

1 00:00:19:01 00:00:21:00
Good morning

2 00:00:21:02 00:00:24:20
and welcome to Futureproofing Your
Pensions Advice Processes

3 00:00:24:22 00:00:26:23
Virtual Seminar.

4 00:00:27:00 00:00:29:20
First, some housekeeping points.

5 00:00:29:22 00:00:34:00
We are recording this session
for on-demand replay purposes.

6 00:00:34:02 00:00:36:06
You can see here our usual risks
slide.

7 00:00:36:08 00:00:38:08
I'm not going to dwell too long
on this,

8 00:00:38:10 00:00:40:11
you can take the time to read this
on the slides

9 00:00:40:13 00:00:42:13
that are supplied after the event.

10 00:00:42:15 00:00:45:08
Here is a reminder of today's
learning outcomes

11 00:00:45:10 00:00:48:15
on which you'll receive a structured
CPD certificate.

12 00:00:48:17 00:00:52:04
To obtain this certificate, please
ensure you complete the feedback

13 00:00:52:06 00:00:53:20
before leaving us.

14 00:00:53:22 00:00:58:00
You'll find the feedback tab
underneath this broadcast screen.

15 00:00:58:02 00:01:00:09
Watch out for an email by close
of play on Monday

16 00:01:00:11 00:01:04:17
from Prudential Events, which will
have your embedded CPD certificate.

17 00:01:04:19 00:01:07:14
You will also be able to download
a copy of the slides

18 00:01:07:16 00:01:13:01
and today's replay recording from
Pru Advisor later next week.

19 00:01:13:03 00:01:16:22
So, here's how this morning is going
to run.

20 00:01:16:24 00:01:19:17
We'll be presenting for
approximately one hour,

21 00:01:19:19 00:01:22:19
followed by up to 30 minutes
of questions and answers.

22 00:01:22:21 00:01:25:18
We are very keen to have your input
as we're going,

23 00:01:25:20 00:01:28:22
so I'm going to ask you to give us
your thoughts on poll questions.

24 00:01:28:24 00:01:32:15
You'll see the polling tab
underneath this broadcast screen.

25 00:01:32:17 00:01:35:03
Just click this tab and submit
your response

26 00:01:35:05 00:01:36:20
when we set up a poll question.

27 00:01:36:22 00:01:40:05
You'll also have the opportunity
to ask us questions,

28 00:01:40:07 00:01:42:19
so please submit these
using the Q&A tab.

29 00:01:42:21 00:01:45:20
Once we are finished with our
session, do stay online with us

30 00:01:45:22 00:01:49:07
and we'll spend some time answering
your questions at that point.

31 00:01:51:10 00:01:54:15
OK, picture this.

32 00:01:54:17 00:01:56:23
You're in your favourite bistro,

33 00:01:57:00 00:02:01:01
having a coffee and preparing
for the day,

34 00:02:01:03 00:02:06:08
when you start to listen in
to the conversation on the table

35 00:02:06:10 00:02:09:11
taking place next to you.

36 00:02:11:20 00:02:15:02
Morning, Kirsty. Good to see you
today. How are you?

37 00:02:15:04 00:02:19:08
I'm very well, Andy. Thank you very
much. Good to see you, as well.

38 00:02:19:10 00:02:22:16
I'm very much looking forward to
actually getting back out and about

39 00:02:22:18 00:02:25:21
and seeing advisors and colleagues
in the flesh again sometime soon.

40 00:02:25:23 00:02:27:19
It's been some time, hasn't it?

41 00:02:27:21 00:02:29:20
It certainly has, yes.
I'll agree with that.

42 00:02:29:22 00:02:32:19
Mind you, if you think about it,
there has been some funny old stuff

43 00:02:32:21 00:02:35:05
that we've seen on video over the
last 18 months or so.

44 00:02:35:07 00:02:37:20
One thing I've got to do when we get
back out there again

45 00:02:37:22 00:02:41:01
is to remember to change out of my
pyjamas and put my suit on!

46 00:02:41:03 00:02:44:04
Hopefully, the same goes for our
delegates as well in the future.

47 00:02:44:06 00:02:47:06
That's not quite the image I had
planned on starting my day with,

48 00:02:47:08 00:02:49:18
to be honest, but it's very true,
nonetheless.

49 00:02:49:20 00:02:52:18
I suppose it's fair to say it's been
quite interesting

50 00:02:52:20 00:02:54:22
over the last 18 months getting
an insight

51 00:02:54:24 00:02:56:10
into people's lives, hasn't it?

52 00:02:56:12 00:02:59:14
When I think right back to when we
were all working from home again,

53 00:02:59:16 00:03:03:00
I don't think people quite realised
that the cameras they were using

54 00:03:03:02 00:03:06:08
spanned the whole room and I,
for one, have definitely seen

55 00:03:06:10 00:03:09:21
more than my fair share of other
people's underwear on radiators.

56 00:03:09:23 00:03:12:05
So, thank you very much for that,
everyone!

57 00:03:12:07 00:03:15:02
I think in addition to that,
we've all seen our fair share

58 00:03:15:04 00:03:16:24
of our colleagues' pets, too,
haven't we?

59 00:03:17:01 00:03:19:00
Yes, I think you're right again.

60 00:03:19:02 00:03:21:14
I've seen loads and loads
of people's cats and dogs.

61 00:03:21:16 00:03:24:17
It's lovely to see some of the pets
people have.

62 00:03:24:19 00:03:27:10
One thing with cats, though,
I find it really funny

63 00:03:27:12 00:03:30:03
that they always want to step right
in front of the camera

64 00:03:30:05 00:03:33:06
and then give themselves a good old
wash. What's that all about?

65 00:03:33:08 00:03:35:19
But, yes, it's been a strange old time,

66 00:03:35:21 00:03:37:19
and not least of all in our industry

67 00:03:37:21 00:03:40:13
and particularly our world of pensions.

68 00:03:40:15 00:03:43:21
When you think of everything that's
happened since that first lockdown,

69 00:03:43:23 00:03:45:22
we had that big fall in markets

70 00:03:45:24 00:03:49:09
and then a very rapid and probably
unexpected recovery.

71 00:03:49:11 00:03:51:21
I think it's been a really
challenging time

72 00:03:51:23 00:03:53:14
for advisors and their clients

73 00:03:53:16 00:03:56:14
and particularly for those coming
up to retirement

74 00:03:56:16 00:03:59:03
or perhaps already drawing down
on their pension pot.

75 00:03:59:05 00:04:02:08
I've had so many advisors tell me
that many of their clients

76 00:04:02:10 00:04:05:05
have fundamentally changed their
life plans and expectations

77 00:04:05:07 00:04:06:14
over this time.

78 00:04:06:16 00:04:09:01
I think that's why it's been making
planning reviews

79 00:04:09:03 00:04:11:03
one of the main areas of activity.

80 00:04:11:05 00:04:14:15
OK, so the market's recovered,
but that volatility we've seen

81 00:04:14:17 00:04:18:11
on almost a daily basis,
both ups and downs,

82 00:04:18:13 00:04:21:08
has been at levels we've not really
experienced before.

83 00:04:21:10 00:04:23:23
I think that throws up some real
issues for clients

84 00:04:24:00 00:04:26:04
drawing on their pensions
and investments.

85 00:04:26:06 00:04:31:22
After all, if you think about it,
the only real risk in drawdown

86 00:04:31:24 00:04:33:21
is the risk of running out of money.

87 00:04:33:23 00:04:36:15
I know advisors have to explain
lots of other risks

88 00:04:36:17 00:04:38:23
but they all manifest themselves
the same.

89 00:04:39:00 00:04:43:02
What we don't know is what the next
18 months-plus will look like

90 00:04:43:04 00:04:46:18
and perhaps that's why advisors are
helping their clients think about

91 00:04:46:20 00:04:50:12
managing future risk and what that
actually means to them.

92 00:04:50:14 00:04:53:01
I think for many that theory
of market risk

93 00:04:53:03 00:04:54:15
has now become their reality,

94 00:04:54:17 00:04:57:16
hence the need to review
existing strategies

95 00:04:57:18 00:05:00:15
to reflect those changing priorities.

96 00:05:00:17 00:05:03:15
I think for many clients, this might
be what you could call

97 00:05:03:17 00:05:05:14
a bit of a reset moment.

98 00:05:05:16 00:05:08:03
Yes, I think you're right, Andy.

99 00:05:08:05 00:05:10:21
And, again, when we all started
working from home,

100 00:05:10:23 00:05:13:08
most of the advisors that I was
speaking to

101 00:05:13:10 00:05:16:09
were just consumed by client reviews.

102 00:05:16:11 00:05:19:24
They've also had to consider a fair
amount of regulatory updates.

103 00:05:20:01 00:05:22:04
There's been so many of them

104 00:05:22:06 00:05:24:17
and they've been quite far-reaching,
haven't they?

105 00:05:24:19 00:05:28:16
Not only has it affected how they
provide advice to their clients,

106 00:05:28:18 00:05:31:11
but due to the amount of process changes

107 00:05:31:13 00:05:33:13
that's come from the regulator,

108 00:05:33:15 00:05:36:08
they've also really had to work
through everything

109 00:05:36:10 00:05:37:19
and what it means for them.

110 00:05:37:21 00:05:40:13
The impact it's going to have
on their business,

111 00:05:40:15 00:05:43:16
how they're going to manage their
own future business risk.

112 00:05:43:18 00:05:51:17
Putting the regulatory changes that
have happened into context,

113 00:05:51:19 00:05:53:23
we first had the second
suitability review,

114 00:05:54:00 00:05:58:01
which, of course, was originally
postponed and now cancelled.

115 00:05:58:03 00:06:02:02
We then had the finalised guidance
on DB transfers.

116 00:06:02:04 00:06:05:12
It's fair to say that there's so
much within that paper

117 00:06:05:14 00:06:08:20
that does translate over
to the DC world.

118 00:06:08:22 00:06:12:04
Non-DB writers have really had to
think about

119 00:06:12:06 00:06:14:04
what this means for them, too.

120 00:06:14:06 00:06:18:10
Now, of course, we've seen the most
recent consultation from the AFC

121 00:06:18:12 00:06:20:24
on the introduction of a new
consumer duty.

122 00:06:21:01 00:06:24:09
I just think that there's so much
in all of these papers

123 00:06:24:11 00:06:28:04
that if advisors haven't
really considered

124 00:06:28:06 00:06:30:09
or paid attention to these already,

125 00:06:30:11 00:06:32:15
or thought about the impact
it's going to have

126 00:06:32:17 00:06:35:03
on the advice market overall,

127 00:06:35:05 00:06:39:02
it's something that they might want
to start having a look at.

128 00:06:39:04 00:06:44:09
If we consider the second
suitability review as an example,

129 00:06:44:11 00:06:49:01
they announced it was cancelled
but what do you think of that?

130 00:06:49:03 00:06:52:20
Do you think that is the end of it
or will it be back?

131 00:06:52:22 00:06:54:09
Yes, you're absolutely right.

132 00:06:54:11 00:06:57:16
It's cancelled but possibly
not gone away.

133 00:06:57:18 00:07:00:07
The intention of that second
suitability review

134 00:07:00:09 00:07:03:10
was really to look specifically
at retirement income advice.

135 00:07:03:12 00:07:06:05
As you rightly say, paused in April
last year

136 00:07:06:07 00:07:08:05
and then actually cancelled.

137 00:07:08:07 00:07:12:05
I don't actually think that means
the regulator will not still review

138 00:07:12:07 00:07:14:11
this area of advice.

139 00:07:14:13 00:07:17:16
I think what they're going to do,
maybe, is do it in a different way.

140 00:07:17:18 00:07:20:24

For example, you mentioned the
consumer duty consultation

141 00:07:21:01 00:07:23:11
and I think this might be the way
they now encompass

142 00:07:23:13 00:07:25:22
the at retirement advice piece.

143 00:07:25:24 00:07:29:10
I just wonder how many advisors
have had the opportunity

144 00:07:29:12 00:07:32:14
to get to grips with what this paper
is actually proposing.

145 00:07:34:04 00:07:35:12
Thanks, both.

146 00:07:35:14 00:07:38:17
On that note, let's run the first poll.

147 00:07:41:17 00:07:48:17
So, are you aware of the FCA paper
CP21/13: A new consumer duty?

148 00:07:48:19 00:07:51:09
If people could start voting
for that now.

149 00:08:00:11 00:08:03:10
Can we start bringing the results
up, please?

150 00:08:06:02 00:08:10:14
OK, heard about it but not read it
is showing at 100%.

151 00:08:10:16 00:08:13:13
Oh, we've got more people coming in now.

152 00:08:17:03 00:08:22:07
It's interesting that the first two
rows are dominating the polling.

153 00:08:22:09 00:08:25:12
Most people have either not seen it
or heard about it but not read it.

154 00:08:25:14 00:08:27:18
Back to the table for their views.

155 00:08:29:04 00:08:32:23
Yes, I think that's really
interesting, Andy.

156 00:08:33:00 00:08:36:06
I've been speaking to quite a lot
of advisors and multiple firms

157 00:08:36:08 00:08:39:15
over the last few weeks
on this very subject

158 00:08:39:17 00:08:42:17
and I think it's fair to say -
and in my experience anyway -

159 00:08:42:19 00:08:44:20
there's actually very limited knowledge

160 00:08:44:22 00:08:47:02
or awareness of the paper
amongst advisors,

161 00:08:48:02 00:08:52:05
but I do think there's a pretty
reasonable possibility

162 00:08:52:07 00:08:55:24
that the outcomes could have quite
an impact on their processes.

163 00:08:56:01 00:08:58:23
So I think it's one that advisors
should definitely start

164 00:08:59:00 00:09:00:18
to think about and keep an eye on.

165 00:09:00:20 00:09:02:13
OK, that's really interesting.

166 00:09:02:15 00:09:05:07
So, when you've been talking to
advisors about this, Kirsty,

167 00:09:05:09 00:09:07:09
how do you summarise this consultation

168 00:09:07:11 00:09:09:13
and what it might actually mean
to them?

169 00:09:09:15 00:09:12:03
I suppose the first thing that
I would say, Andy,

170 00:09:12:05 00:09:15:23
is that, unfortunately, advisors
have already missed the opportunity

171 00:09:16:00 00:09:21:19
to comment on it because the paper

came out back in May

172 00:09:21:21 00:09:24:23
but the feedback period has closed
pretty quickly,

173 00:09:25:00 00:09:27:02
so that opportunity has gone.

174 00:09:27:04 00:09:31:20
However, what they've said is that
anything that comes out of it,

175 00:09:31:22 00:09:35:00
so any response to this, should come
out by the end of this year

176 00:09:35:02 00:09:38:20
and any new rules will be introduced
from the end of July next year.

177 00:09:38:22 00:09:41:14
So, there's a little bit of time
to go through and understand

178 00:09:41:16 00:09:43:10
what these changes might mean.

179 00:09:43:12 00:09:46:13
My take on the content,
to be honest,

180 00:09:46:15 00:09:50:12
is that they're really looking to
rework some of the original rules

181 00:09:50:14 00:09:52:21
around treating customers fairly.

182 00:09:52:23 00:09:57:05
So, the new consumer duty really
does make the firm responsible

183 00:09:57:07 00:09:58:24
for client outcomes

184 00:09:59:01 00:10:02:17
and I suppose the three key areas
that I have taken from it

185 00:10:02:19 00:10:06:10
is that it will require firms to do
a couple of things.

186 00:10:06:12 00:10:10:13
The first thing, it's going to get
the firm to ask themselves

187 00:10:10:15 00:10:13:14
what outcomes consumers should
actually expect

188 00:10:13:16 00:10:16:03
from their products
and their services.

189 00:10:16:05 00:10:17:15
So, that's the first thing.

190 00:10:17:17 00:10:20:00
The second thing that it's
essentially saying

191 00:10:20:02 00:10:25:18
is that they need to act to enable
rather than hinder those outcomes

192 00:10:25:20 00:10:28:06
and the third thing is that they
must assess

193 00:10:28:08 00:10:31:05
the effectiveness of their actions.

194 00:10:31:07 00:10:37:21
So, if you think about that and what
impact that might have,

195 00:10:37:23 00:10:42:08
to me that translates into what it
might mean for a firm,

196 00:10:42:10 00:10:47:10
it's likely that areas such as
communications, product services,

197 00:10:47:12 00:10:52:00
price and value could all come under
the spotlight, I think.

198 00:10:52:02 00:10:55:08
They also said, specifically within
the paper, that for many firms

199 00:10:55:10 00:11:00:15
it would require a significant shift
in culture and behaviour.

200 00:11:00:17 00:11:05:06
So, again, I agree that absolutely
could pull the areas

201 00:11:05:08 00:11:07:08
that they planned to review or assess

202 00:11:07:10 00:11:11:00

under the second suitability review,
the retirement advice market,

203 00:11:11:02 00:11:13:16
and for some firms it could mean
further reviews

204 00:11:13:18 00:11:16:17
and potentially an overhaul
of their processes.

205 00:11:16:19 00:11:19:21
If you think about everything that
we've been talking about today

206 00:11:19:23 00:11:21:16
that's come out from the regulator,

207 00:11:21:18 00:11:24:17
it very much has been
process-orientated.

208 00:11:24:19 00:11:28:24
So, it's a bit like "It ain't what
you do but the way that you do it,"

209 00:11:29:01 00:11:33:17
to very badly quote Bananarama
and Fun Boy Three.

210 00:11:35:00 00:11:37:17
Bananarama! That's a real blast
from the past, isn't it?

211 00:11:37:19 00:11:40:03
It just goes to show that paper
could have

212 00:11:40:05 00:11:42:04
some real far-reaching consequences.

213 00:11:42:06 00:11:45:02
I guess, in some ways, you could
also say

214 00:11:45:04 00:11:48:20
the same sort of principles apply
to the finalised guidance paper

215 00:11:48:22 00:11:52:19
on pension transfers that was issued
in March this year.

216 00:11:52:21 00:11:57:16
If we park the bits around Defined
Benefit advice for the moment,

217 00:11:57:18 00:12:02:01

in that paper there was an awful lot
that was read across

218 00:12:02:03 00:12:04:21
into the world of Defined
Contribution pensions.

219 00:12:04:23 00:12:07:12
Again, as you just said, with that
significant emphasis

220 00:12:07:14 00:12:09:21
on the way that you do it.

221 00:12:09:23 00:12:13:17
I think, for me, one of the things
that came out that was quite new

222 00:12:13:19 00:12:16:09
in the last 18 months, is it
highlighted what they consider

223 00:12:16:11 00:12:18:24
or have seen and what
they've called MIGS,

224 00:12:19:01 00:12:23:05
obviously not those Russian fighter
jets but Material Information Gaps,

225 00:12:23:07 00:12:26:24
and made the point that if a MIG exists

226 00:12:27:01 00:12:29:18
then the advice cannot be
deemed suitable.

227 00:12:29:20 00:12:31:17
I thought that was quite interesting.

228 00:12:31:19 00:12:34:02
What I think was useful from
this guidance

229 00:12:34:04 00:12:37:09
was that it gave lots of examples
of what the regulator

230 00:12:37:11 00:12:39:16
considered to be both good
and poor practice.

231 00:12:39:18 00:12:43:14
So, I think it's a really valuable
resource for advisors to use,

232 00:12:43:16 00:12:46:02
just to sense check

their current processes

233 00:12:46:04 00:12:48:14
and do that little bit
of self-challenge

234 00:12:48:16 00:12:51:07
to see if they need to make any
changes or enhancements

235 00:12:51:09 00:12:54:24
to what they do at the moment, their
current systems and processes.

236 00:12:55:01 00:12:58:16
So, if we're talking about the
future of pension advice,

237 00:12:58:18 00:13:01:21
there's an awful lot that's affected
this over the last 18 months or so

238 00:13:01:23 00:13:04:19
for advisors and, arguably,
insurance companies as well.

239 00:13:04:21 00:13:06:13
It affects us in the same way.

240 00:13:06:15 00:13:11:13
I think the framework for good
advice and good customer outcomes

241 00:13:11:15 00:13:15:00
is probably very different now
to what it looked like

242 00:13:15:02 00:13:16:22
just a few short years ago.

243 00:13:16:24 00:13:20:10
Certainly from the "how" or a
process point of view.

244 00:13:20:12 00:13:24:21
Maybe if we just have a think about
the At Retirement Advice piece

245 00:13:24:23 00:13:28:14
and how these papers have
potentially changed the landscape,

246 00:13:28:16 00:13:30:20
in terms of what the new good
looks like,

247 00:13:30:22 00:13:34:10
would be a good discussion to have.

248 00:13:34:12 00:13:38:08
Yes, again, this is an area that
I spend a lot of time

249 00:13:38:10 00:13:41:18
speaking to advisors about on this
very subject.

250 00:13:41:20 00:13:45:21
For me, I think the starting point
is actually to think about

251 00:13:45:23 00:13:49:09
what we now refer to as the
retirement paradox.

252 00:13:49:11 00:13:54:05
If you think about this purely from
a pension perspective -

253 00:13:54:07 00:13:58:14
and I completely accept that some
clients will have multiple assets,

254 00:13:58:16 00:14:01:17
so different tax wrappers -
but in the pension landscape,

255 00:14:01:19 00:14:04:13
we have what tends to be younger clients

256 00:14:04:15 00:14:07:08
who are in the accumulation phase

257 00:14:07:10 00:14:10:06
and they are seeking growth,
aren't they?

258 00:14:10:08 00:14:12:11
Then you've got clients that are older

259 00:14:12:13 00:14:14:19
and they start thinking about
seeking that income

260 00:14:14:21 00:14:16:21
they've previously been growing

261 00:14:16:23 00:14:19:01
as they approach or
move into drawdown

262 00:14:19:03 00:14:22:08
and begin that de-accumulation phase
of their journey.

263 00:14:22:10 00:14:26:14

So, for me, I think it's really important to differentiate

264 00:14:26:16 00:14:29:14
the different stages and we all know that retirement

265 00:14:29:16 00:14:32:14
isn't just a line in the sand and customers are there.

266 00:14:32:16 00:14:36:05
If we, as individuals, think about anything in life,

267 00:14:36:07 00:14:41:08
as we approach any target or something we are trying to achieve,

268 00:14:41:10 00:14:43:17
for want of a better way of describing it,

269 00:14:43:19 00:14:46:24
we all start to consider and assess our approach

270 00:14:47:01 00:14:49:20
as that target becomes closer

271 00:14:49:22 00:14:53:04
and retirement is, of course, no different.

272 00:14:53:06 00:14:58:11
I think as the point of retirement becomes closer,

273 00:14:58:13 00:15:01:16
there're various different things we need to consider.

274 00:15:01:18 00:15:05:11
Funnily enough, all of the customer research that I've seen out there

275 00:15:05:13 00:15:09:02
points to the fact that once someone's built up some assets

276 00:15:09:04 00:15:11:21
and they're getting closer to using it,

277 00:15:11:23 00:15:14:22
they want to protect what they've already accrued.

278 00:15:14:24 00:15:19:23
This has been particularly evident
over the last 12 months.

279 00:15:20:00 00:15:24:11
If you consider an average client,
someone with finite assets

280 00:15:24:13 00:15:27:22
that they're relying on to see them
through their retirement years,

281 00:15:27:24 00:15:32:12
generally clients of this nature
will deplete their assets over time

282 00:15:32:14 00:15:36:14
and they do tend to be a little bit
more susceptible to market shocks,

283 00:15:36:16 00:15:39:16
irrespective of what they might consider

284 00:15:39:18 00:15:41:13
to be their appetite for risk.

285 00:15:41:15 00:15:44:12
Again, if we think about that
consumer research,

286 00:15:44:14 00:15:48:06
if clients have no other guaranteed
income, for example,

287 00:15:48:08 00:15:50:06
so there's no other options available,

288 00:15:50:08 00:15:53:11
we do have a tendency to see that
their attitude to risk

289 00:15:53:13 00:15:57:12
does go down a little bit, whilst
their need for more predictability -

290 00:15:57:14 00:16:00:22
not necessarily a guarantee, but
just a little bit more certainty -

291 00:16:00:24 00:16:02:12
that tends to go up.

292 00:16:02:14 00:16:06:10
As you said earlier, Andy, the real
risk of drawdown

293 00:16:06:12 00:16:08:05
is running out of money

294 00:16:08:07 00:16:11:02
and that is what the regulator
is concerned about.

295 00:16:11:04 00:16:13:09
Every single paper that we've
mentioned today

296 00:16:13:11 00:16:15:22
has this very point at the heart
of everything

297 00:16:15:24 00:16:21:10
and as a result of that, all of
their concerns stem from that.

298 00:16:21:12 00:16:24:14
When I'm speaking to advisors
about this,

299 00:16:24:16 00:16:27:15
the questions that they're asking,

300 00:16:27:17 00:16:31:22
or that the regulator are asking
them to be aware of are:

301 00:16:31:24 00:16:34:04
How are the issues and the risks

302 00:16:34:06 00:16:37:13
that are associated with drawdown
explained to the client?

303 00:16:37:15 00:16:40:06
Does the client really understand
these risks

304 00:16:40:08 00:16:44:12
and how are advisors evidencing
and documenting this?

305 00:16:44:14 00:16:48:09
Can the solution being put in place
deliver against the sanitised needs

306 00:16:48:11 00:16:50:05
and objectives of the client?

307 00:16:50:07 00:16:54:14
By that I mean where the client has
any conflicting objectives

308 00:16:54:16 00:16:58:02
or, indeed, completely
unachievable objectives,

309 00:16:58:04 00:17:02:05
has this been identified by their
advisor and discussed in detail?

310 00:17:02:07 00:17:05:14
That's another area that's been
clearly raised

311 00:17:05:16 00:17:09:13
and identified within that finalised
guidance paper.

312 00:17:09:15 00:17:12:24
Yes, there's a lot to think about
there, isn't there?

313 00:17:13:01 00:17:15:23
Thinking about some of these
high-level risks,

314 00:17:16:00 00:17:18:06
another really useful reference
guide out there

315 00:17:18:08 00:17:20:20
is that PFS guide on drawdown.

316 00:17:20:22 00:17:24:20
I feel that sets the scene for those
discussions with the client.

317 00:17:24:22 00:17:27:24
It's been around for a while,
so that's not necessarily new,

318 00:17:28:01 00:17:30:13
I think it's just how that overlays
with these changes

319 00:17:30:15 00:17:33:00
on process and evidencing
we're seeing.

320 00:17:33:02 00:17:37:03
The PFS guide was talking about
the three key questions.

321 00:17:37:05 00:17:40:02
Is the plan meeting stated
priorities and objectives?

322 00:17:40:04 00:17:42:24
Is the income sustainable?
A very important one.

323 00:17:43:01 00:17:46:21
And, as ever, if the clients are now
thinking about managing future risk

324 00:17:46:23 00:17:50:00
in a different way, is the
investment strategy suitable?

325 00:17:50:02 00:17:53:02
That can apply equally to
a drawdown review

326 00:17:53:04 00:17:57:18
or a brand-new client going into
drawdown for the very first time.

327 00:17:57:20 00:18:00:04
Because I think when clients do get
to drawdown

328 00:18:00:06 00:18:04:05
and start want to take some money
out of their pension plans,

329 00:18:04:07 00:18:08:19
they tend to ask really simple but
also very, very pertinent questions.

330 00:18:08:21 00:18:13:15
Such as, do I have enough money and,
more importantly, will it last?

331 00:18:13:17 00:18:17:07
As we all know, in the world of
defined contribution pensions,

332 00:18:17:09 00:18:20:06
all of that investment risk
sits with the client.

333 00:18:20:08 00:18:22:24
So, an advisor will have to make
a number of assumptions

334 00:18:23:01 00:18:26:01
in order to answer those relatively
simple questions.

335 00:18:26:03 00:18:30:05
I guess the only issue with any
assumption you're going to make

336 00:18:30:07 00:18:31:20
is that the end result

337 00:18:31:22 00:18:34:20
will almost certainly not reflect
that assumption used.

338 00:18:34:22 00:18:37:22
One of the things the regulator was

saying in all of these papers

339 00:18:37:24 00:18:41:13
is that any assumptions need to be
both reasoned and reasonable.

340 00:18:41:15 00:18:44:24
Also, arguably, used consistently
across clients

341 00:18:45:01 00:18:47:24
or a whole client segment.

342 00:18:48:01 00:18:53:04
Yes, income sustainability does
continue to be an area of focus

343 00:18:53:06 00:18:56:10
and one that the regulator has,
over time,

344 00:18:56:12 00:18:59:10
given a number of updated views on

345 00:18:59:12 00:19:02:00
and not just on within
these papers today

346 00:19:02:02 00:19:04:09
but it's something that they've
continually raised

347 00:19:04:11 00:19:07:15
over the last couple of years.

348 00:19:07:17 00:19:11:07
You mentioned Material Information
Gaps earlier on

349 00:19:11:09 00:19:13:24
and I think if we consider this
for a minute

350 00:19:14:01 00:19:16:09
and think about the main one that
they identified,

351 00:19:16:11 00:19:20:20
the question there is, what is the
client's income requirement?

352 00:19:20:22 00:19:25:13
How do they consider and ascertain
a sustainable withdrawal rate

353 00:19:25:15 00:19:30:06
and does their advisor identify
any differences

354 00:19:30:08 00:19:33:00
between risk tolerance and capacity
for loss?

355 00:19:33:02 00:19:35:20
Then, of course, they need to factor
in sequencing risk

356 00:19:35:22 00:19:39:01
and all the other
stress-testing scenarios.

357 00:19:39:03 00:19:41:10
So, when you summarise it like that,

358 00:19:41:12 00:19:44:06
it does sound like an awful lot
to consider.

359 00:19:44:08 00:19:47:14
To be honest, I completely
understand why firms

360 00:19:47:16 00:19:51:09
can find this really challenging
to implement a framework

361 00:19:51:11 00:19:54:24
and a process that captures
all of that.

362 00:19:55:01 00:19:57:06
Yes, there's a lot to think about.

363 00:19:57:08 00:20:00:07
But also, a lot, if not all of that,

364 00:20:00:09 00:20:04:09
has been part of the advice process
for a good while now.

365 00:20:04:11 00:20:08:01
Maybe it's just worth us thinking
about how these papers,

366 00:20:08:03 00:20:10:01
particularly the finalised guidance,

367 00:20:10:03 00:20:13:10
have perhaps influenced the way
these areas need to be considered.

368 00:20:13:12 00:20:16:07
Because I think there's nuances
in these changes going forward

369 00:20:16:09 00:20:18:05

that the regulator has identified

370 00:20:18:07 00:20:21:02
and they're the bits that maybe
we should focus on.

371 00:20:21:04 00:20:26:20
Yes, the regulator further clarified
certain areas.

372 00:20:26:22 00:20:28:17
If we start at the start,

373 00:20:28:19 00:20:31:00
which is identifying the client's
income needs,

374 00:20:31:02 00:20:34:12
the regulator have been very, very
specific about this.

375 00:20:34:14 00:20:38:14
In this area, they've said that
the analysis of this

376 00:20:38:16 00:20:40:09
must be much more structured.

377 00:20:40:11 00:20:43:01
They're looking for firms to have
a specific structure

378 00:20:43:03 00:20:44:15
in place around this.

379 00:20:44:17 00:20:47:07
I personally find this
a little bit challenging

380 00:20:47:09 00:20:49:03
when I'm speaking to advisors

381 00:20:49:05 00:20:51:16
because I don't want
to sound patronising.

382 00:20:51:18 00:20:56:10
Because lots of firms, when we're
speaking to them,

383 00:20:56:12 00:20:59:07
they're already capturing the
client's income needs

384 00:20:59:09 00:21:01:20
in quite a lot of detail,
don't they?

385 00:21:01:22 00:21:04:18
The reality is, the regulator are
bringing this up

386 00:21:04:20 00:21:08:23
so it isn't always the case and
quite often it isn't being captured

387 00:21:09:00 00:21:10:16
in enough detail.

388 00:21:10:18 00:21:13:01
I suppose one of the key things
they've said

389 00:21:13:03 00:21:16:05
is that if you're not capturing that
income need

390 00:21:16:07 00:21:18:15
to the levels that they've stated,

391 00:21:18:17 00:21:21:11
how can appropriate stress-testing
be done

392 00:21:21:13 00:21:24:02
when you think about the later stages?

393 00:21:24:04 00:21:28:23
The regulator have taken it a step
further, though, Andy.

394 00:21:29:00 00:21:33:09
They've said that income information
should be recorded at three levels.

395 00:21:33:11 00:21:36:03
To be fair, I have lots of
conversations with firms

396 00:21:36:05 00:21:39:10
who do it in a similar way,
they call it different things,

397 00:21:39:12 00:21:41:21
or they have two levels and then
something else,

398 00:21:41:23 00:21:44:02
it doesn't really matter what
it's called

399 00:21:44:04 00:21:47:06
as long as the information
is captured

400 00:21:47:08 00:21:50:20

and split roughly into a couple of categories.

401 00:21:50:22 00:21:54:20
So the three categories that the regulator refer to are

402 00:21:54:22 00:21:58:02
essential, lifestyle, and discretionary expenditure.

403 00:21:58:04 00:22:00:08
We're probably all very familiar with it

404 00:22:00:10 00:22:02:17
but, nonetheless, just a quick summary.

405 00:22:02:19 00:22:05:06
Essential expenditure is what you would expect.

406 00:22:05:08 00:22:08:19
Bills, utilities, food shopping, that type of thing.

407 00:22:08:21 00:22:11:01
Things clients absolutely must pay,

408 00:22:11:03 00:22:14:10
which they would find very, very difficult, if not impossible,

409 00:22:14:12 00:22:17:02
to reduce if something happened to their income.

410 00:22:17:04 00:22:20:00
Lifestyle expenditure supports the client's

411 00:22:20:02 00:22:21:19
expected standard of living.

412 00:22:21:21 00:22:24:03
So, their holidays, their memberships,

413 00:22:24:05 00:22:26:07
eating out, that type of thing.

414 00:22:26:09 00:22:30:13
This is an area where it's not that they would find it difficult

415 00:22:30:15 00:22:34:15
to do these things but if they've got a standard of living,

416 00:22:34:17 00:22:38:16
they're perhaps going to be
unprepared to compromise on that.

417 00:22:38:18 00:22:42:14
So, that's been a new area
of clarity from the regulator.

418 00:22:42:16 00:22:46:16
Discretionary expenditure,
as we know, are luxury items.

419 00:22:46:18 00:22:48:15
Most clients will not have this.

420 00:22:48:17 00:22:50:09
Some will, but very few.

421 00:22:50:11 00:22:52:12
That tends to be luxury items,

422 00:22:52:14 00:22:55:21
gifts that they going to pass on
to family members, for example,

423 00:22:55:23 00:22:59:19
or if they want to continue saving
into other tax wrappers.

424 00:22:59:21 00:23:01:06
Yes, that's interesting.

425 00:23:01:08 00:23:03:06
I guess that makes a lot of sense

426 00:23:03:08 00:23:06:10
because understanding those levels
of income requirement

427 00:23:06:12 00:23:10:19
can really inform some of the other
analysis that's going to be done.

428 00:23:10:21 00:23:14:00
Particularly around that capacity
for loss.

429 00:23:14:02 00:23:17:17
Again, this is an area I think the
regulator has been pretty clear on.

430 00:23:17:19 00:23:20:13
What they're saying really is that
capacity for loss

431 00:23:20:15 00:23:22:06
can and should be calculated.

432 00:23:22:08 00:23:25:24
So, how do they define capacity
for loss?

433 00:23:26:01 00:23:29:05
What they say is it's the client's
ability to absorb falls

434 00:23:29:07 00:23:30:24
in the value of the investment

435 00:23:31:01 00:23:34:04
before it has a material impact
on their standard of living.

436 00:23:34:06 00:23:37:05
So, in their view, it's a
numerical-based analysis,

437 00:23:37:07 00:23:39:15
which should actually be calculated

438 00:23:39:17 00:23:41:21
and then be presented back
to the client.

439 00:23:41:23 00:23:46:15
They're saying it's not an emotional
response based on soft questions,

440 00:23:46:17 00:23:50:19
such as, "How would you feel if your
income dropped by £1,000-a-year?"

441 00:23:50:21 00:23:52:21
or whatever the number is.

442 00:23:52:23 00:23:56:03
I think what they're saying is that
questions of this nature

443 00:23:56:05 00:23:59:20
are more aligned to understanding
appetite for investment risk.

444 00:23:59:22 00:24:03:04
I think capacity for loss is one
of those key areas that has moved on

445 00:24:03:06 00:24:05:15
in terms of how the regulator views this

446 00:24:05:17 00:24:09:17
and how firm they're now being on
how it should be demonstrated,

447 00:24:09:19 00:24:13:01

documented - and that word we keep using - evidenced.

448 00:24:13:03 00:24:15:23
Yes, I couldn't agree more.

449 00:24:16:00 00:24:19:21
And I think speaking to firms about this fairly often,

450 00:24:19:23 00:24:25:06
this is where I personally see a gap in the firm's process or framework.

451 00:24:25:08 00:24:27:13
Quite often when we have a discussion,

452 00:24:27:15 00:24:31:08
it tends to be this capacity for loss and how they do it.

453 00:24:31:10 00:24:34:08
To be fair, most firms themselves recognise

454 00:24:34:10 00:24:37:16
that perhaps that's where it needs to be tightened up.

455 00:24:37:18 00:24:42:01
Even where they do capture income in the detailed way

456 00:24:42:03 00:24:44:03
that we've just spoken about,

457 00:24:44:05 00:24:47:14
it isn't always translated or transferred over

458 00:24:47:16 00:24:49:22
to the stress-testing scenario.

459 00:24:49:24 00:24:55:11
For example, what I see quite often is that the income requirements,

460 00:24:55:13 00:24:59:03
although captured in great detail, it's often just totalled

461 00:24:59:05 00:25:02:12
and it's the total figure that's used in the stress-testing,

462 00:25:02:14 00:25:06:18
rather than initially doing that

analysis on essential, lifestyle

463 00:25:06:20 00:25:10:04
and discretionary spending.

464 00:25:10:06 00:25:15:12
I suppose, regardless of this, once
the step has actually been done,

465 00:25:15:14 00:25:19:12
I don't think it's a bad thing
if the firm has a view

466 00:25:19:14 00:25:21:24
on what a sustainable withdrawal
rate might be.

467 00:25:22:01 00:25:25:13
There is a number of factors that
get taken into account here,

468 00:25:25:15 00:25:27:16
such as underlying investments,

469 00:25:27:18 00:25:31:04
and most commonly it's going to be
very specific to the client,

470 00:25:31:06 00:25:35:15
but I do think it is worth the firm
having, as you said,

471 00:25:35:17 00:25:38:22
a reasonable and reasoned number
in mind.

472 00:25:38:24 00:25:41:24
I don't want to visit
old ground necessarily,

473 00:25:42:01 00:25:45:02
we know there's been lots of
academic work in this area.

474 00:25:45:04 00:25:50:08
The Bengen Rule at 4%, followed up
with Morningstar analysis,

475 00:25:50:10 00:25:53:22
these are all historic things.

476 00:25:53:24 00:25:57:13
However, I think it will be
interesting to know now

477 00:25:57:15 00:26:01:24
what advisors views are on what they
think future investment returns

478 00:26:02:01 00:26:06:16
are going to be and if that's been
affected at all by the pandemic.

479 00:26:06:18 00:26:09:24
OK, everybody, this is your chance
to have your say

480 00:26:10:01 00:26:12:08
in terms of the next poll.

481 00:26:12:10 00:26:15:02
So, what do you think the average
investment return will be

482 00:26:15:04 00:26:19:06
over the next five years gross,
annualised?

483 00:26:25:02 00:26:27:08
Please, cast your votes now.

484 00:26:27:10 00:26:29:22
In the meantime,
while you're doing that,

485 00:26:29:24 00:26:32:20
please can I remind you to keep
those questions coming in.

486 00:26:32:22 00:26:36:14
We've got some really good questions
in the question box.

487 00:26:36:16 00:26:38:24
So, please keep
those questions coming

488 00:26:39:01 00:26:41:14
and we'll make sure we take those
at the end.

489 00:26:41:16 00:26:44:10
Interesting to see the votes coming
through now.

490 00:26:44:12 00:26:47:19
Some brave souls creeping in
at 7% to 9%,

491 00:26:47:21 00:26:52:14
but the majority sitting
at 3% to 5%.

492 00:26:52:16 00:26:55:15
5% to 7% looks like it's creeping up.

493 00:26:55:17 00:26:59:14
The vast majority are 3% to 5%
and 5% to 7%.

494 00:26:59:16 00:27:01:23
I guess, perhaps, where you'd expect
it to be.

495 00:27:02:00 00:27:04:13
Nice to see 1% have voted greater
than 9%.

496 00:27:04:15 00:27:06:07
Very bullish, I have to say.

497 00:27:06:09 00:27:10:04
OK, on that note, let's listen back
in the table.

498 00:27:11:19 00:27:14:09
I think that whole topic is a really
interesting one

499 00:27:14:11 00:27:18:01
and critical for any advisor where
they're looking to help manage

500 00:27:18:03 00:27:20:08
the client's expectations.

501 00:27:20:10 00:27:21:24
Here is one for you, Kirsty.

502 00:27:22:01 00:27:25:01
This was something I was looking at
earlier in the year.

503 00:27:25:03 00:27:28:00
I was doing some research for some
other work we were doing

504 00:27:28:02 00:27:29:20
and I came across this global survey

505 00:27:29:22 00:27:33:21
done by one of the fund management
houses that came out in March.

506 00:27:33:23 00:27:38:11
Basically, across the globe they
asked both clients

507 00:27:38:13 00:27:43:00
and financial professionals what
they saw the long term

508 00:27:43:02 00:27:48:03
investment return is likely to be

on an annualised basis.

509 00:27:48:05 00:27:50:02
This might surprise you, Kirsty.

510 00:27:50:04 00:27:52:07
Looking at the results for the UK,

511 00:27:52:09 00:27:57:03
what it said was that UK clients
felt long-term return expectations -

512 00:27:57:05 00:28:04:15
and this was above inflation - would
be at the number of 14.1% per annum.

513 00:28:04:17 00:28:06:11
That's incredible to me.

514 00:28:06:13 00:28:12:04
Sometimes I think, is that informed
by that rear view mirror approach?

515 00:28:12:06 00:28:16:01
Maybe over the last 12 months their
portfolio has gone up 15, 20%,

516 00:28:16:03 00:28:19:13
we've seen the bounceback,
forgetting the starting point

517 00:28:19:15 00:28:21:16
after the initial sell-off.

518 00:28:21:18 00:28:24:20
That expectation of those sort
of returns

519 00:28:24:22 00:28:27:13
creates an enormous challenge

520 00:28:27:15 00:28:30:04
in terms of managing those expectations.

521 00:28:30:06 00:28:36:21
The feedback from UK financial
professionals of that same question,

522 00:28:36:23 00:28:41:03
the number they came up with
collectively was 4.6%

523 00:28:41:05 00:28:43:10
and that's a massive difference.

524 00:28:43:12 00:28:45:05
I think that's a really big job

525 00:28:45:07 00:28:48:05
because, clearly, one of the main
roles of any wealth manager

526 00:28:48:07 00:28:52:21
is to help the client understand
and hold realistic expectations

527 00:28:52:23 00:28:56:01
of how their investments are likely
to fare.

528 00:28:56:03 00:28:59:13
I'm not going to lie, Andy,
those figures,

529 00:28:59:15 00:29:01:19
there's quite a big gap there,
isn't there?

530 00:29:01:21 00:29:04:17
I knew there was a gap and I knew
there would be a difference

531 00:29:04:19 00:29:08:03
in what consumers thought versus
financial professionals

532 00:29:08:05 00:29:12:16
but I didn't appreciate just how
large that gap actually was.

533 00:29:12:18 00:29:14:22
I suppose the one thing you said
earlier on

534 00:29:14:24 00:29:16:20
when we were speaking
about assumptions,

535 00:29:16:22 00:29:19:07
was that the one certainty that
comes with assumptions

536 00:29:19:09 00:29:22:14
is that the actual output is not
going to reflect

537 00:29:22:16 00:29:24:19
the assumptions that I used.

538 00:29:24:21 00:29:28:20
I suppose if we think about what the
regulator is saying in this area,

539 00:29:28:22 00:29:33:03
they are very, very clear that when
it comes to any assumptions

540 00:29:33:05 00:29:36:17
that are being used, it is
responsibility of the advisor

541 00:29:36:19 00:29:39:24
to demonstrate where these
assumptions are coming from

542 00:29:40:01 00:29:42:04
and why they're being used.

543 00:29:42:06 00:29:45:08
I think it's one area where we could
really help

544 00:29:45:10 00:29:47:00
some advisors and clients.

545 00:29:47:02 00:29:49:18
We spoke earlier about this
retirement paradox

546 00:29:49:20 00:29:52:17
and if clients are looking for some
level of predictability

547 00:29:52:19 00:29:56:22
as they move into de-accumulation,
and a smooth multi-asset investment

548 00:29:56:24 00:29:59:00
is the right type of investment
for them,

549 00:29:59:02 00:30:01:17
the fact that we do actually provide
an Expected Growth Rate

550 00:30:01:19 00:30:05:13
on our PruFund range can really help
the advisor with that conversation

551 00:30:05:15 00:30:07:15
around managing expectations.

552 00:30:07:17 00:30:13:15
If you think about PruFund growth,
the EGR on that is 5.7% gross,

553 00:30:13:17 00:30:17:12
so it's broadly in line with the
numbers that you mentioned before.

554 00:30:17:14 00:30:20:04
It's like a wise man once said, Andy,

555 00:30:20:06 00:30:22:06

the best return you can give a client

556 00:30:22:08 00:30:25:02
is the one that they most expect,
isn't it?

557 00:30:25:04 00:30:27:09
I wonder who that wise man was!

558 00:30:27:11 00:30:33:06
It's always going to be appropriate
to consider

559 00:30:33:08 00:30:37:03
whether any or all of those income
levels we were talking about earlier

560 00:30:37:05 00:30:38:24
should actually be secured.

561 00:30:39:01 00:30:41:14
Having that conversation about
the appropriateness

562 00:30:41:16 00:30:43:16
of an annuity-type solution,
for example,

563 00:30:43:18 00:30:48:01
that's been part of the renewal
process for ages,

564 00:30:48:03 00:30:51:17
so that's a common conversation.

565 00:30:51:19 00:30:54:08
It's also worth remembering
that the regulator

566 00:30:54:10 00:30:57:06
hasn't actually suggested that any
of those income levels

567 00:30:57:08 00:31:00:14
should actually be secured,
but I guess what it is saying

568 00:31:00:16 00:31:05:07
is that it probably makes sense to
document why it hasn't been secured,

569 00:31:05:09 00:31:07:00
if that's actually the case.

570 00:31:07:02 00:31:09:18
Just clarifying that that piece has
been covered off.

571 00:31:09:20 00:31:12:07

Certainly, where you are matching
an investment

572 00:31:12:09 00:31:14:22

to some or all of those
income requirements,

573 00:31:14:24 00:31:17:14

the three levels you talked about -
the essential,

574 00:31:17:16 00:31:21:16

lifestyle and discretionary -
there may be a fund that gives you

575 00:31:21:18 00:31:24:04

an Expected Growth Rate that may be
worth considering,

576 00:31:24:06 00:31:27:22

if only to give you that greater
level of predictability of return.

577 00:31:27:24 00:31:30:15

As we both know, as our advisors know,

578 00:31:30:17 00:31:32:24

the EGR is not a guaranteed rate.

579 00:31:33:01 00:31:35:23

So it's really important that
the client fully understands

580 00:31:36:00 00:31:39:09

the mechanics of PruFund before
they actually invest.

581 00:31:39:11 00:31:43:20

Also, whether an advisor uses our
pension wrapper or not,

582 00:31:43:22 00:31:47:09

if it's right and appropriate and
they feel that a bit of PruFund

583 00:31:47:11 00:31:50:09

is appropriate for what the client's
is trying to achieve,

584 00:31:50:11 00:31:54:20

then they can access this via
Trustee Investment Plan, as well.

585 00:31:54:22 00:31:57:21

I think that probably leads on
to the question,

586 00:31:57:23 00:32:00:24
how do I help the client understand
some of those risks?

587 00:32:01:01 00:32:03:11
We talked about stress-testing
the risks earlier.

588 00:32:03:13 00:32:06:05
How many stress tests should you do?

589 00:32:06:07 00:32:08:22
How many bits of paper do I need
to give to a client

590 00:32:08:24 00:32:12:15
to help them understand and evidence
that the client understands?

591 00:32:12:17 00:32:16:07
I don't think the regulator says
a specific number

592 00:32:16:09 00:32:18:24
but there's some good clarity around
some of the key areas

593 00:32:19:01 00:32:21:11
that need to be considered,
things like inflation.

594 00:32:21:13 00:32:23:13
What's the view on inflation,
at the moment?

595 00:32:23:15 00:32:25:22
Lots of people feel that inflation
is increasing,

596 00:32:25:24 00:32:29:04
does the number I used for that need
to be amended?

597 00:32:29:06 00:32:32:21
At the other end, the market's not
performing as expected,

598 00:32:32:23 00:32:35:24
we've certainly seen a lot of that
over the last 12 months.

599 00:32:36:01 00:32:40:03
Longevity. Again, I see this with
advisors all the time,

600 00:32:40:05 00:32:44:01
most people are now going beyond
normal life expectancy,

601 00:32:44:03 00:32:45:24
so that's great.

602 00:32:46:01 00:32:50:21
The other one that may be very
relevant is sequencing risk.

603 00:32:50:23 00:32:54:10
You probably need to think about
that in more detail.

604 00:32:54:12 00:32:58:23
One that we have seen with the
offence of the last 12 to 18 months,

605 00:32:59:00 00:33:03:03
is clients deciding to take
unplanned or ad hoc withdrawals

606 00:33:03:05 00:33:05:01
from their arrangements.

607 00:33:05:03 00:33:08:23
Helping a client understand
the potential impact of that

608 00:33:09:00 00:33:12:02
before the event is perhaps where
the regulator

609 00:33:12:04 00:33:14:12
is putting that additional emphasis.

610 00:33:14:14 00:33:19:19
This is where robust cash flow
modelling can really help.

611 00:33:19:21 00:33:22:10
I know you talk about cash flow
modelling a lot, Kirsty.

612 00:33:22:12 00:33:24:11
When you're talking to people,

613 00:33:24:13 00:33:27:19
what do you cover in terms of what
a good process could look like?

614 00:33:27:21 00:33:31:10
And perhaps, more importantly,
what the regulator is saying about this.

615 00:33:31:12 00:33:35:14
I, personally, sadly or not,
or rightly or wrongly,

616 00:33:35:16 00:33:39:24

I do think that cash flow modelling is still a really interesting topic.

617 00:33:40:01 00:33:43:05

In my experience,
I touched on this before,

618 00:33:43:07 00:33:46:21

but most firms do use some form
of cash flow modelling

619 00:33:46:23 00:33:49:18

to help clients understand some,
if not all, of the risks

620 00:33:49:20 00:33:53:23

associated with drawdown, but not
all firms use cash flow modelling

621 00:33:54:00 00:33:58:13

and the ones that do, don't actually
use it for all clients.

622 00:33:58:15 00:34:02:12

As recently as last week, I spoke to
a firm who said that they did use

623 00:34:02:14 00:34:04:19

cash flow modelling for their
retirement clients

624 00:34:04:21 00:34:07:20

but only for the wealthier
retirement clients,

625 00:34:07:22 00:34:10:12

they didn't use it for all
retirement clients.

626 00:34:10:14 00:34:12:22

I think for something like that,

627 00:34:12:24 00:34:15:19

the regulator would want to see
a process

628 00:34:15:21 00:34:19:06

that uses cash flow modelling
for all retirement clients,

629 00:34:19:08 00:34:21:02

regardless of assets.

630 00:34:21:04 00:34:25:13

We both spend a lot of time
speaking to advisors

631 00:34:25:15 00:34:28:18

and more often than not,
once we get into that process,

632 00:34:28:20 00:34:32:00
it is around cash flow modelling
and stress-testing.

633 00:34:32:02 00:34:36:11
As I highlighted before, it does
tend to be where firms themselves

634 00:34:36:13 00:34:40:18
appreciate that they don't quite
have a robust enough process

635 00:34:40:20 00:34:42:15
or framework in place.

636 00:34:42:17 00:34:45:05
I think, sometimes what
catches them out

637 00:34:45:07 00:34:49:24
is that there's a bit of a concern
that if they put a process in place,

638 00:34:50:01 00:34:54:19
it then removes any ability for them
to be to flex the scenarios

639 00:34:54:21 00:34:56:23
and that just isn't the case.

640 00:34:57:00 00:35:01:04
I think about stress-testing
or building this into your model

641 00:35:01:06 00:35:05:20
is a firm saying for any client that
is five years from retirement,

642 00:35:05:22 00:35:09:11
this is what we're going to do, this
is the process we will follow.

643 00:35:09:13 00:35:12:14
For those at retirement, this is
what we'll do,

644 00:35:12:16 00:35:14:23
this is the process we'll follow.

645 00:35:15:00 00:35:17:13
For those in retirement, this is
what we plan to do.

646 00:35:17:15 00:35:23:06
That's your process but once you

actually get into the scenarios

647 00:35:23:08 00:35:27:01
and they're being run, advisors
should take into account

648 00:35:27:03 00:35:30:22
the client's very specific
objectives, their expenditure,

649 00:35:30:24 00:35:32:18
their risk appetite.

650 00:35:32:20 00:35:36:18
Of course, everything they do
absolutely should reflect

651 00:35:36:20 00:35:39:09
the investment solution that's being
put in place.

652 00:35:39:11 00:35:41:06
So no defaults, wherever possible.

653 00:35:41:08 00:35:44:23
I did think it was interesting last
year that Intelliflo carried out

654 00:35:45:00 00:35:47:17
some research on cash flow modelling.

655 00:35:47:19 00:35:50:22
What that did show, and it
highlights what I've just said,

656 00:35:50:24 00:35:54:13
is that only a third of advisors
use cash flow modelling

657 00:35:54:15 00:35:56:01
with all of their clients.

658 00:35:56:03 00:35:59:11
In some younger accumulation clients
it's not going to be needed,

659 00:35:59:13 00:36:01:12
but it was the most popular tool

660 00:36:01:14 00:36:03:20
used with both advisors
and paraplanners

661 00:36:03:22 00:36:08:08
and I think that's reflected by the
fact that over 90% of them said that

662 00:36:08:10 00:36:12:06

where it was used throughout
the pandemic in particular,

663 00:36:12:08 00:36:16:10
it really helped clients to
understand what was happening

664 00:36:16:12 00:36:18:21
and the impact the market volatility

665 00:36:18:23 00:36:21:12
was having on their personal situation.

666 00:36:21:14 00:36:25:10
Yes, I think that was some really
good research done by Intelliflo.

667 00:36:25:12 00:36:28:19
That would be really interesting
to see if that's moved on at all

668 00:36:28:21 00:36:31:18
since then, over the last 18 months?

669 00:36:31:20 00:36:35:09
And on that note, let's run the next
poll question.

670 00:37:01:22 00:37:04:10
We can start to see the results
coming in now.

671 00:37:04:12 00:37:07:09
While those results are coming in,
if I could just remind you

672 00:37:07:11 00:37:09:10
to keep those questions coming in.

673 00:37:09:12 00:37:11:14
We've got some really
good questions already,

674 00:37:11:16 00:37:13:06
but please keep them coming.

675 00:37:13:08 00:37:15:21
We will have around 30 minutes
at the end of the session

676 00:37:15:23 00:37:20:08
to go through those questions with
our two experts, Andy and Kirsty.

677 00:37:20:10 00:37:23:06
What are the results showing us here?

678 00:37:23:08 00:37:26:14

It looks like "I think this is an area

679 00:37:26:16 00:37:29:15
we need to develop/enhance/review"
is winning the day.

680 00:37:29:17 00:37:31:11
Over 40% of people are saying that,

681 00:37:31:13 00:37:37:00
while over 30% are saying they use
multiple models and stress tests.

682 00:37:37:02 00:37:38:22
Very interesting.

683 00:37:38:24 00:37:41:16
Two real core themes there.

684 00:37:41:18 00:37:44:19
OK, on that note, let's go back
to the table.

685 00:37:46:05 00:37:48:21
I think the other thing that was
really interesting

686 00:37:48:23 00:37:52:14
from the regulator is that they've
actually given further clarity

687 00:37:52:16 00:37:54:21
on the use of modelling tools.

688 00:37:54:23 00:38:00:01
Again, within that guidance paper,
it was in relation to DB transfers,

689 00:38:00:03 00:38:03:10
but I think this is
an area that translates

690 00:38:03:12 00:38:05:19
over to DC pension advice.

691 00:38:05:21 00:38:08:16
What they said in relation to cash
flow modelling,

692 00:38:08:18 00:38:11:15
or any other modelling tools
in this area,

693 00:38:11:17 00:38:15:20
they don't actually specify that
they must use cash flow modelling

694 00:38:15:22 00:38:19:21

but where they are used, they do
have very specific requirements

695 00:38:19:23 00:38:21:13
that they want firms to follow.

696 00:38:21:15 00:38:24:14
One of those requirements is that
they do use

697 00:38:24:16 00:38:28:22
a projected period of time beyond
average life expectancy

698 00:38:28:24 00:38:32:06
because, as we know, clients could
live longer than that,

699 00:38:32:08 00:38:34:02
I think that's probably a given,

700 00:38:34:04 00:38:38:02
but what they also said is that any
outcomes that shown by the cash flow

701 00:38:38:04 00:38:39:12
must be stress-tested.

702 00:38:39:14 00:38:41:24
Not a surprise, we've spoken about
that before.

703 00:38:42:01 00:38:44:19
There're multiple stress tests that
need to be ran

704 00:38:44:21 00:38:48:08
and we'll touch on that a bit later
because advisors get concerned

705 00:38:48:10 00:38:50:05
about how many they need to run,

706 00:38:50:07 00:38:52:20
but one example that
they gave specifically

707 00:38:52:22 00:38:56:02
was around the impact of a
significant fall in the market

708 00:38:56:04 00:38:59:10
soon after the client actually
starts to make withdrawals

709 00:38:59:12 00:39:01:05
from a fund.

710 00:39:01:07 00:39:04:12
So, I suppose the key thing that
I would say to any advice firm

711 00:39:04:14 00:39:07:10
that is looking to implement this
or understand it a bit more,

712 00:39:07:12 00:39:10:06
is make sure that you know
the limitations

713 00:39:10:08 00:39:13:00
or they know the limitations of the
tool that is being used

714 00:39:13:02 00:39:16:01
and that they know what assumptions

715 00:39:16:03 00:39:18:19
and the basis of their assumptions
that they're using.

716 00:39:18:21 00:39:21:22
Of course, the regulator would want
anything that they're doing

717 00:39:21:24 00:39:24:14
to be documented, as well.

718 00:39:24:16 00:39:27:15
Yes, I think it's very interesting
you say that

719 00:39:27:17 00:39:30:01
because one of the other areas that
leads on to

720 00:39:30:03 00:39:33:20
and perhaps one of the more
difficult things to explain

721 00:39:33:22 00:39:36:13
but also demonstrate to a client

722 00:39:36:15 00:39:39:19
in a way that you can evidence that
the client understands,

723 00:39:39:21 00:39:42:05
is that whole question
of sequencing risk.

724 00:39:42:07 00:39:44:07
Maybe we've seen a lot more of that

725 00:39:44:09 00:39:46:20
over the last 18 months,

potentially, for clients.

726 00:39:46:22 00:39:49:11
I think everyone understands
the implications of this.

727 00:39:49:13 00:39:52:06
So, if you take a withdrawal when
the fund value has dipped,

728 00:39:52:08 00:39:55:01
it's going to affect the
sustainability of that income.

729 00:39:55:03 00:40:00:19
But perhaps clients don't understand
what this means to them.

730 00:40:00:21 00:40:04:08
It's easy with the concept, what
does that mean to them in reality,

731 00:40:04:10 00:40:07:16
to their lives, to their objectives,
aspirations and all that?

732 00:40:07:18 00:40:11:06
When I speak to advisors, they'll
often say this is one of the areas

733 00:40:11:08 00:40:13:12
they find most difficult to demonstrate

734 00:40:13:14 00:40:15:20
and to that that key question, evidence.

735 00:40:15:22 00:40:18:16
Particularly, that's very relevant
when you've seen so much

736 00:40:18:18 00:40:21:07
market volatility over the last
18 months.

737 00:40:21:09 00:40:23:21
Yes, most definitely.

738 00:40:23:23 00:40:27:01
Again, I agree that advisors do find
this quite challenging.

739 00:40:27:03 00:40:31:00
It's really difficult to explain
sequencing risks to clients.

740 00:40:31:02 00:40:35:07
There have actually been a number
of developments from tool providers

741 00:40:35:09 00:40:39:06
in the market over the last couple
years, or at least I've seen a few,

742 00:40:39:08 00:40:43:03
and they're designing this
to ultimately help advisors

743 00:40:43:05 00:40:47:04
better explain and evidence
sequencing risk to clients.

744 00:40:47:06 00:40:50:21
What I've seen from the tools that
I've had a look at

745 00:40:50:23 00:40:53:23
is that they're being used
to demonstrate to the client

746 00:40:54:00 00:40:57:12
the impact the sequencing risk
is going to have on them.

747 00:40:57:14 00:41:00:01
It explains it in very simple terms,

748 00:41:00:03 00:41:03:16
where they can see if market
performance is weak,

749 00:41:03:18 00:41:05:15
average or strong,

750 00:41:05:17 00:41:09:16
but what it also does is say what
that could mean for them

751 00:41:09:18 00:41:12:20
and what corrective action they
might want to consider

752 00:41:12:22 00:41:15:21
if the markets were to perform
this way.

753 00:41:15:23 00:41:19:21
The example that I saw did this
by doing a couple of things.

754 00:41:19:23 00:41:23:20
It showed how much the client would
need to reduce their income by

755 00:41:23:22 00:41:25:20
to reach the original term,

756 00:41:25:22 00:41:28:15
if they still wanted to go for that
original period.

757 00:41:28:17 00:41:32:06
Then it also gave the option to say
if you stopped your income

758 00:41:32:08 00:41:36:06
for whatever period of time before
reverting it back,

759 00:41:36:08 00:41:38:20
then your fund will still last that
same period.

760 00:41:38:22 00:41:41:24
But it also showed if no action
is taken

761 00:41:42:01 00:41:44:12
when there is a high sequencing
risk, for example,

762 00:41:44:14 00:41:49:07
your fund is going to be exhausted
by this number of months early.

763 00:41:49:09 00:41:53:19
I think that these types of tools
could really be helpful to advisors

764 00:41:53:21 00:41:56:09
when they're explaining sequencing risk.

765 00:41:56:11 00:42:00:23
I suppose another thing to remember
from a regulatory perspective,

766 00:42:01:00 00:42:03:10
all of these risks sit with
the client,

767 00:42:03:12 00:42:07:24
they are going into drawdown, but
the responsibility for demonstrating

768 00:42:08:01 00:42:12:07
that the client understands those
risks, that sits with the advisors.

769 00:42:12:09 00:42:15:20
So these are all really useful
discussion areas

770 00:42:15:22 00:42:18:06
to have with the clients to really
help them understand

771 00:42:18:08 00:42:22:15
what it means to them and whether
they might now want to take

772 00:42:22:17 00:42:25:19
any different action, to either
better manage the risks

773 00:42:25:21 00:42:28:11
with a different investment
strategy, for example.

774 00:42:28:13 00:42:31:03
Of course, that's another area
that we can help

775 00:42:31:05 00:42:33:02
from an investment perspective,

776 00:42:33:04 00:42:35:10
especially if it's clear
that the advisor,

777 00:42:35:12 00:42:38:03
after discussions with the client,

778 00:42:38:05 00:42:41:02
identifies that the client's
actually leaning towards funds

779 00:42:41:04 00:42:45:02
that have a lower sequencing risk
or a profile that indicates

780 00:42:45:04 00:42:47:11
that they want some kind
of smoothing mechanism

781 00:42:47:13 00:42:49:20
to help manage that.

782 00:42:49:22 00:42:51:15
Yes, that's great.

783 00:42:51:17 00:42:54:20
So, if anything,
the last 18 months or so

784 00:42:54:22 00:42:59:16
have seen a real enhanced focus on
how you give advice,

785 00:42:59:18 00:43:02:18
in addition to ensuring
its suitable advice.

786 00:43:02:20 00:43:06:02

Your Bananarama quote earlier was classic, Kirsty,

787 00:43:06:04 00:43:08:14
and I'm not going to try and out-trump that one,

788 00:43:08:16 00:43:10:13
but the way I think of it,

789 00:43:10:15 00:43:13:14
the mantra for buying a house is location, location, location.

790 00:43:13:16 00:43:16:22
Perhaps, for financial advisors now, the mantra needs to be

791 00:43:16:24 00:43:19:08
process, process, process.

792 00:43:19:10 00:43:21:07
Yes, but don't forget, Andy,

793 00:43:21:09 00:43:24:01
it might be documenting that process, process, process.

794 00:43:24:03 00:43:25:19
I think that's the key thing here.

795 00:43:25:21 00:43:27:12
Yes, agreed.

796 00:43:27:14 00:43:29:22
Maybe that's where something like a firm's

797 00:43:29:24 00:43:32:03
centralised retirement proposition, their CRP,

798 00:43:32:05 00:43:34:05
potentially becomes very important.

799 00:43:34:07 00:43:38:14
Probably a bit like you, I've had a lot of conversations with firms

800 00:43:38:16 00:43:42:04
throughout this whole lockdown period about what a CRP is

801 00:43:42:06 00:43:44:03
and what, perhaps, it should look like.

802 00:43:44:05 00:43:48:09
I had a chat with one advisor

who had a real bee in his bonnet

803 00:43:48:11 00:43:50:09
about the terminology, CRP.

804 00:43:50:11 00:43:54:03
I just said to him, "Look, it really
doesn't matter what you call it,

805 00:43:54:05 00:43:57:04
it's basically the firm's
governing document

806 00:43:57:06 00:43:59:19
which says 'this is how we do things
round here.'

807 00:43:59:21 00:44:02:16
Clearly, there is no-one size fits all.

808 00:44:02:18 00:44:05:05
It should be proportioned to the firm

809 00:44:05:07 00:44:08:24
and the clients that the firm
actually advises.

810 00:44:09:01 00:44:12:20
It really doesn't need to be
War And Peace.

811 00:44:12:22 00:44:17:12
When I talk to advisors about
centralised retirement propositions,

812 00:44:17:14 00:44:21:00
I don't try and tell them what
the CRP should look like.

813 00:44:21:02 00:44:22:14
Clearly, that's not my place,

814 00:44:22:16 00:44:24:24
I'm not there to tell them to run
their business.

815 00:44:25:01 00:44:26:20
But in terms of the conversation,

816 00:44:26:22 00:44:29:12
I try to use a fairly broad framework

817 00:44:29:14 00:44:32:09
and help them work out the bits
that are relevant to them

818 00:44:32:11 00:44:34:01
and their clients.

819 00:44:34:03 00:44:35:19
You're going to cover key areas.

820 00:44:35:21 00:44:38:12
Client segmentation, we discussed
capacity for loss.

821 00:44:38:14 00:44:41:17
The income policy,
both sustainability,

822 00:44:41:19 00:44:44:15
but also how you might structure
that from the investments.

823 00:44:44:17 00:44:46:20
Maybe that's part of the linkage into

824 00:44:46:22 00:44:49:01
the centralised investment proposition.

825 00:44:49:03 00:44:51:24
Through to the whole
sustainability issue,

826 00:44:52:01 00:44:54:22
what I think about in terms
of longevity,

827 00:44:54:24 00:44:56:22
why I use certain numbers,

828 00:44:56:24 00:44:59:13
through to the planning tools
that are used,

829 00:44:59:15 00:45:01:14
what's actually shown to the client,

830 00:45:01:16 00:45:04:12
and then, very importantly,
the actual review process.

831 00:45:04:14 00:45:07:17
So it's not just a file that sits on
the top shelf, gathering dust.

832 00:45:07:19 00:45:12:14
No two conversations are ever the
same because every firm's different.

833 00:45:12:16 00:45:16:04
Really, my very simple - you know
how simple I am, Kirsty -

834 00:45:16:06 00:45:21:00
my real simple definition of what

a CRP should seek to cover

835 00:45:21:02 00:45:25:21
is to think of it as your what,
your why and your when document.

836 00:45:25:23 00:45:29:11
So, for the what, that's what are
the assumptions you use

837 00:45:29:13 00:45:31:04
in the advice process?

838 00:45:31:06 00:45:34:11
The growth, the inflation, the
longevity - all of those things.

839 00:45:34:13 00:45:37:13
Why is the why do you use
those numbers

840 00:45:37:15 00:45:40:15
and what contemporary evidence have
you actually based this on?

841 00:45:40:17 00:45:43:05
I think that's an important part
of the whole process,

842 00:45:43:07 00:45:45:10
supporting those numbers that you use.

843 00:45:45:12 00:45:47:17
And then the when is your review
process for this.

844 00:45:47:19 00:45:51:14
How do you ensure that this remains
fit for purpose

845 00:45:51:16 00:45:53:18
in an ever-changing world?

846 00:45:53:20 00:45:56:21
Lots of things have changed
the last 18 months,

847 00:45:56:23 00:45:59:14
not only in markets,
but also in people's sentiment

848 00:45:59:16 00:46:01:09
and outlook going forward.

849 00:46:01:11 00:46:05:09
So, it's a great time to be thinking
about "Is it still appropriate?"

850 00:46:05:11 00:46:09:18
I think that sort of document can be
really helpful to the firm,

851 00:46:09:20 00:46:15:14
to help them identify and manage any
of their own business risks as well.

852 00:46:15:16 00:46:18:13
Just picking up from that
conversation we had earlier,

853 00:46:18:15 00:46:21:13
it might be, in the future,
the go-to place to evidence

854 00:46:21:15 00:46:26:16
that they're adhering to any new
regulatory duty of care rules,

855 00:46:26:18 00:46:28:13
if and when they actually come in.

856 00:46:28:15 00:46:31:16
I think that's an important one
to look out for.

857 00:46:31:18 00:46:34:23
Yes, I think it's really important

858 00:46:35:00 00:46:38:05
and I was actually just smiling
there when you were talking about

859 00:46:38:07 00:46:41:05
advisors having a real gripe
or upset about the terminology

860 00:46:41:07 00:46:43:22
because speaking to advisors about this,

861 00:46:43:24 00:46:47:06
they do have a real gripe with
this terminology

862 00:46:47:08 00:46:49:14
of centralised retirement proposition.

863 00:46:49:16 00:46:53:00
I suppose, when I'm having these
conversations with advisors,

864 00:46:53:02 00:46:55:11
I tend to say,
"Look, it's very highest level.

865 00:46:55:13 00:46:58:23
This is about a firm saying

regardless of who the client

866 00:46:59:00 00:47:02:23
is going to see, this is the process
we're going to follow

867 00:47:03:00 00:47:04:17
for each type of client."

868 00:47:04:19 00:47:09:12
Of course, they can break that down
further, as you've just outlined.

869 00:47:09:14 00:47:12:16
I suppose I'm thinking about this
whole retirement paradox

870 00:47:12:18 00:47:15:20
that we keep talking about and we've
mentioned a couple of times

871 00:47:15:22 00:47:17:14
during our coffee break.

872 00:47:17:16 00:47:23:08
For me, having a process in place
for growth-seekers

873 00:47:23:10 00:47:25:22
is going to be very, very different
to those clients

874 00:47:25:24 00:47:28:16
that are still seeking a growth
but are later in life

875 00:47:28:18 00:47:34:04
and then as they start to seek
that income withdrawal.

876 00:47:34:06 00:47:38:08
I think it's worth highlighting when
we're talking about these things,

877 00:47:38:10 00:47:40:23
quite often whenever
any firm thinks about

878 00:47:41:00 00:47:43:22
making a change to their process,

879 00:47:43:24 00:47:47:04
most of us probably automatically go
to thinking about new clients

880 00:47:47:06 00:47:49:05
and what we're going to do
for new clients,

881 00:47:49:07 00:47:51:21
but it's really vitally important
for advisors

882 00:47:51:23 00:47:55:11
to have these discussions with their
existing clients, as well.

883 00:47:55:13 00:47:58:21
Again, if we think about the
consumer research out there,

884 00:47:58:23 00:48:02:04
highlighting that most consumers
want to protect

885 00:48:02:06 00:48:07:05
what they've already built up, it's
therefore likely that we could start

886 00:48:07:07 00:48:12:16
to see a client's appetite for risk
changing quite considerably.

887 00:48:12:18 00:48:14:24
Particularly over the last couple
of years

888 00:48:15:01 00:48:17:09
but, perhaps, as they get older anyway.

889 00:48:17:11 00:48:20:15
Going through any of these
modelling scenarios

890 00:48:20:17 00:48:23:19
is just as important for existing
clients in drawdown,

891 00:48:23:21 00:48:28:11
in addition to clients that are
approaching or already in drawdown.

892 00:48:28:13 00:48:33:23
We have chatted about a lot of
process stuff today, Andy.

893 00:48:34:00 00:48:36:20
I suppose there's one thing we
haven't really touched on

894 00:48:36:22 00:48:39:16
that I am speaking to advisors about
all the time

895 00:48:39:18 00:48:43:06
and it's become massively more

topical in the last 18 months

896 00:48:43:08 00:48:48:17
and that's integrating an ESG
overlay into their advice process.

897 00:48:48:19 00:48:50:07
Yes, absolutely.

898 00:48:50:09 00:48:52:14
I think that's definitely a new
development.

899 00:48:52:16 00:48:56:12
Not the investment concept
but the way you adopt it

900 00:48:56:14 00:48:59:16
and the way you integrate it into
the advice process.

901 00:48:59:18 00:49:02:22
If you think about it, it's been
a really noisy market out there

902 00:49:02:24 00:49:06:12
over the last few months, with every
single fund manager out there

903 00:49:06:14 00:49:09:19
talking about what their ESG
proposition now looks like.

904 00:49:09:21 00:49:11:22
To be honest, that's absolutely great.

905 00:49:11:24 00:49:15:08
From our perspective, we're really,
really pleased to have launched

906 00:49:15:10 00:49:17:17
PruFund Planet to the market.

907 00:49:17:19 00:49:20:06
That's definitely going to have
somewhere to play

908 00:49:20:08 00:49:22:07
in the market for the right client.

909 00:49:22:09 00:49:24:16
But moving on from
the various propositions,

910 00:49:24:18 00:49:27:20
perhaps the bit that's not really
been addressed yet

911 00:49:27:22 00:49:31:04
is how are advisors incorporating
a structure around this

912 00:49:31:06 00:49:33:12
into their actual advice process?

913 00:49:33:14 00:49:37:17
Again, talking to the advisors,
that's where it's a new thing.

914 00:49:37:19 00:49:41:06
This is definitely somewhere where
the current advice process

915 00:49:41:08 00:49:43:01
has moved on, has changed.

916 00:49:43:03 00:49:46:04
It's thinking about how I put that
in place as well, now.

917 00:49:46:06 00:49:49:17
Yes, and I think there's just so
much information out there

918 00:49:49:19 00:49:51:22
about propositions, isn't there?

919 00:49:51:24 00:49:56:02
But there's much less, or a lot
less, around how advisors and firms

920 00:49:56:04 00:50:00:17
can actually create a process that
is both manageable for the advisor

921 00:50:00:19 00:50:02:23
and relevant to the client.

922 00:50:03:00 00:50:05:08
The thought process and
client engagement

923 00:50:05:10 00:50:07:22
are really, really important
to make it workable

924 00:50:07:24 00:50:10:13
for most firms and for their clients.

925 00:50:10:15 00:50:12:14
ESG isn't a binary.

926 00:50:12:16 00:50:17:13
It's clearly not a binary yes or no,
there's no yes or no answer.

927 00:50:17:15 00:50:19:09
What one person's preference is

928 00:50:19:11 00:50:23:04
is neither going to be better
nor worse than another's.

929 00:50:23:06 00:50:26:03
I think we've both, in fact most
of our team,

930 00:50:26:05 00:50:29:08
have had really interesting
conversations with advisors

931 00:50:29:10 00:50:31:18
that are now starting to think
about this.

932 00:50:31:20 00:50:36:08
And the types of things that
I'm hearing are what questions

933 00:50:36:10 00:50:38:07
do they ask a client

934 00:50:38:09 00:50:41:09
and what expectation would that
question create

935 00:50:41:11 00:50:44:06
and, of course, can the advisor
and the firm

936 00:50:44:08 00:50:46:06
then fulfil that expectation?

937 00:50:46:08 00:50:49:16
These are just some of the
challenges that we've come across

938 00:50:49:18 00:50:52:11
when we've been speaking and
discussing this with firms

939 00:50:52:13 00:50:55:10
over the last few months, but if
it's not done in the right way,

940 00:50:55:12 00:50:58:21
again, firms are quite concerned
around the risk that this could

941 00:50:58:23 00:51:01:08
potentially introduce to their business.

942 00:51:01:10 00:51:04:20
If they go down the route of

bespoke funds

943 00:51:04:22 00:51:09:15
and detailed holding analysis
at an individual client level,

944 00:51:09:17 00:51:12:17
if they're going to do that
to match against

945 00:51:12:19 00:51:16:20
individual client preferences,
that's additional time for them,

946 00:51:16:22 00:51:20:05
which of course means additional
costs and who pays for that?

947 00:51:20:07 00:51:22:23
Either the firm are going to have
to absorb it

948 00:51:23:00 00:51:25:08
or that's going to be passed on
to the client.

949 00:51:25:10 00:51:28:24
Another example, I was speaking to
a firm just in the last week.

950 00:51:29:01 00:51:31:23
They started to integrate this
but the questions that they asked,

951 00:51:32:00 00:51:35:17
they asked so many and the client
ticked the box 'Yes' to every one.

952 00:51:35:19 00:51:38:16
So they were suddenly in a situation
that they weren't quite sure

953 00:51:38:18 00:51:43:14
where to go with it and I know we've
both heard of those scenarios.

954 00:51:43:16 00:51:46:04
It's something they definitely need
to think about.

955 00:51:46:06 00:51:49:20
When I think of socially responsible
investing,

956 00:51:49:22 00:51:52:19
I think of it now really
as a process outcome.

957 00:51:52:21 00:51:55:10
What is the client's intention
with the money

958 00:51:55:12 00:51:57:08
they're about to invest?

959 00:51:57:10 00:52:00:14
And with that knowledge,
what can advisors do

960 00:52:00:16 00:52:03:21
or how can they then apply a further
ESG overlay

961 00:52:03:23 00:52:06:05
to the client's segmentation.

962 00:52:06:07 00:52:10:01
It's another area that we,
as a firm, can help.

963 00:52:10:03 00:52:13:00
We've just launched our client
interest questionnaire,

964 00:52:13:02 00:52:16:00
which our client managers are
speaking to firms about just now

965 00:52:16:02 00:52:19:08
and they're discussing that
in quite a lot of detail.

966 00:52:19:10 00:52:22:12
This questionnaire,
it's not designed to analyse

967 00:52:22:14 00:52:25:00
all of the socially responsible
investments out there

968 00:52:25:02 00:52:28:06
in the wider marketplace,
it is designed specifically

969 00:52:28:08 00:52:30:22
for investments within our
retirement account,

970 00:52:30:24 00:52:33:09
via the PruFund and PruFund
Planet range

971 00:52:33:11 00:52:36:15
that you just mentioned, but it does
help with identifying

972 00:52:36:17 00:52:38:20
a client's specific outcome objective

973 00:52:38:22 00:52:41:06
and I think that's a key thing there.

974 00:52:41:08 00:52:45:05
And if that is identified,
we can then go down the road

975 00:52:45:07 00:52:48:14
of which PruFund is going to be
more appropriate.

976 00:52:48:16 00:52:52:03
It's the sort of result firms might
want to consider

977 00:52:52:05 00:52:55:13
if they're looking for something
more manageable

978 00:52:55:15 00:52:57:11
and scalable advice process.

979 00:52:57:13 00:53:00:05
Hopefully, as we start to introduce
PruFund Planet

980 00:53:00:07 00:53:03:02
across more of our tax wrappers,
I feel pretty confident

981 00:53:03:04 00:53:05:17
that we'll be up to develop
this questionnaire

982 00:53:05:19 00:53:08:08
and perhaps make it
a bit more holistic.

983 00:53:08:10 00:53:10:17
Yes, that's a moving piece there,
isn't it?

984 00:53:10:19 00:53:13:16
But a very important one to get
something that's going to work,

985 00:53:13:18 00:53:17:07
for client and the firm both,
and deliver those great outcomes.

986 00:53:17:09 00:53:20:20
Another area that I think
the regulator focused on,

987 00:53:20:22 00:53:24:05

just coming back to the finalised
guidance paper,

988 00:53:24:07 00:53:27:02
was having done all of this analysis,

989 00:53:27:04 00:53:30:18
how do I play it back to the client?
How do I demonstrate suitability?

990 00:53:30:20 00:53:33:05
We've just been talking about advisors

991 00:53:33:07 00:53:37:02
generally integrating an EFG overlay
into their advice process

992 00:53:37:04 00:53:40:01
and that, of course, could be a key
objective for the client.

993 00:53:40:03 00:53:46:02
The regulator have been really clear
from the finalised guidance

994 00:53:46:04 00:53:48:14
that where a recommendation
to transfer is made,

995 00:53:48:16 00:53:51:03
the advisor has got to be able
to clearly demonstrate,

996 00:53:51:05 00:53:53:05
based on that contemporary evidence,

997 00:53:53:07 00:53:55:13
that this is in the client's
best interest.

998 00:53:55:15 00:54:00:14
This shouldn't be restricted solely
to their financial best interests.

999 00:54:00:16 00:54:04:13
Again, it's one of these things,
Andy, I think that's all fair

1000 00:54:04:15 00:54:07:05
and I completely understand what
the regulator are saying,

1001 00:54:07:07 00:54:10:14
particularly in relation to a transfer

1002 00:54:10:16 00:54:13:15
because the client is giving up
safeguarding benefits,

1003 00:54:13:17 00:54:16:05
but for retirement clients,
that isn't the case.

1004 00:54:16:07 00:54:18:13
They're not giving up any
safeguarding benefits.

1005 00:54:18:15 00:54:19:22
Yes, I agree with that.

1006 00:54:19:24 00:54:21:18
You're absolutely right.

1007 00:54:21:20 00:54:24:19
As we said at the outset, there's a
massive degree of crossover

1008 00:54:24:21 00:54:28:22
from defined benefit-type advice
to defined contribution-type advice,

1009 00:54:28:24 00:54:31:09
from the process perspective.

1010 00:54:31:11 00:54:33:17
What the regulator's gone to try
and do,

1011 00:54:33:19 00:54:36:09
we talked about Material Information
Gaps earlier,

1012 00:54:36:11 00:54:38:17
and I suppose spotting
or understanding

1013 00:54:38:19 00:54:41:05
what the regulator considers to be
those key MIGS

1014 00:54:41:07 00:54:43:23
and making sure the right level
of detail is being held

1015 00:54:44:00 00:54:45:24
would be a really good place to be.

1016 00:54:46:01 00:54:49:00
They went on to list all of those
factors to take into account.

1017 00:54:49:02 00:54:51:18
Know your client,
their financial circumstances,

1018 00:54:51:20 00:54:54:01

the issues around knowledge
and experience,

1019 00:54:54:03 00:54:57:18
making sure that it's recognised
that everyone has a different level

1020 00:54:57:20 00:55:00:18
of knowledge and experience,
there's not a one size fits all.

1021 00:55:00:20 00:55:03:00
The transfer risk piece, that's DB.

1022 00:55:03:02 00:55:05:18
The ability to bear
that investment risk,

1023 00:55:05:20 00:55:08:07
we've talked about that already.

1024 00:55:08:09 00:55:11:02
I guess the advisor needs to be
able to demonstrate

1025 00:55:11:04 00:55:13:14
how that recommendation that
they're giving

1026 00:55:13:16 00:55:18:11
meets the needs and objectives
of the client as a whole.

1027 00:55:18:13 00:55:22:02
If at any point an advisor's not
clear on objectives,

1028 00:55:22:04 00:55:24:13
the client gives inconsistent answers,

1029 00:55:24:15 00:55:27:00
this always needs to be followed up.

1030 00:55:27:02 00:55:31:11
As you said earlier, they need
to demonstrate that the client

1031 00:55:31:13 00:55:34:15
understands the risk of drawdown
to them personally

1032 00:55:34:17 00:55:37:08
and specifically what that could
actually mean for them.

1033 00:55:37:10 00:55:40:04
I think that's quite
challenging sometimes.

1034 00:55:40:06 00:55:42:13
I think it is quite
challenging sometimes.

1035 00:55:42:15 00:55:44:15
I think, again, speaking to advisors,

1036 00:55:44:17 00:55:47:12
I think it's an area that they have
a bit of a bugbear

1037 00:55:47:14 00:55:51:03
because there's so much that
they need to consider,

1038 00:55:51:05 00:55:53:22
that the need to include
and they need to demonstrate,

1039 00:55:53:24 00:55:56:21
the general consensus I find
from speaking to firms

1040 00:55:56:23 00:56:00:09
is that when they get to their
suitability report,

1041 00:56:00:11 00:56:02:23
it ends up being - maybe not quite
the size of the book -

1042 00:56:03:00 00:56:06:01
but it's quite lengthy and detailed
because there's so many things

1043 00:56:06:03 00:56:08:16
that they have to include within there.

1044 00:56:08:18 00:56:11:01
Yes, I've had the same feedback.

1045 00:56:11:03 00:56:14:06
I think if you've read the finalised
guidance paper

1046 00:56:14:08 00:56:16:10
front to back, wonderful.

1047 00:56:16:12 00:56:19:10
If you haven't looked at it yet,
a really good place to go

1048 00:56:19:12 00:56:22:12
is to the final chapter because
there's a whole section

1049 00:56:22:14 00:56:24:08

on demonstrating suitability.

1050 00:56:24:10 00:56:26:18
I've not really seen that from
the regulator before.

1051 00:56:26:20 00:56:29:24
There's some good examples
they've given

1052 00:56:30:01 00:56:32:22
around how that can be played back
to clients,

1053 00:56:32:24 00:56:35:24
quoting from files that they
actually looked at

1054 00:56:36:01 00:56:38:00
in that whole review process.

1055 00:56:38:02 00:56:40:15
Things like using a one-page summary,

1056 00:56:40:17 00:56:43:09
which is basically highlighting
all the key information,

1057 00:56:43:11 00:56:46:16
which then goes into a bit more
detail within the main body

1058 00:56:46:18 00:56:48:12
of the suitability report.

1059 00:56:48:14 00:56:52:07
To be fair, for a pension transfer,
they're saying that that's a must.

1060 00:56:52:09 00:56:55:05
Perhaps that just becomes really
good practice

1061 00:56:55:07 00:56:57:07
in the DC space, as well.

1062 00:56:57:09 00:57:00:02
The regulator,
within this finalised section,

1063 00:57:00:04 00:57:03:04
they go on to say the report itself
should really help your client

1064 00:57:03:06 00:57:05:12
to make an informed decision

1065 00:57:05:14 00:57:09:07

and it's more likely to deliver
against this if it's well presented.

1066 00:57:09:09 00:57:11:13
Obviously, that's some common sense,

1067 00:57:11:15 00:57:15:07
but they talk about presentational
issues, the right information.

1068 00:57:15:09 00:57:18:16
You could also argue this is
again reflected on

1069 00:57:18:18 00:57:21:22
what they're talking about from
a new potential piece

1070 00:57:21:24 00:57:24:04
around new consumer duty.

1071 00:57:24:06 00:57:27:18
All about enabling outcomes
rather than hindering outcomes.

1072 00:57:27:20 00:57:30:20
One of the examples around that
issue they gave

1073 00:57:30:22 00:57:35:00
was that one firm tried to include
enough information

1074 00:57:35:02 00:57:39:06
within their suitability report
so that an independent reviewer,

1075 00:57:39:08 00:57:42:13
that third eye view of the file,

1076 00:57:42:15 00:57:44:20
could read it from beginning to end

1077 00:57:44:22 00:57:47:17
and from that - and solely that -
assess whether the advice

1078 00:57:47:19 00:57:49:12
was suitable or not,

1079 00:57:49:14 00:57:52:05
without having to go back through
any other documents.

1080 00:57:52:07 00:57:55:18
What the advice firm was saying
was that if they failed on that

1081 00:57:55:20 00:57:58:20
because of the way they'd written
the suitability report,

1082 00:57:58:22 00:58:01:07
then they'd go back and rewrite it.

1083 00:58:01:09 00:58:04:01
So that was their self-check,
their self-test,

1084 00:58:04:03 00:58:07:23
to make sure it was delivering
the job they wanted it to.

1085 00:58:08:00 00:58:12:11
It just sounds a little bit easier
said than done, to me, to be honest.

1086 00:58:12:13 00:58:15:19
I can't imagine that's
particularly easy.

1087 00:58:15:21 00:58:18:02
Yes, I think you're right.

1088 00:58:18:04 00:58:20:21
Theory and reality,
they're always different.

1089 00:58:20:23 00:58:23:02
We are the ones preparing files,
absolutely.

1090 00:58:23:04 00:58:26:05
What I would say, if anyone
is thinking about

1091 00:58:26:07 00:58:29:02
reviewing their reports,
the finalised guidance

1092 00:58:29:04 00:58:31:10
is a pretty good place to start
to have a review.

1093 00:58:31:12 00:58:34:01
It does lay out what the regulator
is saying

1094 00:58:34:03 00:58:37:04
about what should be included
from a presentational perspective.

1095 00:58:37:06 00:58:40:00
How to structure it,
the use of headings,

1096 00:58:40:02 00:58:41:24
plain language, all of that.

1097 00:58:42:01 00:58:45:19
Stuff that's been around forever
but it does give a good steer.

1098 00:58:45:21 00:58:48:22
I think it also very strongly reinforces

1099 00:58:48:24 00:58:51:04
that whole personalised aspect,

1100 00:58:51:06 00:58:53:23
again by seeking to remind advisors
that the content

1101 00:58:54:00 00:58:57:20
should give plenty of detail
on the client's circumstances

1102 00:58:57:22 00:59:00:11
and confirming their specific needs
and objectives

1103 00:59:00:13 00:59:04:03
and how those needs and objectives
will be met

1104 00:59:04:05 00:59:06:15
by the recommendation that
they're making.

1105 00:59:06:17 00:59:09:19
They went on to say that
what they viewed

1106 00:59:09:21 00:59:14:22
as some good suitability reports ran
to no more than 12 sides of paper,

1107 00:59:14:24 00:59:17:04
five or six sheets of A4.

1108 00:59:17:06 00:59:19:06
The point they were trying to make

1109 00:59:19:08 00:59:22:16
is that if your report runs
significantly more than this,

1110 00:59:22:18 00:59:26:01
then you might want to go back and
have a bit of review of this.

1111 00:59:27:11 00:59:30:03
Well, I suppose
if that doesn't give a clear steer

1112 00:59:30:05 00:59:35:15
on what the regulator is looking for,
I'm not entirely sure what will.

1113 00:59:35:17 00:59:40:01
It certainly has been
such a full-on year with so much

1114 00:59:40:03 00:59:44:24
or a very big focus on process-driven
things from the regulator, hasn't it?

1115 00:59:45:01 00:59:46:05
Yeah, it definitely has.

1116 00:59:46:07 00:59:49:15
I think it gives advisers
an awful lot of think about

1117 00:59:49:17 00:59:52:01
in terms of how they provide advice
to clients

1118 00:59:52:03 00:59:54:22
and I think it's going to be really
interesting and really worthwhile

1119 00:59:54:24 00:59:58:24
keeping a good eye on what develops with
our duty of care paper

1120 00:59:59:01 01:00:03:05
as it goes through consultation
and new rules perhaps next year.

1121 01:00:03:07 01:00:07:01
Anyway, maybe time for another coffee
before I go

1122 01:00:07:03 01:00:10:17
because I've got another meeting
in a minute there, Kirsty.

1123 01:00:10:19 01:00:11:19
Yep, absolutely.

1124 01:00:11:21 01:00:14:14
Wait a minute.
I think there's somebody over there

1125 01:00:14:16 01:00:16:23
trying to get our attention, Andy.

1126 01:00:17:00 01:00:18:21
It looks like he's been eavesdropping
into our conversation

1127 01:00:18:23 01:00:21:08
this whole time, to be honest.

1128 01:00:21:10 01:00:24:21
Yes, sorry, I have.
It's so enthralling I had to.

1129 01:00:24:23 01:00:26:06
Hello there.

1130 01:00:26:08 01:00:28:16
And so did the rest of the audience. Hi.

1131 01:00:28:18 01:00:31:13
We couldn't help overhearing
that really interesting debate

1132 01:00:31:15 01:00:34:16
and we just wanted
to ask you a few questions.

1133 01:00:34:18 01:00:39:24
I think we'll start with Andy.
I think we'll start with your good self.

1134 01:00:40:01 01:00:42:17
You were talking about process earlier

1135 01:00:42:19 01:00:46:21
and this question encompasses
an awful lot within it

1136 01:00:46:23 01:00:49:17
so I just wonder if you could
think about how you would,

1137 01:00:49:19 01:00:52:20
or give us some comments on how you
would incorporate this into a process.

1138 01:00:52:22 01:00:57:17
So, its capacity for loss
is totally different for every client.

1139 01:00:57:19 01:01:01:04
It needs to take into account
loss of income due to death,

1140 01:01:01:06 01:01:02:21
fallen income of the pension,

1141 01:01:02:23 01:01:05:17
client ability to reduce spending
in difficult times.

1142 01:01:05:19 01:01:08:14
Plus no one ever takes account
of drops in expenditure

1143 01:01:08:16 01:01:11:01
when you are too old to spend it.

1144 01:01:11:03 01:01:14:11
How do you wrap all that up
in a cash flow model, Andy?

1145 01:01:14:13 01:01:16:21
Yeah, it is challenging
and I suppose one of the ways

1146 01:01:16:23 01:01:20:10
is trying to break it down
into its main constituent parts.

1147 01:01:20:12 01:01:23:06
So there's a lot of variables
in any advice process

1148 01:01:23:08 01:01:27:02
because there's a lot of unknowns,
clearly.

1149 01:01:27:04 01:01:28:24
But tailoring it more to,

1150 01:01:29:01 01:01:31:06
what are the specific needs
and objectives of the client?

1151 01:01:31:08 01:01:33:14
What are they trying to achieve
with the plan that they've got?

1152 01:01:33:16 01:01:34:20
There's variables outside

1153 01:01:34:22 01:01:37:16
and you're trying to manage
those additional risks as well.

1154 01:01:37:18 01:01:41:05
Income requirement might drop
because you're not spending it.

1155 01:01:41:07 01:01:44:11
Or at the same time, it might go up
because you need, for example, care fees

1156 01:01:44:13 01:01:48:00
and that will have
a massively different approach

1157 01:01:48:02 01:01:51:23
to the conversation that you're going
to have with the client.

1158 01:01:52:00 01:01:55:13
I think the key thing is matching
from an income expenditure piece

1159 01:01:55:15 01:01:57:04
what the client is trying to achieve

1160 01:01:57:06 01:02:00:08
so they've got real clarity
around those key goals.

1161 01:02:00:10 01:02:04:09
And then the wider conversation
can be around the what ifs, the buts

1162 01:02:04:11 01:02:07:16
and the maybes about some
of the things that may well change.

1163 01:02:07:18 01:02:08:19
Again, what you're trying to do

1164 01:02:08:21 01:02:12:06
is give the client
the best information they can have

1165 01:02:12:08 01:02:14:16
to try and make
the most informed choice.

1166 01:02:14:18 01:02:18:09
Because, as ever, if you identify
a potential conflict

1167 01:02:18:11 01:02:21:03
and then the client thinks about that
in a bit more detail

1168 01:02:21:05 01:02:22:24
and that becomes a concern for them,

1169 01:02:23:01 01:02:28:09
then the actual advice on how you
move forward might actually change

1170 01:02:28:11 01:02:31:02
either in terms of
what that actual advice is

1171 01:02:31:04 01:02:34:04
or certainly what the investment
solution might look like

1172 01:02:34:06 01:02:38:11
if you're trying to manage some of the
risk associated with investment as well.

1173 01:02:38:13 01:02:42:06

Yeah, it's not black and white,
it's not totally easy

1174 01:02:42:08 01:02:45:08
and there's a few things
to really consider

1175 01:02:45:10 01:02:48:03
and I think that question
really highlights the fact

1176 01:02:48:05 01:02:50:05
that you need to flex
for individual clients

1177 01:02:50:07 01:02:54:03
but in terms of an initial process, that
initial overlay,

1178 01:02:54:05 01:02:56:19
I think there is some commonality
that you could have with most clients

1179 01:02:56:21 01:02:59:14
or certainly a segment
of your client bank.

1180 01:02:59:16 01:03:02:11
I might just add something to that
as well, Andy,

1181 01:03:02:13 01:03:05:15
because I think
this comes back to the point

1182 01:03:05:17 01:03:08:24
that I think sometimes
firms get a bit caught up

1183 01:03:09:01 01:03:11:22
thinking that everything
needs to be done at the outset.

1184 01:03:11:24 01:03:14:01
So some of the examples
that were in that question there

1185 01:03:14:03 01:03:17:03
was about income reducing
or changing over time

1186 01:03:17:05 01:03:19:10
or clients not spending as much.

1187 01:03:19:12 01:03:22:12
Remember that a big part of cash flow
modelling and stress testing

1188 01:03:22:14 01:03:26:14
should be part of your
annual review process as well.

1189 01:03:26:16 01:03:27:22
So you know at the outset

1190 01:03:27:24 01:03:30:22
your clients that are perhaps
just going at retirement,

1191 01:03:30:24 01:03:32:12
they're not going to know
what their income's going to be

1192 01:03:32:14 01:03:36:09
or their income requirements
are going to be 15 or 20 years later.

1193 01:03:36:11 01:03:38:12
But as you start to do annual reviews,

1194 01:03:38:14 01:03:40:20
that's definitely
the type of discussion to have

1195 01:03:40:22 01:03:42:24
to understand how that might reduce

1196 01:03:43:01 01:03:46:23
and then you might find that very
different scenarios are being done then

1197 01:03:47:00 01:03:51:04
compared to what was being ran
10 or 15 years ago.

1198 01:03:52:18 01:03:54:16
Great stuff. Thanks, both.

1199 01:03:54:18 01:03:59:18
Can I stick with you, Kirsty,
for the next question?

1200 01:04:00:12 01:04:02:06
I think there's several people actually
like this one.

1201 01:04:02:08 01:04:06:19
So, should an annuity comparison
be provided to the client

1202 01:04:06:21 01:04:11:09
on every drawdown review every year?
What's your thoughts?

1203 01:04:11:14 01:04:13:19
So, I don't think you need to do,

1204 01:04:13:21 01:04:18:09

it's not a requirement that you need to do an annuity comparison.

1205 01:04:18:11 01:04:21:09

If the client is not looking for a guaranteed income,

1206 01:04:21:11 01:04:25:11

it doesn't specify that it has to be done, it doesn't need to be in the file.

1207 01:04:25:13 01:04:30:01

What you do need to do is evidence why it's being discounted.

1208 01:04:30:03 01:04:33:03

Now I think any one of us within the industry would agree

1209 01:04:33:05 01:04:37:09

that at the outset, as it stands right now, annuity rates are very low.

1210 01:04:37:11 01:04:41:11

So for most people they're going to be going into drawdown

1211 01:04:41:13 01:04:44:13

But what I would say is as the client is getting older,

1212 01:04:44:15 01:04:48:10

if they're starting to show any type of preference for any type of guarantees

1213 01:04:48:12 01:04:50:10

or more certainty over their income,

1214 01:04:50:12 01:04:55:04

at that point you might want to consider doing a comparison with an annuity

1215 01:04:55:06 01:04:58:11

and definitely documenting again if they're still sticking with drawdown

1216 01:04:58:13 01:05:01:20

why you might not be using that way.

1217 01:05:01:22 01:05:05:13

So it doesn't stipulate that you must run an annuity comparison

1218 01:05:05:15 01:05:10:06

but you do need to discount or evidence why it's being discounted.

1219 01:05:10:08 01:05:12:03
Great stuff. Thanks, Kirsty.

1220 01:05:12:05 01:05:14:01
And, again, just sticking with you

1221 01:05:14:03 01:05:17:01
and I'd be interested to get your views
afterwards, Andy, as well.

1222 01:05:17:03 01:05:18:16
I'm only coming to you first, Kirsty,

1223 01:05:18:18 01:05:21:14
because I think you mentioned
about DB income.

1224 01:05:21:16 01:05:24:06
I'm not sure I agree that a client's
attitude to risk goes down

1225 01:05:24:08 01:05:26:19
as they go into retirement,
to be honest.

1226 01:05:26:21 01:05:28:15
We have lots of clients
who have a DB income,

1227 01:05:28:17 01:05:31:23
therefore comfortable that they continue
with the same risk profile.

1228 01:05:32:00 01:05:34:12
Do you have any views here?

1229 01:05:34:14 01:05:37:16
Yeah, it's quite a difficult one

1230 01:05:37:18 01:05:40:02
to summarise
all of the different circumstances

1231 01:05:40:04 01:05:43:04
that clients might find themselves in.

1232 01:05:43:07 01:05:47:00
I mean, we speak a lot about clients
that have got finite assets

1233 01:05:47:02 01:05:49:08
that are going into drawdown
for the first time

1234 01:05:49:10 01:05:52:00
and perhaps they don't have
any other savings

1235 01:05:52:02 01:05:54:17
and certainly
no other guaranteed income.

1236 01:05:54:19 01:05:59:11
And certainly for those types of clients
I would say that any research out there,

1237 01:05:59:13 01:06:05:10
and, again, speaking to advisers, their
certainty for predictability goes up,

1238 01:06:05:12 01:06:08:20
their attitude to risk tends to go down
at least a little bit

1239 01:06:08:22 01:06:12:16
and more often than not their capacity
for loss is certainly lower.

1240 01:06:12:18 01:06:16:04
But if you do have clients
that have other types of income,

1241 01:06:16:06 01:06:18:21
guaranteed income or other savings,

1242 01:06:18:23 01:06:22:15
it may very well be that their attitude
to risk for their DC doesn't go down

1243 01:06:22:17 01:06:25:07
because their guaranteed income
from elsewhere

1244 01:06:25:09 01:06:28:18
actually meets all or most
of their income requirements.

1245 01:06:28:20 01:06:32:00
So, again, yes, it's probably
a bit about generalisation

1246 01:06:32:02 01:06:34:23
that I was making there that applies
to the majority of clients

1247 01:06:35:00 01:06:38:08
but if you've got clients that have got
any other type of guaranteed income,

1248 01:06:38:10 01:06:40:11
perhaps they won't fall
into that category.

1249 01:06:40:13 01:06:43:04
They'll be quite happy

taking a little bit more risk

1250 01:06:43:06 01:06:46:06
or going with the market movements.

1251 01:06:47:06 01:06:49:01
Great stuff. Anything to add, Andy?

1252 01:06:49:03 01:06:53:18
Yeah, I think that question
falls in with a similar one

1253 01:06:53:20 01:06:55:13
that's been posed to us before.

1254 01:06:55:15 01:06:58:06
I've got a very wealthy client.

1255 01:06:58:08 01:07:01:12
Do I need to do all this stress testing
with their pensions

1256 01:07:01:14 01:07:05:08
which is a relatively small proportion
of their overall wealth?

1257 01:07:05:10 01:07:09:13
And I guess the answer really is
not to the same degree

1258 01:07:09:15 01:07:11:00
for a number of reasons.

1259 01:07:11:02 01:07:14:12
Because a) the pension
is such a small aspect,

1260 01:07:14:14 01:07:17:08
but also the sustainability,

1261 01:07:17:10 01:07:21:14
some of the other work would already
have been taken place in the file

1262 01:07:21:16 01:07:23:19
around the client's other wealth.

1263 01:07:23:21 01:07:29:06
So clearly if you've got a demonstrably
exceptionally wealthy client

1264 01:07:29:08 01:07:32:07
where risk is irrelevant to them,

1265 01:07:32:09 01:07:34:22
they will always live the life
they want to live,

1266 01:07:34:24 01:07:38:11
making sure the client
understands those risks

1267 01:07:38:16 01:07:41:10
is going to be so much smaller.

1268 01:07:41:12 01:07:44:11
Whether that means the client
feels better or more inclined

1269 01:07:44:13 01:07:45:21
to take more risk or less risk,

1270 01:07:45:23 01:07:49:04
and of course that's just a personal
choice with any individual client.

1271 01:07:49:06 01:07:52:01
You see it go both ways
with different clients.

1272 01:07:52:03 01:07:53:05
Good stuff. Thanks, Andy.

1273 01:07:53:07 01:07:55:22
And sticking with you,
a slight change of tack

1274 01:07:55:24 01:07:59:13
but there's a couple
of questions/comments come in

1275 01:07:59:15 01:08:01:22
which are from the audience

1276 01:08:01:24 01:08:05:00
and they're asking about how
you compare with workplace pensions

1277 01:08:05:02 01:08:07:21
and talking about the difficulty of
comparing with workplace pensions

1278 01:08:07:23 01:08:12:15
based upon different illustration basis
and the way they change their funds.

1279 01:08:12:17 01:08:16:05
Obviously they're all going to be
difficult, or different rather.

1280 01:08:16:07 01:08:20:05
Any tips or hints
you can give the audience on that?

1281 01:08:20:07 01:08:22:22
Yeah, I think, again, it depends

on the quality of the output

1282 01:08:22:24 01:08:24:09
that you're getting
from the workplace pension.

1283 01:08:24:11 01:08:28:08
If you're able to get a reasonable
projection from the workplace pension,

1284 01:08:28:10 01:08:29:17
and that sits on your file,

1285 01:08:29:19 01:08:33:11
then it probably makes some sense
to use that number.

1286 01:08:33:13 01:08:35:14
If you've got to make some assumptions

1287 01:08:35:16 01:08:36:22
because of the quality
of the information

1288 01:08:36:24 01:08:38:18
you get from the other scheme,

1289 01:08:38:20 01:08:43:15
then depending on the risk appetite
where the fund actually is,

1290 01:08:43:17 01:08:46:05
whether that's similar to the investment
that you might be looking at

1291 01:08:46:07 01:08:48:22
for the client
from the non-workplace pension advice

1292 01:08:48:24 01:08:50:24
that you're working on,

1293 01:08:51:02 01:08:53:03
you might have differentials
in growth rate,

1294 01:08:53:05 01:08:54:13
so you might be able to combine them

1295 01:08:54:15 01:08:56:05
and you might
have to keep them separate.

1296 01:08:56:07 01:08:58:17
Again, it depends on the circumstances

1297 01:08:58:19 01:09:01:22
and ultimately what the client's

trying to understand

1298 01:09:01:24 01:09:03:17
and the objectives around that.

1299 01:09:03:19 01:09:04:21
I mean, workplace pensions are great.

1300 01:09:04:23 01:09:07:00
I think back to the day
when I started in the industry,

1301 01:09:07:02 01:09:10:20
growth rates we used then were 13%.
Happy days.

1302 01:09:10:22 01:09:13:23
Everybody putting in £50 a month became
a millionaire when they retired.

1303 01:09:14:00 01:09:16:04
But we know that's not the reality.

1304 01:09:16:06 01:09:18:20
So reasoned and reasonable, I think.

1305 01:09:18:22 01:09:24:02
Even if as an adviser
you don't consider for your client

1306 01:09:24:04 01:09:26:10
some of the assumptions coming out
of their workplace pension projections

1307 01:09:26:12 01:09:28:05
to be reasoned and reasonable,

1308 01:09:28:07 01:09:31:22
then why not change them to what
you feel are because ultimately

1309 01:09:31:24 01:09:34:18
that's where the personal
recommendation's coming from.

1310 01:09:34:20 01:09:39:09
You're influencing part of that
and taking onboard existing assets

1311 01:09:39:11 01:09:42:16
even if you don't have control
over where they're invested.

1312 01:09:44:03 01:09:45:10
Thanks, Andy.

1313 01:09:45:12 01:09:47:17
Kirsty, back to you for the next one.

1314 01:09:47:19 01:09:51:05
You touched upon this, I think,
during your conversation with Andy

1315 01:09:51:07 01:09:54:06
and it's just around cash flow analysis
and the question is,

1316 01:09:54:08 01:09:56:07
surely advisers
are using cash flow analysis

1317 01:09:56:09 01:09:59:24
in support of their advice process?

1318 01:10:00:01 01:10:01:18
You hinted that some aren't.

1319 01:10:01:20 01:10:06:23
Surely now most are and if they're not,
what else could they do?

1320 01:10:07:00 01:10:11:03
Yeah, so interestingly, again,
some firms that I speak to

1321 01:10:11:05 01:10:14:07
they perhaps are using it but they're
maybe only doing one stress test.

1322 01:10:14:09 01:10:16:23
So a common situation
that we come across

1323 01:10:17:00 01:10:21:04
is perhaps just a general 10% fall
in the market in the first year

1324 01:10:21:06 01:10:22:20
of the client being in drawdown

1325 01:10:22:22 01:10:26:14
and I say that because genuinely it
seems to be one that's used quite a lot.

1326 01:10:26:16 01:10:30:12
So I would say, yeah, you could argue
cash flow modelling is being used

1327 01:10:30:14 01:10:34:17
but is that being used
to its full capacity?

1328 01:10:34:19 01:10:37:07
And the answer is perhaps not.

1329 01:10:37:09 01:10:38:23

Because a) that's only one stress test

1330 01:10:39:00 01:10:41:22
and b) if you think about
what happens in the markets

1331 01:10:41:24 01:10:47:19
both last year and back to 2008,
our most recent market drops,

1332 01:10:47:21 01:10:50:13
they were both over 20% on average.

1333 01:10:50:15 01:10:54:03
So is that really reflective
of what's happening? No, it isn't.

1334 01:10:54:05 01:10:58:24
So in some situations it's being used
but perhaps not to its full capability

1335 01:10:59:01 01:11:00:21
but honestly, I do still speak to firms

1336 01:11:00:23 01:11:03:12
that don't use
cash flow modelling at all.

1337 01:11:03:14 01:11:05:22
Quite often they use spreadsheets,
an Excel spreadsheet,

1338 01:11:05:24 01:11:08:03
and, again, that's perfectly acceptable.

1339 01:11:08:05 01:11:12:13
The regulator's happy enough
if an Excel spreadsheet is being used.

1340 01:11:12:15 01:11:15:09
It's just if that's the case,
you obviously are responsible

1341 01:11:15:11 01:11:18:21
for making sure that spreadsheet
is fit for purpose, it works,

1342 01:11:18:23 01:11:21:12
it's got all of the assumptions
and calculations in there

1343 01:11:21:14 01:11:23:01
and you can evidence that.

1344 01:11:23:03 01:11:25:22
But most importantly,
if it's being used,

1345 01:11:25:24 01:11:29:03
you need to make sure
the client understands the output.

1346 01:11:29:05 01:11:34:04
So, again, it's one of these situations
the majority, 70% of firms

1347 01:11:34:06 01:11:38:11
do tend to use cash flow modelling
but not all firms do.

1348 01:11:38:13 01:11:41:22
And as I've said when Andy and I
were having our coffee discussion,

1349 01:11:41:24 01:11:46:10
not all firms that use cash flow
modelling use it with them all.

1350 01:11:46:12 01:11:51:00
The example that I used there were
that we use it for wealthier clients

1351 01:11:51:02 01:11:55:20
going into retirement but not
for all clients going into retirement.

1352 01:11:55:22 01:11:59:23
The view from the regulator there
would be you should have a process

1353 01:12:00:00 01:12:02:11
for all of your retirement clients.

1354 01:12:02:13 01:12:05:20
It doesn't matter if one client
has a million pounds in a pension

1355 01:12:05:22 01:12:07:22
and another has £200,000.

1356 01:12:08:01 01:12:12:17
Yes, the solutions and the risk appetite
might be very, very different

1357 01:12:12:19 01:12:17:07
but the process you as a firm should go
through in analysing all of those things

1358 01:12:17:09 01:12:19:09
should be the same.

1359 01:12:20:10 01:12:22:08
Thanks, Kirsty,
and just sticking with you

1360 01:12:22:10 01:12:25:14

and keeping with the theme
of cash flow modelling,

1361 01:12:25:16 01:12:28:04
it's often said stochastic modelling

1362 01:12:28:06 01:12:31:18
obviously gives
a lot more different scenarios

1363 01:12:31:20 01:12:33:01
and is therefore more thorough,

1364 01:12:33:03 01:12:35:07
but it's harder
for the client to understand.

1365 01:12:35:09 01:12:37:10
Whereas deterministic is easier
for the client to understand

1366 01:12:37:12 01:12:40:19
but actually only presents
one picture to the client

1367 01:12:40:21 01:12:43:07
which is almost inevitably
not going to be the outcome.

1368 01:12:43:09 01:12:44:21
How do you marry those two things

1369 01:12:44:23 01:12:48:03
and what tips have you got
for advisers on that?

1370 01:12:48:05 01:12:49:20
Okay, so there's a couple of things
that I would say there

1371 01:12:49:22 01:12:52:11
on the two different types
of modellers.

1372 01:12:52:13 01:12:53:24
Stochastic modeller first of all.

1373 01:12:54:01 01:12:57:18
That's the one,
if anybody's been to any session

1374 01:12:57:20 01:12:59:24
that's done by any asset manager,

1375 01:13:00:01 01:13:04:05
ourselves included, our Treasury
Investment office do this,

1376 01:13:04:07 01:13:07:17
stochastic modelling
runs thousands of different situations

1377 01:13:07:19 01:13:10:18
that may or may not happen in the future

1378 01:13:10:20 01:13:14:16
and what that means is the output
that that gives is more likely.

1379 01:13:14:18 01:13:17:08
It still isn't guaranteed
but it's more likely

1380 01:13:17:10 01:13:20:10
because all of these different
situations have been done.

1381 01:13:20:12 01:13:23:07
Now any other asset manager
that uses it,

1382 01:13:23:09 01:13:26:09
will use that
in their strategic asset allocation.

1383 01:13:26:11 01:13:29:23
Again, it's something that we do
at our Treasury Investment office.

1384 01:13:30:00 01:13:31:02
Whatever comes out there

1385 01:13:31:04 01:13:35:15
is what drives our longer-term strategic
asset allocation.

1386 01:13:35:17 01:13:39:19
What we then do, however, is we
go on to give an expected growth rate.

1387 01:13:39:21 01:13:44:04
So we give that EGR.
Not all firms do that, as you know.

1388 01:13:44:06 01:13:45:24
Now deterministic modellers

1389 01:13:46:01 01:13:49:17
and these, I would say, are most
frequently used within the industry,

1390 01:13:49:19 01:13:52:02
our retirement modeller and, to be fair,

1391 01:13:52:04 01:13:56:05
most of the independent tools

are deterministic.

1392 01:13:56:07 01:13:59:19
That's relying on you
inputting a single assumption

1393 01:13:59:21 01:14:03:01
and as soon as that will happen
every single year.

1394 01:14:03:03 01:14:06:15
Now the great thing about that
is it makes it really, really easy

1395 01:14:06:17 01:14:09:08
for the client to understand the output.

1396 01:14:09:10 01:14:12:03
But the downside is
it does make the assumption

1397 01:14:12:05 01:14:15:05
it's going to happen every single year
in a linear fashion.

1398 01:14:15:07 01:14:18:23
Now for us, if you're using our EGR
within our retirement modeller,

1399 01:14:19:00 01:14:21:18
yeah, that's a deterministic,
it's a single number

1400 01:14:21:20 01:14:26:05
but we've given you that number based on
that strategic asset allocation.

1401 01:14:26:07 01:14:30:16
If you're using a deterministic modeller
and you are inputting the assumptions,

1402 01:14:30:18 01:14:34:17
that's fine but evidence where
these assumptions are coming from.

1403 01:14:34:19 01:14:37:04
Don't make them generic,
don't make defaults

1404 01:14:37:06 01:14:40:10
and use something
that's very specific to the client

1405 01:14:40:12 01:14:43:23
and you can evidence
why those assumptions are being used

1406 01:14:44:00 01:14:46:02

and more importantly than ever,

1407 01:14:46:04 01:14:49:00
you need to have some robust
stress testing in there

1408 01:14:49:02 01:14:54:14
because that is not
how the markets will actually work.

1409 01:14:54:16 01:14:58:17
Thanks, Kirsty.
Andy, back to you for the next one.

1410 01:14:58:19 01:15:00:03
So the actual question is,

1411 01:15:00:05 01:15:05:13
are there any client-facing videos
available to explain drawdown risks

1412 01:15:05:15 01:15:07:19
in the same way
that some DB providers use

1413 01:15:07:21 01:15:10:17
to ensure clients
are aware of DB transfer risks

1414 01:15:10:19 01:15:14:01
which the FCA would find acceptable

1415 01:15:14:03 01:15:18:16
if clients watch the video and
then confirm they understand this?

1416 01:15:18:18 01:15:21:04
I guess as a follow-on
to the same question,

1417 01:15:21:06 01:15:26:14
is there anything else an adviser can do
to help ensure their file is compliant

1418 01:15:26:16 01:15:28:17
and, perhaps even more importantly,

1419 01:15:28:19 01:15:32:03
that the actual client
understands the risk of drawdown?

1420 01:15:32:05 01:15:36:02
I think that final point
is the absolute key

1421 01:15:36:04 01:15:38:15
and the crux of the whole matter.

1422 01:15:38:17 01:15:42:04
If we look at the finalised guidance,
the demonstrate suitability part,

1423 01:15:42:06 01:15:45:01
the last section
I was talking about earlier,

1424 01:15:45:03 01:15:48:11
that's what the regulator
is talking about.

1425 01:15:48:13 01:15:52:11
And one of the things
that came out in that,

1426 01:15:52:13 01:15:54:03
they gave an example.

1427 01:15:54:05 01:15:57:05
So back in the day perhaps,

1428 01:15:58:10 01:16:02:09
it was not uncommon for a suitability
report to be given to a client

1429 01:16:02:11 01:16:04:00
and at the end of the suitability report

1430 01:16:04:02 01:16:07:02
there was a section
for the client to sign

1431 01:16:07:04 01:16:11:20
to say they'd read and understood it
and accepted the recommendation.

1432 01:16:11:22 01:16:14:01
And that's the bit
the regulator was saying

1433 01:16:14:03 01:16:16:14
they don't think that's now appropriate.

1434 01:16:16:16 01:16:18:01
So what they talked about

1435 01:16:18:03 01:16:21:10
is having checks and balances throughout
the whole advice process

1436 01:16:21:12 01:16:24:18
to test and check that understanding.

1437 01:16:24:20 01:16:28:08
And that comes back
to that very first part of the question,

1438 01:16:28:10 01:16:31:08
are there tools out there?
I believe there are.

1439 01:16:31:10 01:16:35:23
I think the DB, one of the ones
we've talked about previously,

1440 01:16:36:00 01:16:40:05
they did some very good
DB triage-type work

1441 01:16:40:07 01:16:42:10
and they've now expanded the basis

1442 01:16:42:12 01:16:45:07
into explaining some of the other
financial planning aspects,

1443 01:16:45:09 01:16:48:03
particularly around drawdown, some
of the risks associated around that.

1444 01:16:48:05 01:16:52:14
So that might be a basis because
that had inbuilt checks and balances

1445 01:16:52:16 01:16:55:22
to make sure the client has a) read it
and then understood it.

1446 01:16:55:24 01:16:57:11
But you don't necessarily

1447 01:16:57:13 01:17:00:24
have to subscribe
to those sort of outsource solutions.

1448 01:17:01:01 01:17:02:24
It might be appropriate
to your business.

1449 01:17:03:01 01:17:05:00
The challenge might be
if you're trying to do it yourself is,

1450 01:17:05:02 01:17:08:24
how would I build those checks
and balances into that process?

1451 01:17:09:01 01:17:13:05
How would I check
that my client is going along

1452 01:17:13:07 01:17:15:02
with all the things
that we're talking about?

1453 01:17:15:04 01:17:17:15
It goes back to that knowledge
and experience piece as well.

1454 01:17:17:17 01:17:18:24
Not making any assumptions

1455 01:17:19:01 01:17:23:14
around clients
having a general level of knowledge

1456 01:17:23:16 01:17:26:15
perhaps because of where they work
or the industry they work in,

1457 01:17:26:17 01:17:31:07
treating each customer separately
and having some sort of structure

1458 01:17:31:09 01:17:35:06
that allows me to gauge
a) their level of understanding

1459 01:17:35:08 01:17:39:05
and therefore the level of demonstrating
I need to do that evidencing point part

1460 01:17:39:07 01:17:40:21
that the file will then pick up.

1461 01:17:40:23 01:17:42:22
Some outsource solutions
might well support that.

1462 01:17:42:24 01:17:45:12
It might be, again, within the process,

1463 01:17:45:14 01:17:50:16
particularly if we see this new consumer
due to come in as initially written,

1464 01:17:50:18 01:17:53:15
the evidencing
and demonstrating outcomes

1465 01:17:53:17 01:17:56:23
would seem to become
considerably more structured.

1466 01:17:57:00 01:18:01:09
So, yeah, one to keep an eye on as well
as think about how I do at the moment.

1467 01:18:01:11 01:18:03:21
Good stuff. Anything to add, Kirsty?

1468 01:18:03:23 01:18:08:04
No, to be fair, I think Andy's covered

that very eloquently.

1469 01:18:08:06 01:18:09:14
Excellent.

1470 01:18:09:16 01:18:11:14
Kirsty, sticking with you,

1471 01:18:11:16 01:18:16:10
you've talked about cash flow modelling
and you've talked about stress testing.

1472 01:18:16:12 01:18:19:20
What's a kind of ideal number,
if there is one,

1473 01:18:19:22 01:18:24:16
for an adviser to run when he is
stress testing his cash flow model?

1474 01:18:24:18 01:18:27:06
Okay, so what we're starting to see

1475 01:18:27:08 01:18:29:17
that's being used more
and more frequently in the market now

1476 01:18:29:19 01:18:34:17
and much more consistently
is the maximum drawdown figure.

1477 01:18:34:19 01:18:40:13
So if you are doing a stress test
for extreme market volatility,

1478 01:18:40:15 01:18:45:14
most independent tools out there
will allow you to run a figure

1479 01:18:45:16 01:18:47:07
over a certain period of time

1480 01:18:47:09 01:18:50:21
that shows the worst possible return the
client might experience.

1481 01:18:50:23 01:18:55:04
So if we took the year
up to March of last year

1482 01:18:55:06 01:18:58:06
because that's obviously when
the markets were at their worst,

1483 01:18:58:08 01:19:01:02
if we looked at the mixed 20-60 sector,

1484 01:19:01:04 01:19:03:22

it was something like
6 and a half percent

1485 01:19:03:24 01:19:05:22
or just over 6 and a half percent

1486 01:19:05:24 01:19:09:02
if the client had been fully invested
or exposed to that

1487 01:19:09:04 01:19:10:21
over a 10-year period of time.

1488 01:19:10:23 01:19:12:08
And the reason I say that

1489 01:19:12:10 01:19:16:12
is because my understanding of the kind
of cash flow modellers out there

1490 01:19:16:14 01:19:19:22
is once you input
what you want the tool to run,

1491 01:19:19:24 01:19:22:10
that's the part
that takes a little bit of time.

1492 01:19:22:12 01:19:27:09
You input the settings, the default
scenarios that you want to run

1493 01:19:27:11 01:19:32:05
but it pulls through the specific
figures for the underlying assets

1494 01:19:32:07 01:19:34:15
in which you are going to invest
that client.

1495 01:19:34:17 01:19:36:20
So I think that's the key thing.

1496 01:19:36:22 01:19:42:15
That's the main situations
that we seem to see firms doing.

1497 01:19:42:17 01:19:45:21
What I've also seen firms doing
is running more than one situation

1498 01:19:45:23 01:19:49:00
because we all know
that markets are cyclical.

1499 01:19:49:02 01:19:53:04
We know that there will be another drop,
we just don't know when it will happen,

1500 01:19:53:06 01:19:57:04
by how much and we don't know
how quickly it will recover.

1501 01:19:57:06 01:19:59:21
So what I've started to see
a number of firms doing

1502 01:19:59:23 01:20:02:15
is actually running
two different situations

1503 01:20:02:17 01:20:07:16
that reflects both 2020
and what happened back in 2008

1504 01:20:07:18 01:20:11:23
because the total fall was similar,
it was quite a steep amount

1505 01:20:12:00 01:20:14:11
but the way in which it happened
was very different.

1506 01:20:14:13 01:20:18:13
2020 dropped very quickly
and recovered quite quickly.

1507 01:20:18:16 01:20:22:05
2008 took about a year and a half
to go from top to bottom

1508 01:20:22:07 01:20:24:07
but it took something like
three years to recover.

1509 01:20:24:09 01:20:29:22
So both very different situations
but I think both very good examples

1510 01:20:29:24 01:20:34:10
to clients around what could happen
with these unpredictable events.

1511 01:20:35:13 01:20:36:13
Thanks, Kirsty.

1512 01:20:37:15 01:20:38:20
Back to Andy for this one.

1513 01:20:38:22 01:20:42:14
Andy, you mentioned MIGs, which
of course is material information gaps

1514 01:20:42:16 01:20:45:09
and not the Russian fighter.

1515 01:20:45:11 01:20:50:03
The examples you gave did seem
fairly straightforward, to be honest.

1516 01:20:50:05 01:20:52:24
Is there a real problem there?

1517 01:20:53:01 01:20:54:01
No.

1518 01:20:55:16 01:20:58:20
From the paper, they were the headings
that were used by the regulator.

1519 01:20:58:22 01:21:01:04
So it's not so much, is there a problem
with knowing your customer?

1520 01:21:01:06 01:21:03:17
It's not about, how do I do a fact find?

1521 01:21:03:19 01:21:06:24
I think what's worth
trying to gauge from the paper

1522 01:21:07:01 01:21:09:12
is the nuance of how that's changed.

1523 01:21:09:14 01:21:11:13
So, for example, we talked about
the income and expenditure,

1524 01:21:11:15 01:21:13:03
that higher level of detail

1525 01:21:13:05 01:21:16:14
and the way it then informs
part of the other advice process,

1526 01:21:16:16 01:21:18:20
particularly around capacity for loss.

1527 01:21:18:22 01:21:21:04
So they picked up
on a few of those things.

1528 01:21:21:06 01:21:26:14
So, yeah, understand your customer,
full financial circumstances,

1529 01:21:26:16 01:21:30:17
full family circumstances,
the client experience,

1530 01:21:30:19 01:21:36:03
all of those issues were areas that
they said, we have seen some gaps in.

1531 01:21:36:05 01:21:37:20
And, yeah, I would agree actually.

1532 01:21:37:22 01:21:40:24
This has been part of the advice process
forever really.

1533 01:21:41:01 01:21:45:01
In terms of know your customer, you
would encompass all of that into that.

1534 01:21:45:03 01:21:48:01
It's just, has the nuance changed?
Are we collecting the right information?

1535 01:21:48:03 01:21:51:13
And perhaps critically, are we playing
back that information correctly

1536 01:21:51:15 01:21:54:07
and appropriately to the client
through the suitability report?

1537 01:21:54:09 01:21:57:06
That seems to be where the direction
of travel has been from the regulator

1538 01:21:57:08 01:22:02:23
over the last 18 months in terms
of the individuality of that report

1539 01:22:03:00 01:22:07:12
and what detail it goes in to,
particularly around all the areas

1540 01:22:07:14 01:22:12:02
they talk at some length about
was managing conflicts.

1541 01:22:12:06 01:22:16:23
Different objectives, conflicting
objectives, unachievable objectives

1542 01:22:17:00 01:22:19:24
and that narrative that supports the...

1543 01:22:20:03 01:22:23:20
This is the conversation we had
around discussing conflicts,

1544 01:22:23:22 01:22:26:23
how we managed those and compromised
on those conflicts

1545 01:22:27:00 01:22:29:04
and how we therefore
got to the final recommendation.

1546 01:22:29:06 01:22:31:17
That's, again,
from my reading of the paper,

1547 01:22:31:19 01:22:32:22
that's one of the areas

1548 01:22:32:24 01:22:37:12
that the regulator
has been quite vocal about really.

1549 01:22:38:07 01:22:41:04
Yeah, if I could just add
one point to that.

1550 01:22:41:06 01:22:44:19
Everything that Andy's said there
is my interpretation as well

1551 01:22:44:21 01:22:47:08
but, again, just having conversations
with advisers about it

1552 01:22:47:10 01:22:49:20
because I do appreciate
that we've all been doing this,

1553 01:22:49:22 01:22:52:04
or firms have been doing this
for quite some time now

1554 01:22:52:06 01:22:55:21
and that's why I do sometimes feel
a little bit patronising

1555 01:22:55:23 01:22:57:17
using it as an example.

1556 01:22:57:19 01:22:59:21
But when you get into the detail,

1557 01:22:59:23 01:23:01:18
when they're talking
about this essential

1558 01:23:01:20 01:23:05:16
versus this lifestyle expenditure,
I think, for me, that's the key part

1559 01:23:05:18 01:23:08:23
when Andy was talking about
the compromises and the conflicts

1560 01:23:09:00 01:23:13:09
and this is where it's not just about
running scenarios on that essential

1561 01:23:13:11 01:23:15:04

and that lifestyle.

1562 01:23:15:06 01:23:17:07
It's about having a conversation
with the client

1563 01:23:17:09 01:23:21:07
about where they might be prepared
to compromise if things were to happen

1564 01:23:21:09 01:23:24:16
because your more affluent
and wealthier clients

1565 01:23:24:18 01:23:27:17
will not regard that lifestyle income
as lifestyle.

1566 01:23:27:19 01:23:30:15
They probably regard quite a lot of that
as their essential.

1567 01:23:30:17 01:23:32:17
There will be things
that they're not prepared to give up.

1568 01:23:32:19 01:23:36:10
So it was just a little bit to add
to what Andy was saying there.

1569 01:23:36:12 01:23:38:24
If you were breaking it down,
it's quite a simplistic view

1570 01:23:39:01 01:23:42:06
but that's how I think about it
when I'm speaking to advisers

1571 01:23:42:08 01:23:45:21
around running those situations
so clients understand.

1572 01:23:46:14 01:23:48:18
Right, okay. Thank you, both.

1573 01:23:48:20 01:23:51:02
I think we've got one final question

1574 01:23:51:04 01:23:54:10
we'd really like to hear
from you both on.

1575 01:23:54:12 01:23:59:09
Which is, how far do you go in terms
of trying to ensure client understanding

1576 01:23:59:11 01:24:00:15
and agreement?

1577 01:24:00:17 01:24:02:10
For example, there's a suggestion

1578 01:24:02:12 01:24:05:13
that some advisers
have a client drawdown agreement

1579 01:24:05:15 01:24:08:03
which stipulates an income level
that's been agreed

1580 01:24:08:05 01:24:12:10
and if the market drops by X,
the income will need to be reduced by Y.

1581 01:24:12:12 01:24:15:00
What's your thoughts on that?

1582 01:24:16:10 01:24:19:01
- Shall I go first on that?
- Yep, okay.

1583 01:24:19:03 01:24:21:10
Yeah, I mean, that's an interesting one

1584 01:24:21:12 01:24:24:05
because actually that's taking onboard
some other bits and pieces

1585 01:24:24:07 01:24:26:24
because that also brings up,

1586 01:24:27:01 01:24:30:06
what's my advice proposition,
what services am I providing to clients?

1587 01:24:30:08 01:24:33:21
So creating that agreement up-front
could be part of that.

1588 01:24:33:23 01:24:36:07
If we go back
to what the regulator's talking about,

1589 01:24:36:09 01:24:40:18
it's, does the client understand
the potential impact

1590 01:24:40:20 01:24:42:20
of stuff going on?

1591 01:24:42:24 01:24:45:18
Now does that mean
that if the market falls 10%,

1592 01:24:45:20 01:24:47:19
my income needs to drop 10%, 8%,

1593 01:24:47:21 01:24:51:15
whatever the number
actually works out to be?

1594 01:24:51:17 01:24:54:23
As a starting point there's
nothing wrong with having that.

1595 01:24:55:00 01:24:57:01
But actually the reality
and the implications of that

1596 01:24:57:03 01:25:00:13
and putting that into place
might be significantly different.

1597 01:25:00:15 01:25:02:12
I think what is really important

1598 01:25:02:14 01:25:05:15
is that the client understands
the consequence of that.

1599 01:25:05:17 01:25:07:19
And that's maybe been the challenge.

1600 01:25:07:21 01:25:11:19
We talked about sequencing risk and
that's sometimes quite a difficult one

1601 01:25:11:21 01:25:16:22
for a client to grasp
the what it means to me piece.

1602 01:25:16:24 01:25:19:13
And I think this is where the tools have
helped because it gives consequence.

1603 01:25:19:15 01:25:26:10
It gives you, it could mean this
rather than a much more theoretical,

1604 01:25:26:12 01:25:28:10
hypothetical, something
the client can't grasp

1605 01:25:28:12 01:25:30:04
around your income's
going to have to go down,

1606 01:25:30:06 01:25:32:16
you'll have to compromise
on some stuff.

1607 01:25:32:18 01:25:34:22
It gives a bit more tangibility
around that,

1608 01:25:34:24 01:25:37:14
if I can make that word up.

1609 01:25:37:16 01:25:39:15
So, yeah, I think it is a challenge.

1610 01:25:39:17 01:25:42:17
I mean, that's an advice process,
that's a service you offer your clients

1611 01:25:42:19 01:25:45:12
and clients sign up for that,
that's absolutely fine.

1612 01:25:45:14 01:25:48:02
But you've still got to think
from a suitability process

1613 01:25:48:04 01:25:52:00
is it delivering
what the regulator is expecting to see

1614 01:25:52:02 01:25:54:02
from that advice anyway?

1615 01:25:55:09 01:25:58:09
Yeah, I agree with Andy
on that point actually.

1616 01:25:58:11 01:26:01:21
I've had a few conversations with firms
that have thought about

1617 01:26:01:23 01:26:04:15
introducing something like this.

1618 01:26:04:17 01:26:06:15
But when you start to work through
the mechanics of it,

1619 01:26:06:17 01:26:11:02
it actually could potentially become
harder to implement than you think

1620 01:26:11:04 01:26:14:24
because if your agreement is
if there's a drop in the market of 10%

1621 01:26:15:01 01:26:16:24
we're going to reduce
your income by this amount,

1622 01:26:17:01 01:26:21:00
but what if there's a drop in the market
by 10% and it's literally overnight,

1623 01:26:21:02 01:26:24:19

then do you drop the client's income
and then it goes back up again?

1624 01:26:24:21 01:26:29:00
How far do you
actually want to take that?

1625 01:26:29:02 01:26:31:10
And, of course, if you've
had a conversation with the client,

1626 01:26:31:12 01:26:34:19
the 10% drop in the market
might actually still mean

1627 01:26:34:21 01:26:39:04
that whatever level of income they're
taking, could still be sustainable

1628 01:26:39:06 01:26:41:13
if they're not maximising their income

1629 01:26:41:15 01:26:44:16
and you've already got
a compromised income in place.

1630 01:26:44:18 01:26:47:04
So I'm not saying not to do it.

1631 01:26:47:06 01:26:49:15
Some firms
are definitely thinking about doing it,

1632 01:26:49:17 01:26:52:24
but for me, if I think back
to what firms did last year

1633 01:26:53:01 01:26:55:14
when we've seen
that extreme market volatility,

1634 01:26:55:16 01:26:58:02
most firms had conversations
with their client,

1635 01:26:58:04 01:27:00:10
they revisited the plan
that was in place,

1636 01:27:00:12 01:27:01:21
they ran some different scenarios

1637 01:27:01:23 01:27:06:04
to understand the impact that that
market volatility might have on them.

1638 01:27:06:06 01:27:09:01
If I'm being honest,

most firms that we spoke to

1639 01:27:09:03 01:27:14:00
said most of their clients did not have
to stop or reduce taking an income

1640 01:27:14:02 01:27:18:11
because some of them had different cash
funds or different back-ups there.

1641 01:27:18:13 01:27:21:06
So for me, it is all about clients,
as Andy said,

1642 01:27:21:08 01:27:24:15
understanding the impact that
these things might have on them

1643 01:27:24:17 01:27:29:08
so that if these volatile markets or
unpredictable events do happen again,

1644 01:27:29:10 01:27:30:24
they're kind of prepared for it

1645 01:27:31:01 01:27:35:21
and then you have a review
of their situation thereafter.

1646 01:27:35:23 01:27:39:07
Great. That's really helpful.
Thank you, both. That was brilliant.

1647 01:27:39:09 01:27:43:00
Thanks for taking the time
to answer all our questions today.

1648 01:27:43:02 01:27:44:14
- You're very welcome.
- You're welcome.

1649 01:27:47:09 01:27:51:13
Right, we've come to the end
of our session this morning.

1650 01:27:51:15 01:27:54:03
We have just about timed out,
I'm afraid.

1651 01:27:54:05 01:27:56:13
Please don't forget
to complete the feedback

1652 01:27:56:15 01:27:57:21
which is underneath
the broadcast screen

1653 01:27:57:23 01:28:00:04

to trigger your CPD certificate email

1654 01:28:00:06 01:28:03:02
which will be with you
by close of play on Monday.

1655 01:28:03:04 01:28:04:14
If you want to see the slides
and replay video,

1656 01:28:04:16 01:28:07:20
it will be available mid next week
on the PruAdviser seminar page.

1657 01:28:07:22 01:28:10:04
By the way,
we also had a question around

1658 01:28:10:06 01:28:12:00
how could they watch
last week's session.

1659 01:28:12:02 01:28:13:16
That will also be in the same place

1660 01:28:13:18 01:28:16:21
so you can go and watch that one
on a replay as well.

1661 01:28:16:23 01:28:21:22
Now we have our final, one more session
on our Futureproofing Friday series

1662 01:28:21:24 01:28:23:18
which is taking place a week today.

1663 01:28:23:20 01:28:25:23
So if you haven't signed up for that,
please do so.

1664 01:28:26:00 01:28:29:10
It's Part 3,
Futureproofing Your Legacy Planning.

1665 01:28:29:12 01:28:33:16
So that's next Friday, 1st October.
You can sign up for that now.

1666 01:28:33:18 01:28:37:01
There's a link to the registration page
on the synopsis tab

1667 01:28:37:03 01:28:39:20
in the menu above the broadcast screen.

1668 01:28:39:22 01:28:42:00
All that leaves me to do
is just to say a big thank you

1669 01:28:42:02 01:28:45:21
to our business development managers,
Kirsty Anderson and Andy Nash,

1670 01:28:45:23 01:28:48:11
for their expertise today and
their time. Thank you very much

1671 01:28:48:13 01:28:52:06
and more importantly, perhaps,
a big thank you to you, the audience,

1672 01:28:52:08 01:28:54:08
for joining us today.
I hope you enjoyed that session.

1673 01:28:54:10 01:28:57:15
Thank you very much
and we'll speak to you again soon.