY SEEM TO PREFER FEES THAT ARE PREDICTABLE

While the wealth management industry tends to charge fees based on a percentage of assets under management, the UK's wealthy seem to prefer greater certainty about the total amount they will be paying.



Yet, different groups of clients are more or less sensitive to different types of fees.

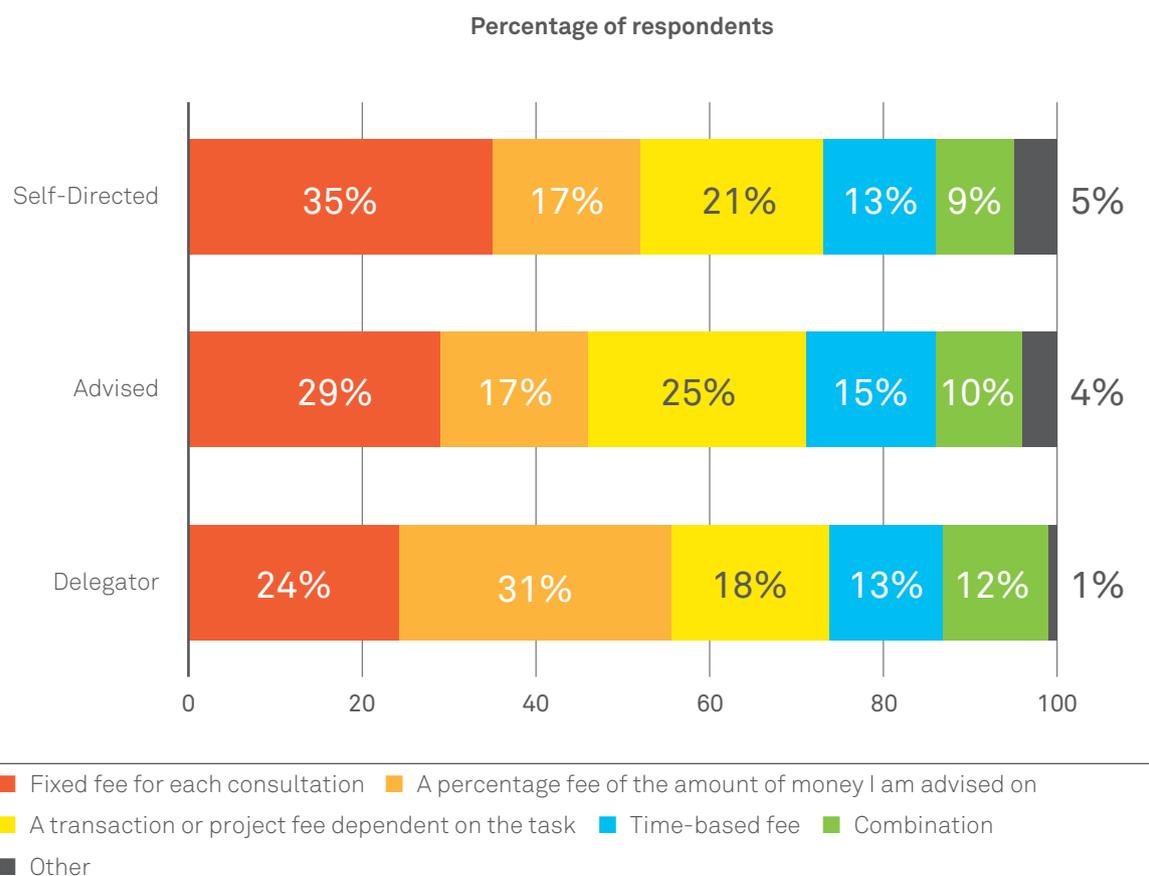
For example, if we look at pricing preferences through the lens of financial behaviours, a different picture emerges. Within the sample group as a whole, almost half of the sample (49%) identified themselves as people who prefer to do their own financial research and decision-making. This group therefore demonstrate strong tendencies towards being **self-directed**.

A further 42% discuss their financial decisions with an advisor to a greater or lesser extent. This group is perhaps best described as being **advised**. The remaining 9% delegate most or all of their research and decision-making to an adviser. This small group are therefore self-declared **delegators**.

When it comes to paying for investment advice and services, these three groups display notably different tendencies. Delegators are more likely to prefer to pay a percentage of their assets under management. By contrast, self-directed investors have a stronger tendency toward fixed fees.

### FIGURE 10—BEHAVIOURAL TENDENCIES EXTEND TO FEE PREFERENCES

Delegators are more comfortable with paying a percentage of their assets under management for investment advice and service. Self-directed investors prefer fixed fees—especially when it comes to financial planning and portfolio reviews.



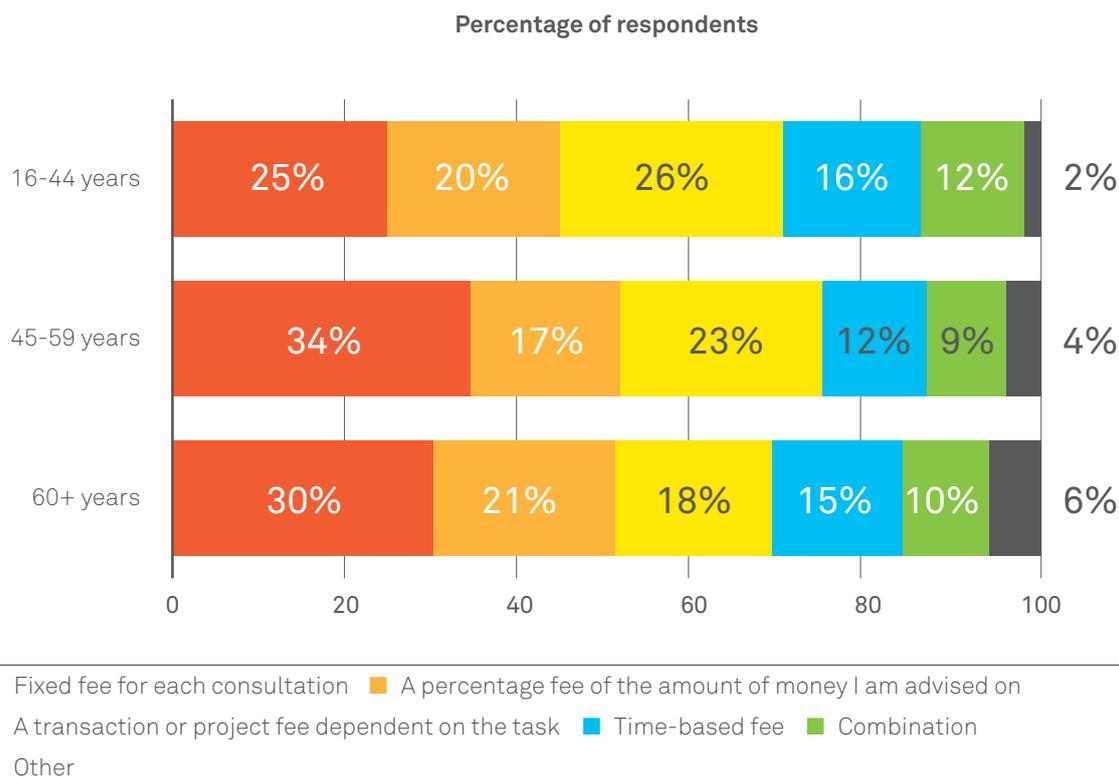
A similar exercise looking at different age groups in the UK’s wealthy population also reveals similarly interesting results. Those between 45 and 59 years old, which is perhaps the age group most familiar to the wealth management industry, note their strong preference for fixed fees.

Meanwhile, the respondents who are younger than 45 show a preference for transaction, project or time-based fees.

Indeed, across the sample group as a whole, less than twenty percent of the respondents indicated a preference for fees based on assets under management. So the challenge for wealth managers is not only to develop targeted value propositions, but also to attach the appropriate fee structure that translates into fair value for different client groups.

### FIGURE 11 —DIFFERENT AGE GROUPS ALSO HAVE DIFFERENT FEE PREFERENCES

Wealthy individuals in the 45-59 age group show a strong preference for fixed fees. Among younger clients, the trend is less strong. However, transaction or project fees dependent on the task seem to hold a notable appeal to this group.



## NEW GENERATION, NEW EXPECTATIONS

**As the UK's wealth managers consider how to re-invent their service propositions following RDR they may want to consider new approaches to segmenting their clients. Financial attitudes vary most by age group and the younger wealthy generation are showing a distinctly different approach to financial matters when compared to the older cohort.**

Financial services firms have long understood that life stages affect financial needs as much as life style. What has perhaps been missed in the past is that financial attitudes also vary significantly between the generations. In fact, age seems to be the most significant determinant of a wealthy investor's financial attitudes and behaviour.

### › Age is the most significant determinant of financial behaviour

In demographic terms, those born since 1980 are part of a new generation that is often referred to as Generation Y, or the 'Millennial generation'. Still at the start of their careers, this demographic group is only just starting to register on wealth management radar. Yet, it is worth taking note that the generation that is currently at the start of its wealth creation journey is very different from the generations that have gone before.

In fact, in this research those under the age of 45 showed notably different financial attitudes, underscoring that views change over time and the concept of a generation is a very fluid one.

When it comes to RDR, those under the age of 45 are most welcoming of the broad sweep of changes. While those over the age of 45 are distinctly of the view that the removal of commissions from investments is the most significant outcome of the reforms, those under 45 place more emphasis on professional qualifications and transparency.

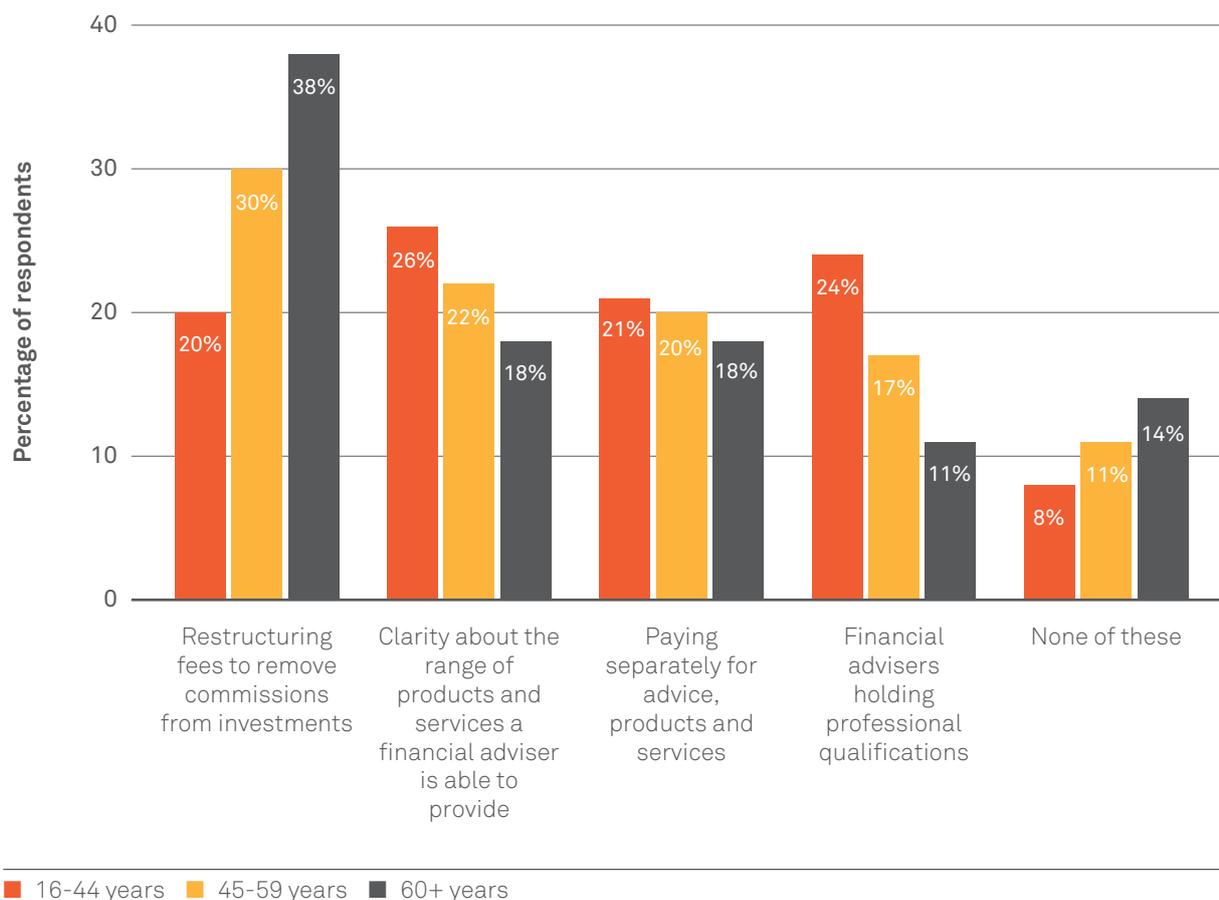
Indeed, they place roughly equal weighting on the main changes brought about by the new regime. This suggests that the younger generation can see the wider positive impact of the changes for their own personal circumstances.

This is perhaps not surprising, as by definition, younger investors will have had less experience of the previous regime. They will therefore feel the weight of the reforms differently. For example, their experience of the impact of commissions on portfolio performance and adviser recommendations will be less extensive than the older generations, and so their sentiment on this issue is likely to be less negative.

This is not to say that investors under 45 are inexperienced when it comes to financial services. Indeed, among the respondents those in this younger group were most likely to characterise their knowledge of investments and RDR to be very good. They are also more likely to have a financial advisory relationship than the older groups, either to discuss financial decisions or to delegate decision-making.

## FIGURE 12—UNDER-45s ARE WELCOMING THE RDR REGIME

Those under 45 years of age are evenly split on the benefits of the RDR reforms. They welcome transparency and professional qualifications more than older investors.



In fact, not only are the under-45s welcoming the changes, they are actively embracing them. They are significantly more likely to have made changes to their investment portfolio than the older generations. In fact, 40% have either extended or consolidated the range of products in their portfolio. More than that, one in three of the under 45-year-olds has considered changing provider as a result of RDR compared to one in six in the other groups.

### › Those under 45 are embracing the changes from RDR

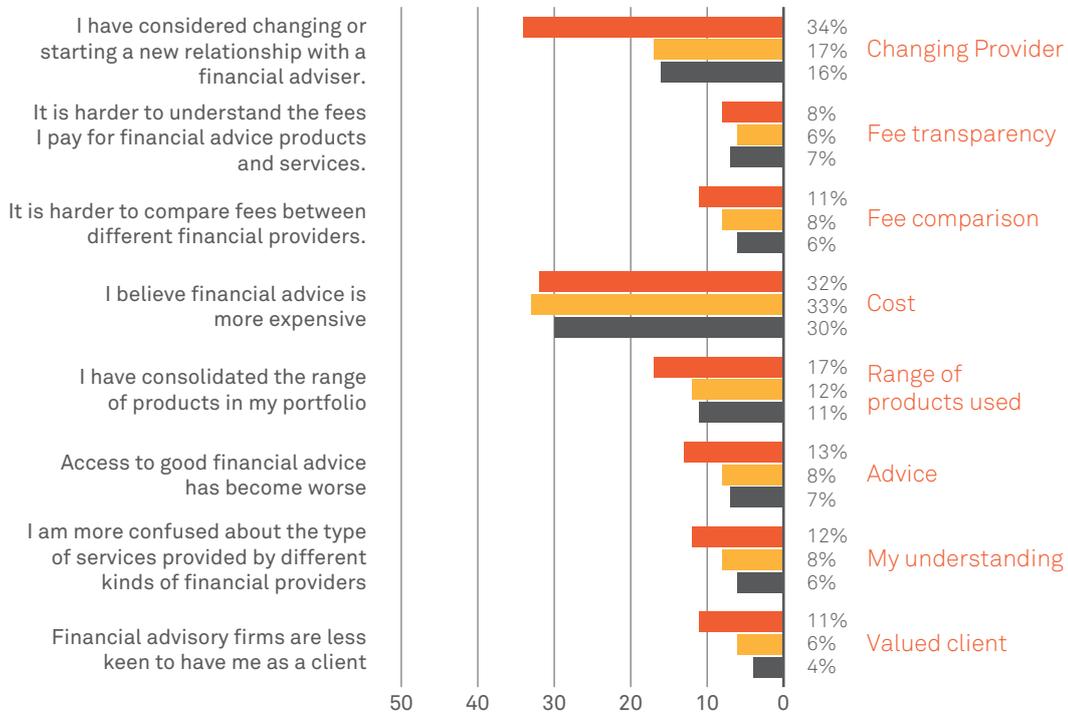
They have a generally positive view that RDR has increased transparency and enhanced access to good financial advice. They are also more likely to have positive views about the changing costs associated with RDR.

These indicators suggest that wealth managers in the UK should consider how to appeal to this dynamic up-and-coming group as they are particularly likely to be considering their choices under the new regime.

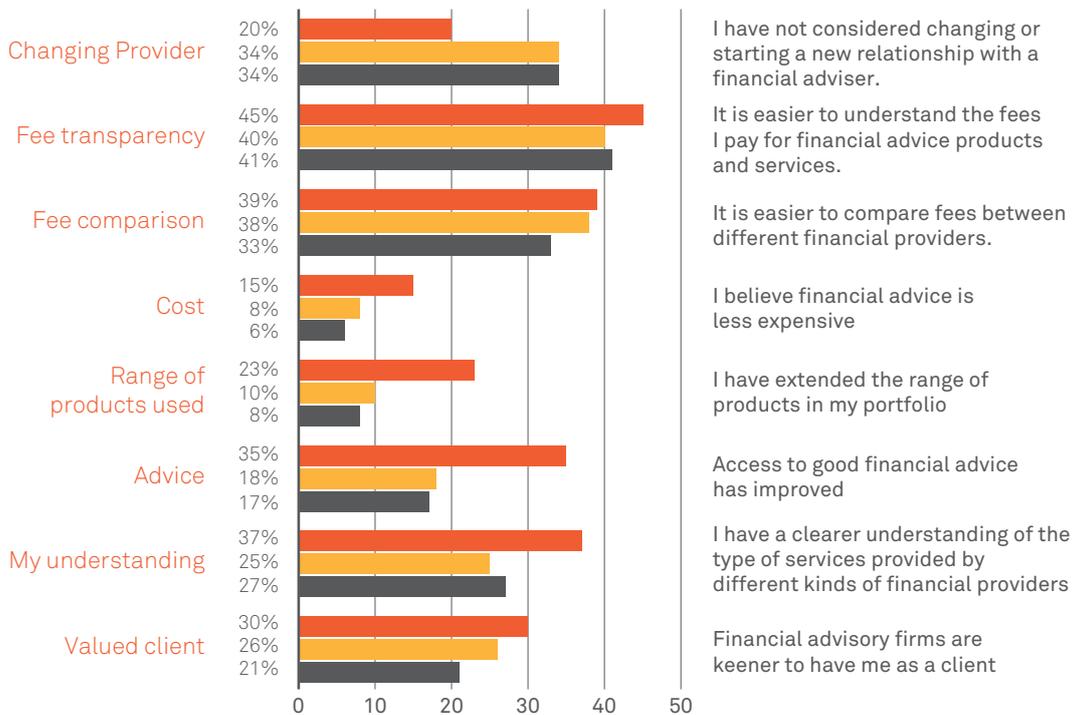
## FIGURE 13—YOUNGER INVESTORS ARE EMBRACING THE CHANGES BROUGHT ABOUT BY RDR

Almost a quarter of those under 45 years of age have considered changing financial provider since the launch of RDR. Younger investors are also more likely to consider financial services more transparent and higher quality as a result of the reforms.

### NEGATIVE



### POSITIVE



■ 16-44 years ■ 45-59 years ■ 60+ years

This is no small challenge, as the responses from the under 45 age group suggest they are a highly demanding client segment. They have high expectations not just of the product and service capabilities of their financial providers, but also of their delivery and reporting capabilities.

They value wealth planning and investment management, and they expect portfolio implementation that can access the most appropriate products and information flows that keep them updated.

It also comes as no surprise that the under-45 age group places more value on robust technology than the older generations. However, this is not at the expense of a personal relationship. Instead, the younger generation expects a wealth manager's technology to support the relationship: facilitating information flow, providing better access to products and services, improving information about markets and enhanced record keeping.

This group also places more emphasis on the business model and brand of a wealth management firm and slightly less on the advice and service delivered by an individual adviser. Notably, this group is significantly less price sensitive than older generations. Indeed, 33% believe wealth management should be a premium service with a premium fee attached and they are less sensitive about price competition.

In other words, investors under 45 years of age want a high level of personal service, but delivered from an organisation with systems that support the individual advisers who deliver that service—and they are prepared to pay for it.

› Those under 45 want high-levels of personal service, delivered by an organisation with the right systems to support advisers

This level of service is inevitably technology-rich, but it is not purely technology based. Thus, appealing to this demanding customer group requires the individual adviser and the technology to work in a seamless way.

This is a marked departure for many financial providers, for whom technology has long been a 'back-office' function. If the demands of the upcoming generation of wealthy are to be met, then technology will not only need to be front of mind for wealth management providers, it will also have to be located firmly in the thinking of the front office.

## THE DIRECTION OF SELF-DIRECTED

With the cost of financial services most likely to rise—or at least been seen to rise—as a result of RDR, many wealth managers have focused more attention in recent months on self-directed investors. The unbundling of fees for advice and products means this group may be less likely to go to a financial adviser and more likely to look for do-it-yourself options to invest their savings. In turn, this has created a whole new potential client group in the UK wealth management market for those firms that can meet their minimal advice needs.

› 49% of the sample identify themselves as self-directed investors, which is a potentially huge opportunity for wealth managers

Certainly, this group would seem to be more focused on price than either advised or delegator clients. They regard removal of commission from financial products as the most beneficial element of the new regime. They have a preference for fixed fees. They are also more likely to believe wealth management needs to focus on competitive pricing.

At the fringes, a small percentage of these self-directed wealthy investors have considered taking more financial advice as a result of the RDR regime, but these individuals are in the minority making up just 10% of the self-directed group. The vast majority either do not expect to change the way they engage with financial services, or will seek even less advice in future.

› Self-directed investors are more value sensitive

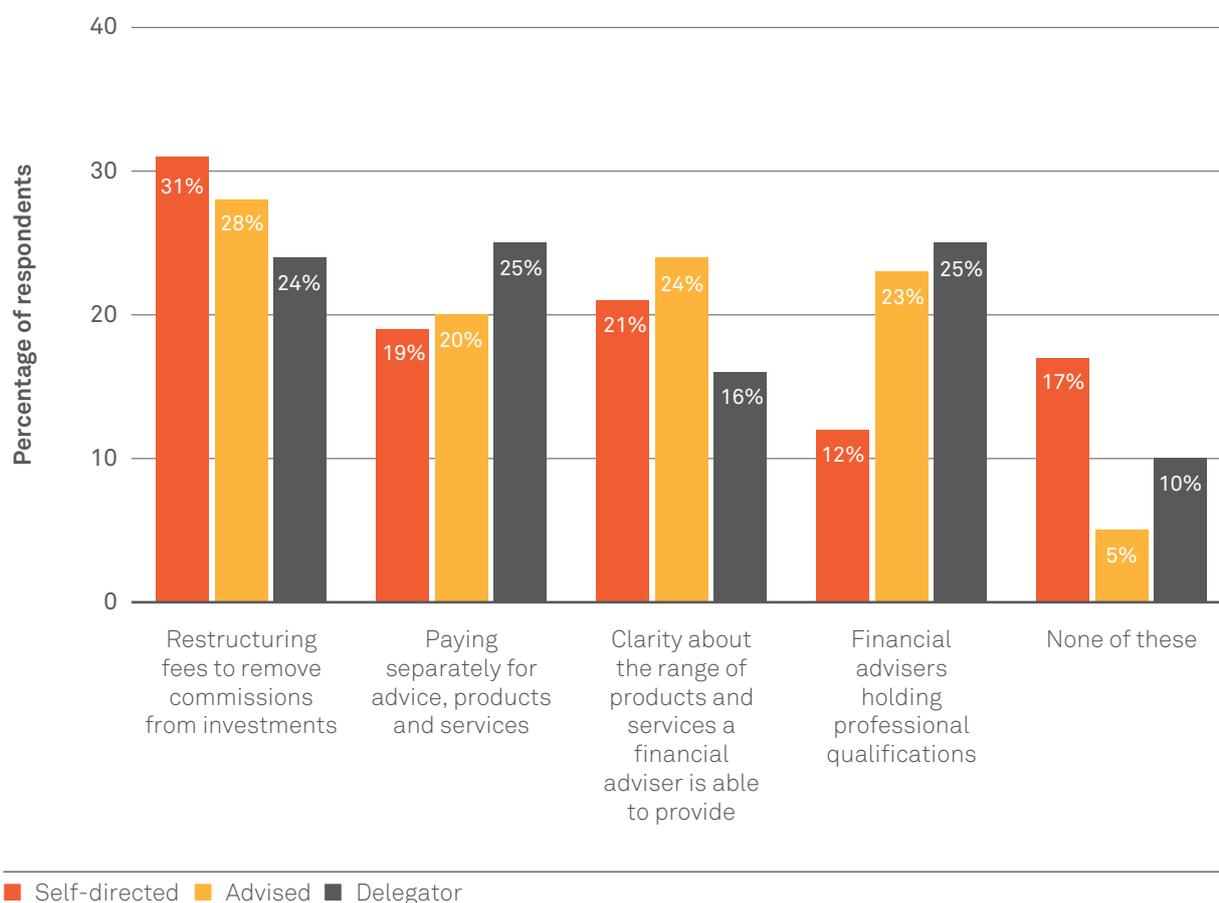
There is, therefore, an opportunity for wealth management firms to engage with this group of wealthy investors with a high-value, low-touch service that allows them to access investments in the ways they wish to, preferably without incurring unnecessary charges.

Aside from their focus on value, what marks this group of investors out from others is their desire for good quality news and information flows. This, of course, makes sense as they are forming their own judgements about investment opportunities.

› Their main desire is for high-quality news and information flows

## FIGURE 14—RDR OUTCOMES MOST LIKELY TO IMPROVE THE INTERACTION OF DIFFERENT TYPES OF UK WEALTHY INVESTORS WITH FINANCIAL PROVIDERS

Self-directed investors see the removal of commissions and enhanced clarity in the financial services markets as the main benefits of RDR.



Indeed, when it comes to their wealth management priorities, they place most emphasis on pricing, regular news and updates, and on systems that allow them to access market information and good quality reporting.

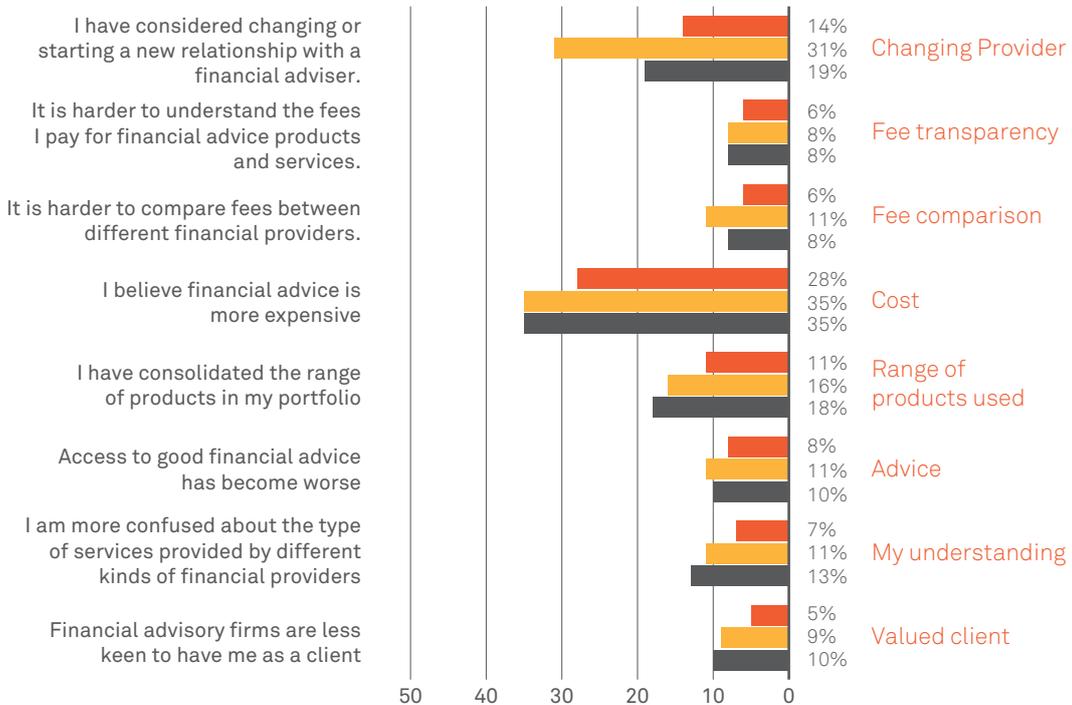
They do not, necessarily, want access to a wider selection of investment options, but they do want knowledge and information about what their options are. Also, self-directed investors still appreciate having a relationship with their financial provider firms, even though they prefer to do their own research and decision-making. More importantly, they place higher value on the knowledge and expertise of individuals at these firms than either advised or delegator clients.

It will be a significant challenge for UK financial providers to put these individuals in the driving seat of decision making, while maintaining access to qualified financial professionals and delivering on price—especially under the new regime. However, as a significant number of wealthy investors classified themselves as self-directed it is worth considering how to tackle this competitive part of the UK wealth market.

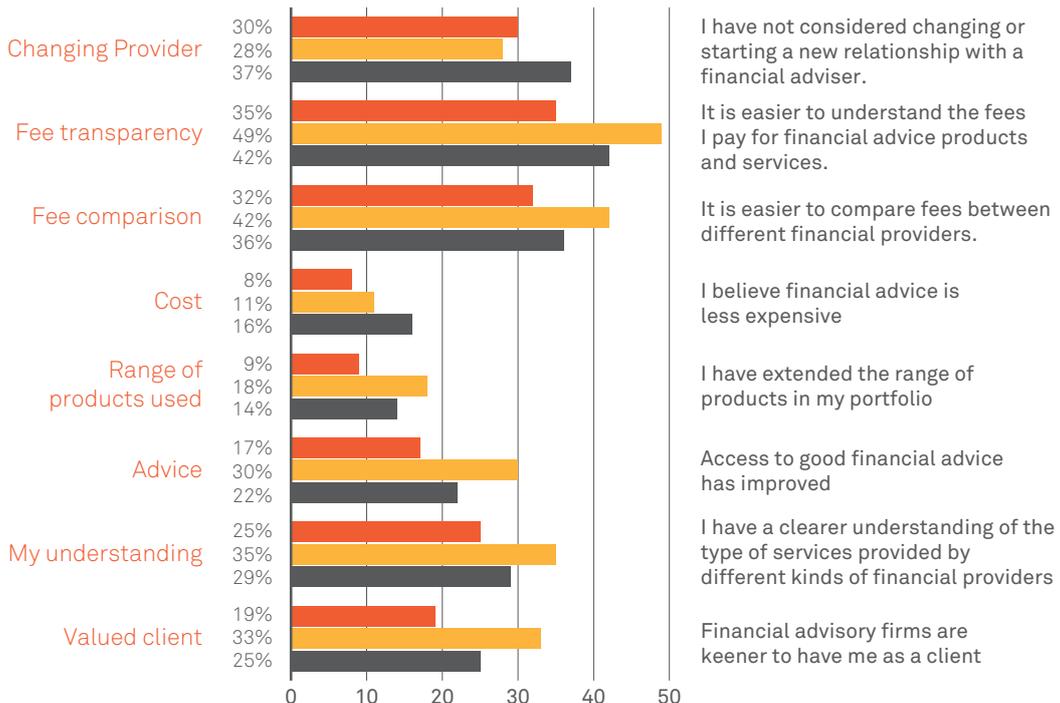
## FIGURE 15—SELF-DIRECTED INVESTORS ARE UNLIKELY TO HAVE CONSIDERED CHANGING PROVIDER AS A RESULT OF RDR

Self-directed investors recognise the same benefits of the RDR regime as those who have an advisory relationship or delegate to an investment firm. They understand the impact of the changes and yet those in the self-directed group are unlikely to have considered proactively whether to change provider as a result of the new regime.

### NEGATIVE



### POSITIVE



■ Self-directed ■ Delegator ■ Advised

## MEETING THE NEEDS OF THE MASS AFFLUENT

As wealth managers count the cost of RDR, some have suggested that clients with less than £500,000 in liquid assets are simply not profitable enough to serve. It seems unlikely that this sizeable mass affluent group will be left out in the cold. Undoubtedly, many financial advisory firms will be more than willing to welcome this up-and-coming group of wealthy clients.

This in itself highlights one of the deep dilemmas presented by RDR. An industry addicted to fees that are charged as a percentage of assets under management limits its own revenue potential to the size of the wallets of its target customer group.

Yet, an individual's level of wealth is one of the poorest indicators of the kind of financial service they would like to receive. More than that, as we have already seen [Figure 9], less than one in five of the UK's wealthy think asset-based fees are the best way to pay.

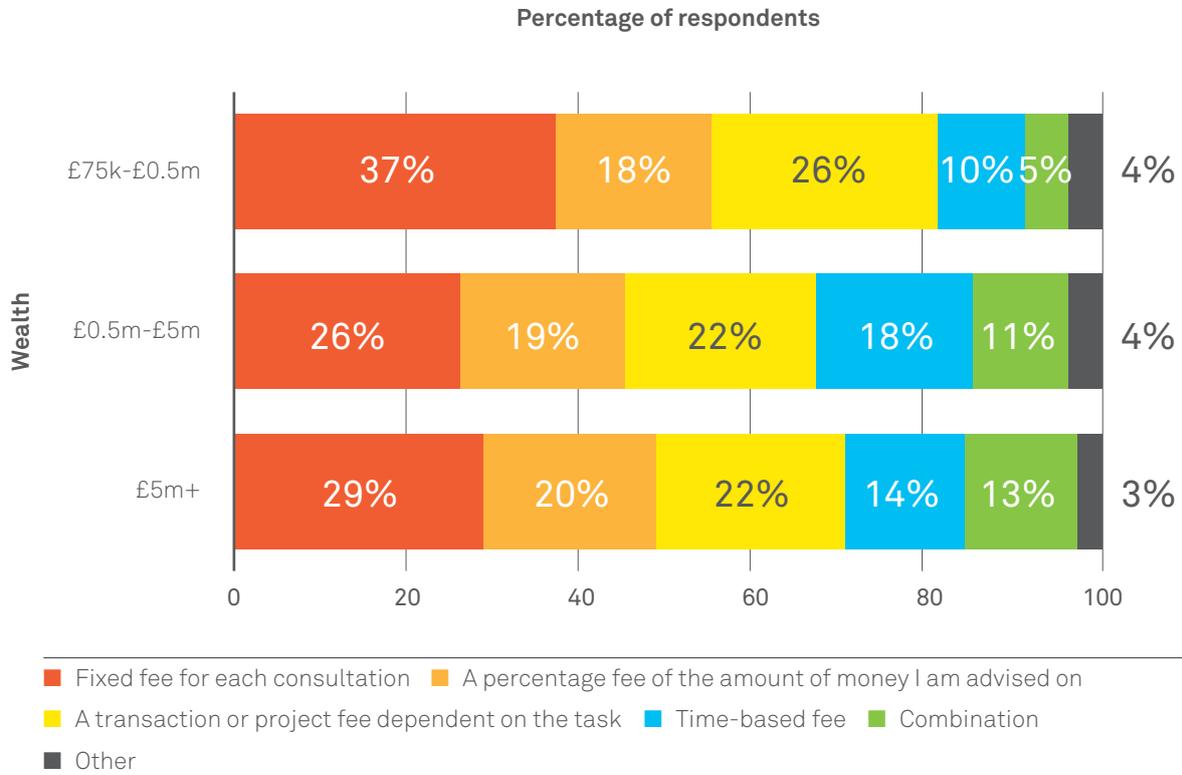
Being more open-minded on fees may well be the way for the UK's wealth managers to match their service to the mass affluent segment that may otherwise miss out.

A whopping 37% of those with less than £500,000 indicate that they would prefer to pay fixed fees for each financial consultation. A further 26% say they would prefer transaction or project fees. What they dislike are flexible fees linked to time spent at a fixed hourly rate or a percentage of assets under management.

Clearly, if a wealth manager has this segment of clients in their sights, then it will be important to consider how to meet the preferences of this group when it comes to fee structures.

## FIGURE 16—MASS AFFLUENT INVESTORS SHOW STRONG PREFERENCES FOR FIXED AND PROJECT FEES

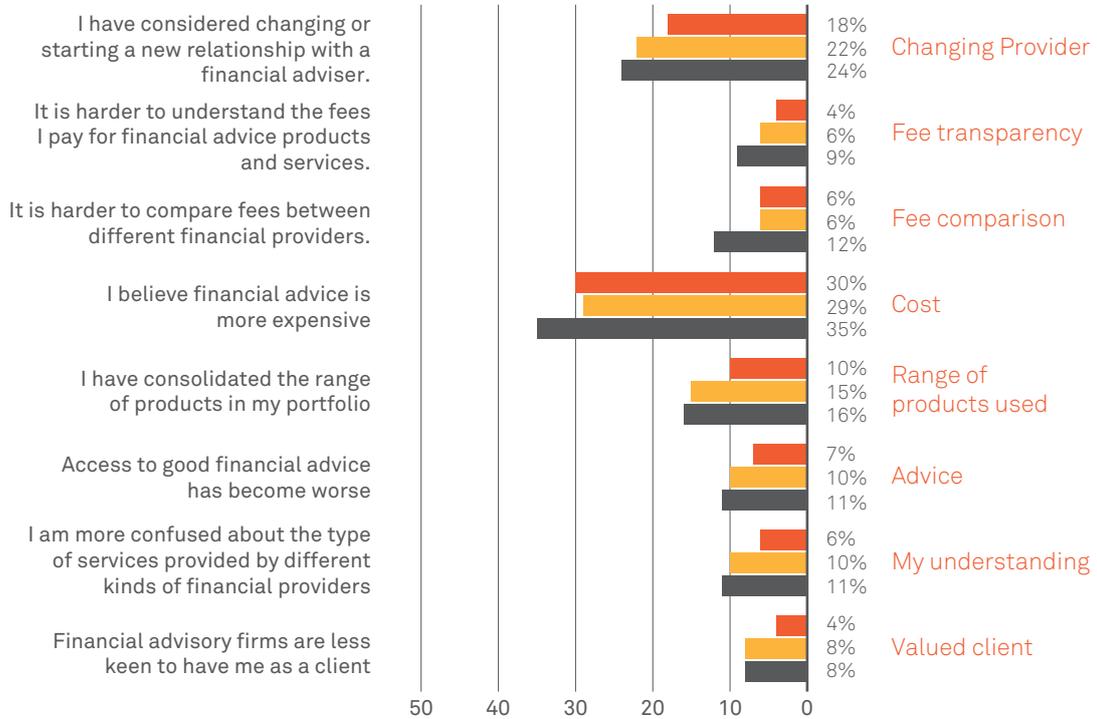
The UK’s mass affluent investors like to know where they stand when it comes to fees. Their preference is for a fixed fee. Transaction or project fees are also preferable to more open-ended asset-based or time-based options.



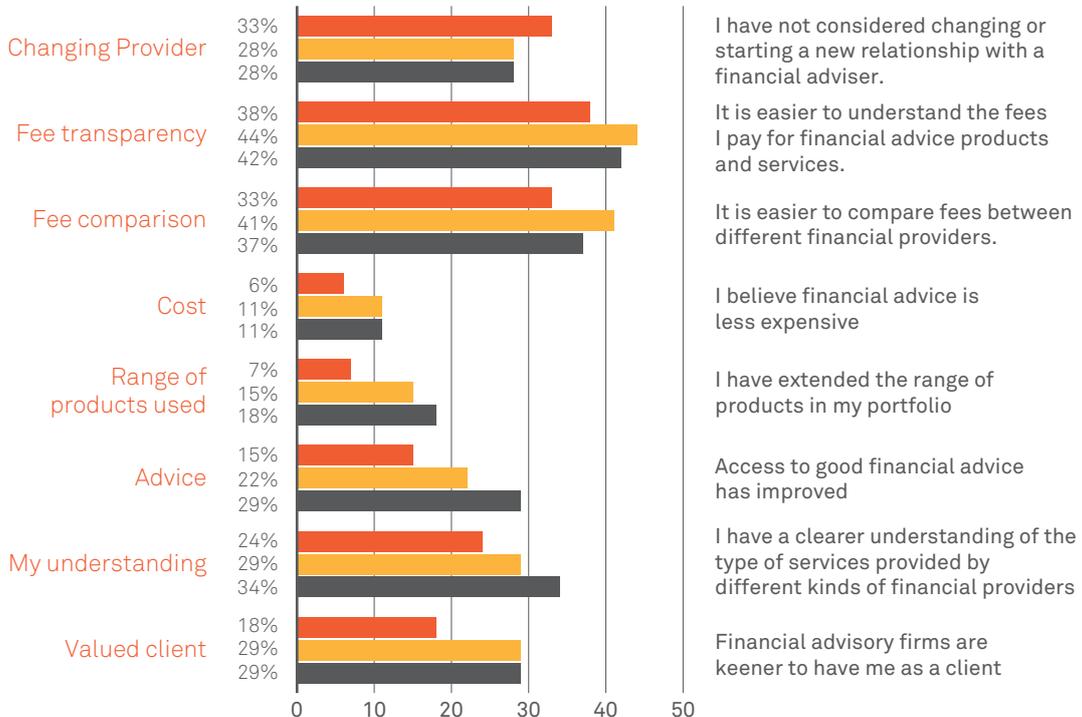
## FIGURE 17—MASS AFFLUENT INVESTORS ARE FEELING THE IMPACT OF RDR LESS THAN WEALTHIER GROUPS

The UK's mass affluent investors do not appear to have strong views on the impact of RDR when compared to wealthier groups and fewer of them are likely to have considered changing provider.

### NEGATIVE



### POSITIVE



■ £75k-£0.5m ■ £0.5m-£5m ■ £5m+

Indeed, the research suggests the affluent group is currently less active financially than their wealthier counterparts. They are less likely to seek financial planning or various forms of financial advice. They are also far less likely to have formed strong views on the impact of RDR on their wealth management needs, suggesting they have yet to be affected directly by the reforms.

Yet, this group also places significant value on the wealth planning and investment management capabilities offered by wealth management firms.

In other words, with the right service proposition this mass affluent group could well become more engaged as clients of financial services than they are today.

If this is the case, it raises the question of what kind of wealth management service they might seek.

› So far, mass affluent clients appear to have been less affected by RDR

Interestingly, the mass affluent group appear slightly less in need of a personal relationship than the wealthier investor groups. They are also less focused on the brand of the firms they work with.

Instead, what they are seeking is an efficient relationship with an appropriate set of products and services delivered at a competitive price. Their focus is more squarely on investment capabilities than on reporting or client communications.

Indeed, the characteristic behaviour of this group is that they just want to get the job done.

› Characteristically, the mass affluent are no-frills investors

This no-frills behaviour may present a challenge for the elite wealth management firms that specialise in highly-tailored investment management. However, there is undoubtedly an opportunity here for those willing to take mass customisation seriously.

Careful thought needs to be given to the appropriate products and services for different investor profiles delivered with just the right amount of personal advice and service. Fixed fee options are also likely to be a bonus when looking to attract this group.

Certainly, a number of UK firms have started to feel their way into this territory with the onset of RDR. However, client suitability rules mean that delivering appropriate financial services to the UK's mass affluent investor group will likely involve a process of evolution as firms build up their experience of what is appropriate for different kinds of mass affluent investor.

Taken together, younger, mass affluent and self-directed clients are three segments that have emerged for different reasons as more noteworthy than before due to the changes in the regulatory environment this year.

Cost concerns have forced greater polarisation between mass affluent and wealthier clients. Similarly, changes to the advice regime have put advised and self-directed investors in distinct camps. Meanwhile, the younger generation is the most welcoming of the most recent regulatory changes.

There is inevitable overlap between these groups. However, by considering their unique preferences in isolation, it is possible to build a distinct value proposition that would most closely match their expectations.

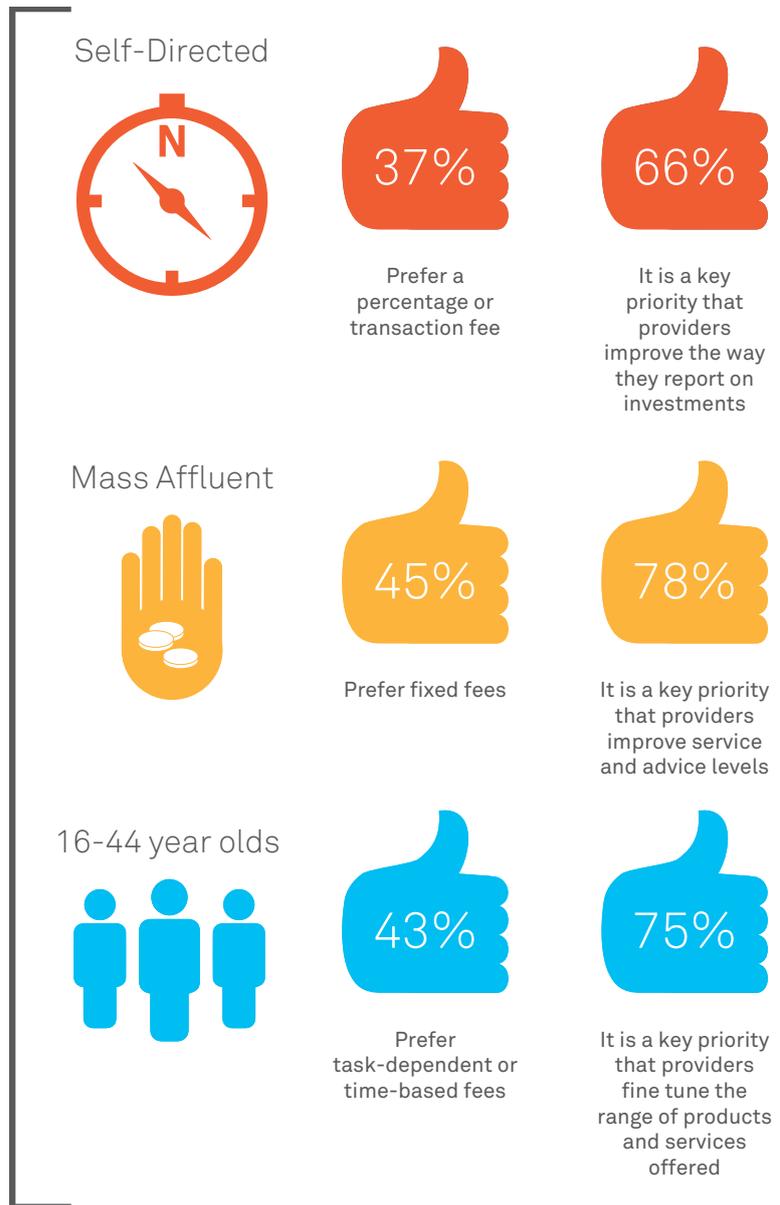
# FIGURE 18—THERE ARE COMMON EXPECTATIONS AMONG DIFFERENT CLIENT GROUPS, BUT EACH SEGMENT HAS DISCRETE PREFERENCES

Under 45s, mass affluent and self-directed investors share common views on competitive pricing, improved systems and record keeping and understanding their needs. Where they differ is on pricing options and service preferences.

## COMMON PRIORITIES



## UNIQUE PRIORITIES



## WINNING THE HEARTS AND MINDS OF WEALTHY INVESTORS

In *Through the Looking Glass* in 2012, we asked UK wealth managers what would be their top priority to win business in a post-RDR environment. They told us that once they had segmented their client base appropriately, the next priority was to improve client communications. The responses from wealthy investors in 2013 suggest more needs to be done on this front.

Indeed, while the response to RDR has been broadly positive among the UK's wealthy population, only around 40% of the respondents recorded a strong view when asked about the impact of different changes on their experience of financial services. Most, it would seem, have not felt sufficient impact to affect their view of the market.

Moreover, if we expand the focus from RDR to the wider perception of wealth management in the UK, then it would seem the sector is still battling an image problem.

When asked which words they would use to describe their experience of the wealth management industry, about one quarter of the respondents provided an open-text response. Expensive, complicated, confusing and greedy were four of the top five epithets, with between four percent and five percent of respondents inputting one of these words. Good also featured in the top five with a similar number of inputs, but words like trustworthy and professional spring to mind for a smaller minority. Their views are far from a ringing endorsement.

› While experiences are positive, sentiment to the wealth management industry remains distinctly confused

These somewhat negative sentiments go against the more positive experiences recorded by respondents elsewhere in the survey when asked about specific outcomes of RDR.

Taken together, these results suggest that wealth managers and financial advisers have a considerable way to go to reach out to the wider wealthy population in the UK to bring home the benefits of changes taking place in the wealth management marketplace.

## FIGURE 19—PERCEPTIONS OF THE WEALTH MANAGEMENT INDUSTRY AMONG THE UK’S WEALTHY

When asked to state a word that reflects their experience of the wealth management industry overall, one in five of the respondents gave a response that is far from flattering.



Indeed, when asked which word they felt *should* be most closely associated with wealth management today, the responses paint a different picture. On this measure, words like knowledgeable, professional, responsible, experienced and honest come to the fore. Perhaps more interesting still, the selection of these terms by wealthy respondents on the culture to which wealth managers should aspire, closely matches the views expressed in 2012 from 342 UK wealth professionals, who took part in a similar exercise in our research prior to the launch of RDR.

Clearly, wealth managers recognise the image challenge they face, and the culture they need to inculcate. However, changing the perception of UK investors remains a work in progress. It would seem that the challenge remains to boost the clarity and volume of communication to win the hearts and minds of the UK’s wealthy.

## FIGURE 20—WEALTH MANAGEMENT CULTURAL ASPIRATIONS AMONG UK’S WEALTHY (2013) AND UK WEALTH MANAGEMENT PROFESSIONALS (2012)

The responses of 1,001 wealthy investors in 2013 when asked to select the word they felt should most closely reflect the culture of wealth management in the UK match closely with the responses given by 342 wealth management professionals in the same exercise undertaken in 2012.

### 1,001 HNW responses – 2013



### 342 wealth manager responses – 2012



## A FOCUS ON CLIENT HAPPINESS

**It is a well-worn cliché that those who offer financial services to individual investors benefit from two important human frailties: namely greed and fear. While there is undoubtedly some truth to this, in this research we wanted to explore if there might be a better way forward for firms to engage with their clients in a more positive way.**

In recent years, political decision-makers have begun to explore well-being as a measure of the happiness of their citizens with the social and economic status quo. Happiness indices have started to spring up around the world to inform political decisions. Here in the UK, government measures well-being across four factors: is the UK population happy with their current circumstances; do they find life worthwhile? Are they satisfied in life? Perhaps most importantly for decision-makers, how anxious do they feel?

In our research, we wanted to extend this concept of well-being to financial happiness. We wanted to determine if the UK's wealthy are satisfied with their financial lives. We wanted to find out if they feel that the time and effort they spend on financial matters is worthwhile and crucially, we wanted to know how anxious they are about their financial situation.

To those who believe in the power of clichés, it will come as no surprise that those with the highest levels of financial anxiety are also those who most value their financial provider. However, the results point to far more than that. They underscore that financial firms have the opportunity to build more rounded relationships with wealthy investors.

On a 10-point scale, it is unsurprising that we find that the UK's wealthy have a high level of financial happiness when it comes to financial matters generally, registering a score of 7.1. Interestingly, we also find that they consider the time and effort they spend on financial matters to be worthwhile, with a score of 7.5, and their satisfactions score is not far behind. Their anxiety levels are also not particularly high at 4.9 on the 10-point scale.

› The UK's wealthy have high levels of financial "happiness", but need convincing that wealth management is worthwhile

However, when we ask similar questions about the financial relationships these individuals have with wealth managers, there are some notable fluctuations. First, when asked how worthwhile the financial advice they receive is, they give a score of just 5.6. And, second, their fear-factor shoots up to 7.1 points out of 10 when asked how anxious they feel about their provider's ability to help them reach their financial goals.

## FIGURE 21—FINANCIAL “HAPPINESS” AMONG THE UK’S WEALTHY POPULATION 2013

UK policy makers track well-being or “happiness” by monitoring four distinct sentiments: satisfaction, overall happiness, anxiety and the sense of purpose. Applying the same approach to determine the financial “happiness” of the UK’s wealthy, we find in general they are confident about their financial circumstances and their anxiety levels are low. In other words, they are reasonably happy with the economic and business environment.



## FIGURE 22—“HAPPINESS” OF THE UK’S WEALTHY POPULATION WITH THEIR MAIN FINANCIAL PROVIDER

Using their general level of financial happiness as a benchmark, when asked the same questions about their main financial provider, we find their anxiety levels shoot up. The score for how worthwhile they find the service also suggests wealth managers could do more to demonstrate value. In other words, at this point in the economic cycle, wealth management firms are not capitalising on the positive financial sentiment of their clients.



In other words, while wealth management firms may be meeting the day-to-day needs of their clients, those same clients remain less convinced about the long term value they receive.

It is, of course, inevitable that anxieties for the future will be greater than anxieties for the present. And, it would be misguided and wrong for firms to hold out any certainties about their clients’ financial futures to change this perception.

However, in an increasingly competitive environment it will be important for wealth managers to be clear on the long-term value they bring to the relationship. More than that, it is only by genuinely accentuating the qualities that respondents and wealth managers themselves see as vital for the industry's future—being professional, knowledgeable, expert, honest, responsible and experienced—that client confidence can be built for the present.

These same qualities are the route to confirming in the minds of clients that the advice they receive is worthwhile.

So, while RDR has provided a framework for wealth managers to deliver a high-quality experience of financial advice as standard, the final mile of client happiness is in the hands of each firm to determine what qualities make their service worthwhile.

In this context, it is perhaps worth referencing the under 45 age group, whom we identified earlier in this report as a notable up-and-coming wealth segment. What we find when we look at the financial well-being scores of this group is that they have notably higher levels of anxiety than the wealthy population as a whole.

Looking first at their sentiment toward their general financial situation, we find the anxiety in this group is 6 points out of 10. This compares with the average of 4.9 points in the wealthy population at large.

However, the anxiety levels they express when describing their relationship with their main financial provider are on par with the wider population at 7.1 points. They also find the services of a financial provider to be somewhat more worthwhile than the wider wealthy population at 6.3 points.

What this suggests—as one might expect—is that individuals who are early- or mid-career are more anxious generally about money than those who are more established. From a wealth management perspective, firms have more opportunity to demonstrate value at this point in the client's life cycle than perhaps they will later on.

This is further evidence that firms may want to consider age as an important element of their client segmentation approach as they seek to change client perceptions of the value of the industry over the longer term.

## FIGURE 23—FINANCIAL “HAPPINESS” AMONG THE UNDER 45s—2013

Wealthy individuals in the under 45 age group are generally more anxious about their financial situation than older age groups.



## FIGURE 24—“HAPPINESS” OF THE UNDER 45s WITH THEIR MAIN FINANCIAL PROVIDER

Interestingly, this younger age group also finds the services of a financial provider to be more worthwhile than the wealthy population at large.



## IN CONCLUSION—LIFE AFTER RDR

The focus of the UK's wealth management industry has been on RDR for so long, it may be hard to contemplate how businesses will change now that the regime is bedding in. A year ago, the UK wealth management industry highlighted a number of primary drivers they felt would be essential to maintaining commercial viability. This wealthy investor research highlights that many of these assumptions were along the right lines, but there is more work to do considering the customer proposition for different client groups and communicating more effectively on value and culture.

Indeed, a year ago wealth managers highlighted that transparency and competitive pricing would be the primary drivers of change for the UK wealth industry under RDR. Certainly, clients have responded positively to the benefits of transparency. However, the subject of price competition is more complex.

Different clients have different perceptions of value and different fee preferences. These sensitivities need to be much better understood by UK wealth managers if they want to deliver the right level of service at a fair value to different client groups.

A year ago, wealth managers also expressed the view that client-facing staff should be supported by technology rather than replaced by technology; and that good people are more important than good systems to the wealth management business. This has certainly been endorsed by investors in this year's research. Even those who place most emphasis on the technology capabilities of their wealth manager also value a personal relationship.

The challenge here, therefore, is to develop the appropriate blend of technology and personal service efficiently and at the right price-point for different customer groups, while remaining fully compliant with the requirement of the new regime. With this in mind, there is likely to be an increased focus on the systems requirements for different client groups in the coming months—perhaps more so than was anticipated by wealth managers a year ago.

By a small majority, wealth managers felt that service differentiates a wealth manager more than the investment process. A year on, it is probably fair to say that service is even more important than the industry perhaps realises. Even the most self-directed of clients expect professional levels of service from a financial provider; although service of course can be defined in many ways.

Indeed, what has become clearer in the last year—and is writ large in the results from this research—is that the future of UK wealth management depends on increased specialisation, so that wealth managers can meet the needs of different clients appropriately, fairly and competitively under the new regime. Clients are welcoming the new regime; UK wealth management has an opportunity to respond.







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