

1 00:00:13:12 00:00:16:05
Hey, hello, good morning
and welcome, everyone,

2 00:00:16:07 00:00:21:07
to the second of three
Future of Pension advice seminars.

3 00:00:21:09 00:00:25:16
Today we're looking at Drawdown:
Have we learned the lessons?

4 00:00:26:13 00:00:29:05
I'm Les Cameron, I'm the Head
of Technical here at Prudential.

5 00:00:29:07 00:00:31:18
I'll be hosting the session for you today.

6 00:00:31:20 00:00:35:14
How it's going to work
is I'll hand over to our presenter

7 00:00:35:16 00:00:37:11
in a couple of moments.

8 00:00:37:13 00:00:40:06
You'll have about
an hour of the presentation.

9 00:00:40:24 00:00:43:03
There's a Q&A box
you can see on your screen.

10 00:00:43:05 00:00:45:16
If you have any questions
you would like answered,

11 00:00:45:18 00:00:49:07
start feeding them in there
and once the presenter's finished,

12 00:00:49:09 00:00:52:04
I'll be back and I'll moderate the Q&A.

13 00:00:52:06 00:00:53:22
We'll have another half an hour at the end

14 00:00:53:24 00:00:57:14
if you want to stay on
and listen to the Q&A answers.

15 00:00:58:22 00:01:01:14
Couple of housekeeping points
before I pass over.

16 00:01:01:16 00:01:06:02
We are recording this session

for playback purposes

17 00:01:06:04 00:01:10:22
and today's session
is Qualifying for Structured CPD

18 00:01:10:24 00:01:14:15
from both the CII and CIA side.

19 00:01:14:17 00:01:17:19
So, without further ado,
to get on to the main event,

20 00:01:17:21 00:01:21:17
I'll introduce you to one of our pension
business development managers,

21 00:01:21:19 00:01:25:01
Andy Nash, who's going
to take you through today's content.

22 00:01:25:03 00:01:26:21
Andy, over to you.

23 00:01:26:23 00:01:28:07
Good morning, Les. Thank you very much.

24 00:01:28:09 00:01:31:02
And good morning, everybody.
Thank you for joining us today.

25 00:01:31:04 00:01:35:00
As Les said, we're going to be looking at
Drawdown: Have we learned the lessons?

26 00:01:35:02 00:01:37:16
If you had the opportunity
of joining us yesterday,

27 00:01:37:18 00:01:39:09
you'll have heard my colleague Mark Devlin

28 00:01:39:11 00:01:45:02
talk through how the Finalised Guidance
on DB transfer affects the market

29 00:01:45:04 00:01:49:01
and his session was all about
looking at the particulars

30 00:01:49:03 00:01:52:01
around defined benefit advice.

31 00:01:52:03 00:01:54:15
What we want to do today
is look at an extension of that

32 00:01:54:17 00:01:57:21

and think about how does that apply
into the world of defined contribution:

33 00:01:58:14 00:02:01:01
DC, pensions, drawdown, etcetera.

34 00:02:01:03 00:02:03:24
And think about what the lessons
are that we can learn from that.

35 00:02:04:01 00:02:08:05
And hopefully start the dialogue
and the thought process

36 00:02:08:07 00:02:12:00
around what the regulators
are looking for there.

37 00:02:12:02 00:02:15:13
And also think about some of the potential
solutions in the marketplace.

38 00:02:16:04 00:02:18:01
Now, we have
our important information slide.

39 00:02:18:03 00:02:19:20
I'm sure you've seen this
many times before,

40 00:02:19:22 00:02:21:11
so I'm not going to go through this.

41 00:02:21:13 00:02:24:03
Please do have a read of it
when you get the slides afterwards,

42 00:02:24:05 00:02:25:23
if that's important to you.

43 00:02:26:00 00:02:27:20
But the key areas that we want to look at

44 00:02:27:22 00:02:32:13
is thinking about
how the FCA Guidance on DB transfers

45 00:02:32:15 00:02:36:19
can influence that overall
retirement advice process.

46 00:02:36:21 00:02:41:14
What it's about, so, what can finance
guidance mean for DC advice.

47 00:02:42:07 00:02:43:09
Read across and read through

48 00:02:43:11 00:02:46:20
into what that might mean
from a stress-testing perspective.

49 00:02:46:22 00:02:48:20
Explaining some of the risks -

50 00:02:48:22 00:02:51:13
more importantly,
demonstrating to the client

51 00:02:51:15 00:02:55:00
in a manner that we can be sure
the client understands,

52 00:02:55:02 00:02:57:04
and then evidencing that on the file.

53 00:02:57:06 00:03:01:21
So all of this is about
an evidence-based income strategy.

54 00:03:01:23 00:03:06:11
It's not for us, an insurance company,
to tell you how your processes should be.

55 00:03:06:13 00:03:08:18
What we really want to do
is start the dialogue

56 00:03:08:20 00:03:10:10
and start to think about

57 00:03:10:12 00:03:12:11
some of the implications
from the Finalised Guidance

58 00:03:12:13 00:03:16:09
and what it could mean for the world
of defined contribution advice.

59 00:03:17:08 00:03:20:01
And just think
about the processes that you have.

60 00:03:20:03 00:03:21:22
Because the Finalised Guidance -

61 00:03:21:24 00:03:26:03
absolutely, it was all
about define benefit, but it is guidance.

62 00:03:26:05 00:03:28:05
It's not in the handbook,

63 00:03:28:07 00:03:30:03
but what the regulator
is trying to achieve there

64 00:03:30:05 00:03:32:19
is suitable advice consistently.

65 00:03:32:21 00:03:37:14
And thinking about how
that information is conveyed to clients.

66 00:03:37:16 00:03:39:08
How we can demonstrate

67 00:03:39:10 00:03:43:01
that clients actually do understand
the issues involved here,

68 00:03:43:03 00:03:45:11
and therefore making an informed choice
and informed decision

69 00:03:45:13 00:03:51:02
about the way forward with, obviously,
your advice to guide them around that.

70 00:03:51:04 00:03:55:06
So, although the paper
is not about defined contribution,

71 00:03:55:08 00:03:59:07
I do think there's a massive read-through
into the world of defined contribution.

72 00:03:59:09 00:04:03:12
Some of the principles that are in that
really apply to the world of DC, as well.

73 00:04:04:01 00:04:06:08
I think it's really important
to think about that

74 00:04:06:10 00:04:09:18
in the context of what the regulator
is looking to achieve.

75 00:04:10:06 00:04:15:02
Because, as you'll recall,
last year we had the policy statement

76 00:04:15:04 00:04:18:14
on defined benefit advice
that came out June last year.

77 00:04:18:16 00:04:21:10
That was very much
about what you need to do,

78 00:04:21:12 00:04:25:09
and if you think about it, this provides,
this Finalised Guidance provides,

79 00:04:25:11 00:04:28:17
information and examples,
very importantly,

80 00:04:28:19 00:04:31:18
of how to implement this
within your firm and process.

81 00:04:31:20 00:04:32:20
And, in many ways,

82 00:04:32:22 00:04:36:23
it's all about helping you to manage
the future risk to your business,

83 00:04:37:00 00:04:38:19
and then thinking about
what that might mean

84 00:04:38:21 00:04:43:13
for the world of providing retirement
advice to defined contribution.

85 00:04:43:15 00:04:46:08
So, I'm not going to go
into the DB aspects of this.

86 00:04:46:10 00:04:48:01
Clearly some of the examples I'm showing,

87 00:04:48:03 00:04:50:06
because we're quoting
directly from the guidance,

88 00:04:50:08 00:04:51:21
will refer to DB,

89 00:04:51:23 00:04:53:16
but I really want to put
the spin on that around,

90 00:04:53:18 00:04:56:22
or the thought process,
around defined contribution pensions,

91 00:04:56:24 00:04:58:03
what that might mean.

92 00:04:58:05 00:05:00:09
And really just have the opportunity

93 00:05:00:11 00:05:04:02
to think about what that means
to the processes you have at the moment,

94 00:05:04:04 00:05:05:16
whether they need to change,

95 00:05:05:18 00:05:10:02
whether they need to be moved slightly,
flexed slightly,

96 00:05:10:15 00:05:14:14
and, really, it's not telling
anybody what they need to do,

97 00:05:14:16 00:05:17:12
it's about thinking,
what is the regulator looking to see,

98 00:05:17:14 00:05:20:15
and how do my processes
at the moment help to support that.

99 00:05:20:17 00:05:22:15
That's the whole point of this, really,

100 00:05:22:17 00:05:25:10
to start the thought process
and the debate

101 00:05:25:12 00:05:26:18
around those particular areas.

102 00:05:27:07 00:05:30:06
So, where have we come from?
What's the background to all this?

103 00:05:30:08 00:05:33:19
And I think we can go
all the way back to 2008, 2012,

104 00:05:33:21 00:05:38:08
the first thematic reviews
when the regulator, FCA at that time,

105 00:05:38:10 00:05:41:10
was looking at the world
of defined contribution advice.

106 00:05:41:24 00:05:43:22
And I'm not going to go
through all that detail again.

107 00:05:43:24 00:05:48:04
I think the important piece
at the bottom there, as you can see,

108 00:05:48:06 00:05:53:18
in terms of what the regulator found,
was the 34% unclear piece.

109 00:05:54:05 00:05:55:20
So, that was the main findings.

110 00:05:55:22 00:05:58:15
It wasn't necessarily
that the advice was poor,

111 00:05:58:17 00:06:01:04
it just was that
it wasn't evidenced sufficiently well

112 00:06:01:06 00:06:03:18
to demonstrate that it was suitable.

113 00:06:03:20 00:06:07:19
So, that was 2008.
Similar findings came out in 2012.

114 00:06:07:21 00:06:13:12
We've had all of the information,
all of the consultation,

115 00:06:13:14 00:06:16:17
and then final policy statement
around the world of defined benefits,

116 00:06:16:19 00:06:20:06
so a lot of this can also move
into the world of defined contribution.

117 00:06:21:08 00:06:23:11
And where's the regulator
going with this at the moment?

118 00:06:23:13 00:06:28:04
So, last year we were supposed
to have suitability review 2.

119 00:06:28:06 00:06:31:11
Clearly that was postponed due to
the pandemic, for all the right reasons,

120 00:06:31:13 00:06:34:07
to allow advisors to concentrate
on the needs of their clients

121 00:06:34:09 00:06:36:05
in a very difficult and challenging time.

122 00:06:36:07 00:06:38:07
We're not necessarily
out of the woods yet,

123 00:06:38:09 00:06:39:21
and challenge is still there,

124 00:06:39:23 00:06:42:24
and particularly some clients might view
the markets somewhat differently

125 00:06:43:01 00:06:46:06

in terms of
where they think that's going to go.

126 00:06:46:19 00:06:49:01
With regards to suitability review 2,

127 00:06:49:03 00:06:53:04
it's not on the regulator's roadmap,
which they published last week,

128 00:06:53:06 00:06:57:13
in terms of imminently showing
when it's going to go live.

129 00:06:58:02 00:07:02:13
If you look it up on their website,
what it says at the moment is postponed.

130 00:07:04:03 00:07:06:08
Commencement to be determined.

131 00:07:06:21 00:07:09:07
So, it hasn't been shelved,
as far as we're aware,

132 00:07:09:09 00:07:11:22
and I think it's likely
that it will come through

133 00:07:11:24 00:07:14:04
maybe not this year,
but perhaps into next year.

134 00:07:14:06 00:07:16:04
The whole point of suitability review 2

135 00:07:16:06 00:07:20:17
is to look at the outcomes for clients
within that retirement space.

136 00:07:20:19 00:07:23:07
So, I think this
is a real good opportunity

137 00:07:23:09 00:07:29:04
to look at what the regulator
is suggesting should be put in place.

138 00:07:29:06 00:07:32:04
Just looking
at the current processes that you have

139 00:07:32:06 00:07:35:06
and looking to make tweaks
as appropriate to ensure that,

140 00:07:35:08 00:07:38:08
when suitability review 2 does kick off,

141 00:07:38:10 00:07:43:12
the files are at the standard
that the regulator is looking for.

142 00:07:43:14 00:07:45:05
And this is not
about questioning, necessarily,

143 00:07:45:07 00:07:46:18
the advice that was given in the past.

144 00:07:46:20 00:07:51:09
I think it just recognises
that the way advice is given

145 00:07:51:11 00:07:55:23
and the information that is gathered
and the evidencing and the documentation

146 00:07:56:00 00:07:57:13
has significantly changed over the years.

147 00:07:57:15 00:08:00:19
The way drawdown advice
was written five, six, seven years ago

148 00:08:00:21 00:08:03:07
is very different to how it is now.

149 00:08:03:09 00:08:04:16
It does give that opportunity

150 00:08:04:18 00:08:08:03
to make sure files
are bang up to date with current thinking.

151 00:08:08:05 00:08:09:16
And just be aware of how that thinking

152 00:08:09:18 00:08:12:20
might interact with the processes
that you have at the moment.

153 00:08:14:13 00:08:18:06
Because without doubt, it's been
a very interesting year in many ways.

154 00:08:18:08 00:08:21:07
We've seen
some significant market movement.

155 00:08:21:09 00:08:25:03
Obviously, a big sell-off
in March of last year

156 00:08:26:11 00:08:31:22
followed by quite a rapid recovery

within the markets.

157 00:08:31:24 00:08:34:15
Again, very quickly, that's come through.

158 00:08:34:17 00:08:38:00
But what we have seen
is massive volatility in the marketplace

159 00:08:40:03 00:08:43:01
almost on a weekly, daily basis.

160 00:08:43:03 00:08:46:23
The market dropped off nearly 2.5%
yesterday, if we look at the FTSE.

161 00:08:47:00 00:08:49:09
It seems to have bounced back
first thing this morning

162 00:08:49:11 00:08:50:23
about half a percent.

163 00:08:51:00 00:08:54:04
But that sort of volatility
has been unknown in the market place,

164 00:08:54:06 00:08:56:10
and we're seeing that
very regularly at the moment.

165 00:08:56:12 00:09:00:08
And it can have significant impact
on clients, particularly in drawdown,

166 00:09:00:10 00:09:02:20
particularly where they're taking
an income from a pension

167 00:09:02:22 00:09:04:15
or, indeed, any route investment.

168 00:09:05:02 00:09:08:01
So, in talking with advisors,
a lot of the work that's happened

169 00:09:08:03 00:09:10:13
whilst we've not been allowed out
to go and see anybody

170 00:09:10:15 00:09:12:13
has been dealing with existing clients

171 00:09:12:15 00:09:17:19
and having those review conversations
around what does this all mean to them.

172 00:09:19:14 00:09:21:20

And I think a lot of the conversations

173 00:09:21:22 00:09:24:16
have been around
helping clients understand

174 00:09:24:18 00:09:28:13
not only what has happened and what
that means to them in the here and now

175 00:09:28:15 00:09:31:23
but also what that means for them
in the future.

176 00:09:32:00 00:09:35:11
And thinking about
what does future risk look like

177 00:09:35:13 00:09:38:21
and how might I want to manage that.
Do I need to change things?

178 00:09:38:23 00:09:42:09
And for many clients,
the experience over the last 12 months -

179 00:09:42:11 00:09:44:02
this is clients and also advisors

180 00:09:44:04 00:09:46:12
when I'm talking to them
from a personal perspective -

181 00:09:46:14 00:09:48:16
is it's been a bit of a reset moment.

182 00:09:48:18 00:09:51:08
So, some of the aims
and objectives have changed.

183 00:09:51:10 00:09:53:03
And I think the most important thing

184 00:09:53:05 00:09:56:03
is to understand how
does the client feel at the moment?

185 00:09:56:05 00:09:57:24
Where's their head in all this?

186 00:09:58:01 00:10:02:14
It's not just a financial consideration,
it's also an emotional consideration,

187 00:10:02:16 00:10:06:23
and the client views, feels,
thoughts around future risks

188 00:10:07:00 00:10:08:21
and how they want to face those

189 00:10:08:23 00:10:12:04
might mean that it's necessary
to think about different strategies,

190 00:10:12:06 00:10:14:09
be it temporary, be it permanent.

191 00:10:14:11 00:10:18:05
Or, indeed, perhaps, the whole goal piece
has changed for many clients.

192 00:10:18:07 00:10:19:21
Their objectives, their thoughts

193 00:10:19:23 00:10:23:22
about perhaps potentially retiring earlier
than they thought they would before,

194 00:10:23:24 00:10:27:00
or, indeed, maybe they've needed
to access their pension at this time

195 00:10:27:02 00:10:28:07
for financial reasons.

196 00:10:28:09 00:10:30:24
So, there's been a lot
of conversation with clients

197 00:10:31:01 00:10:33:05
in terms of what those risks mean.

198 00:10:33:07 00:10:35:16
I think with the backdrop
of the Finalised Guidance,

199 00:10:35:18 00:10:38:12
and understanding what the regulator
is looking to see,

200 00:10:38:14 00:10:41:04
it can really help shape
some of those considerations.

201 00:10:41:06 00:10:44:05
And, for certain clients,
it will also mean that they need to think

202 00:10:44:07 00:10:48:00
about potentially changing the arrangement
or the structure of the arrangement

203 00:10:48:02 00:10:49:16
that they have at the moment.

204 00:10:49:18 00:10:50:22
So, with that in mind,

205 00:10:50:24 00:10:54:06
and thinking about DC world,
it's worth reminding ourselves

206 00:10:54:08 00:10:57:17
of the permissions regime
that exists within DC.

207 00:10:58:06 00:11:02:11
So, Mark yesterday talked
about permissions on DB transfers

208 00:11:02:13 00:11:05:24
and sometimes
the language around a pension switch,

209 00:11:06:01 00:11:07:21
a pension conversion,
or a pension transfer

210 00:11:07:23 00:11:10:15
can get a little bit blurred,
so just for clarity,

211 00:11:10:17 00:11:14:06
it's worth reminding ourselves
exactly what a pension switch is.

212 00:11:15:14 00:11:19:09
So, broadly speaking, the pension switch
is moving from a defined contribution

213 00:11:19:11 00:11:22:19
to a defined contribution arrangement
of the same type,

214 00:11:22:21 00:11:25:06
where there are no safeguarded benefits.

215 00:11:25:08 00:11:28:24
And, from a permissions perspective,
it's relatively straightforward.

216 00:11:29:01 00:11:32:24
So, again, the questions that are often
asked is: Do I need a TVC?

217 00:11:33:01 00:11:34:17
Is a PTS involved?

218 00:11:34:19 00:11:37:15
Do we need
any specific transfer permissions?

219 00:11:37:17 00:11:39:20

And the answer
to all those questions is no.

220 00:11:39:22 00:11:42:12
So, no TVC. You don't need to be a PTS.

221 00:11:42:14 00:11:45:14
And the firm that you work for,
work within,

222 00:11:45:16 00:11:47:12
doesn't need any specific
transfer permissions.

223 00:11:47:14 00:11:50:00
So, from a device perspective,

224 00:11:50:02 00:11:54:12
the regime around permissions
is relatively straightforward there.

225 00:11:55:21 00:11:57:01
That's important to note

226 00:11:57:03 00:12:01:00
just in case any particular movement
or changes are needed

227 00:12:01:02 00:12:02:07
if the existing arrangement

228 00:12:02:09 00:12:05:03
can't facilitate what the client
is now looking to achieve

229 00:12:05:05 00:12:06:03
for whatever reason.

230 00:12:06:05 00:12:08:10
And we'll look at some of that
as we go through this.

231 00:12:08:12 00:12:11:21
Is why you might want to think
and have that conversation about,

232 00:12:11:23 00:12:13:16
okay, do we need to make some changes?

233 00:12:13:18 00:12:16:15
Are we trying to manage risks
in a different way?

234 00:12:16:17 00:12:19:10
Are there risks associated
to the client now

235 00:12:19:12 00:12:21:15

that they hadn't experienced
or thought about before

236 00:12:21:17 00:12:23:07
which have now become relevant?

237 00:12:23:09 00:12:26:11
And that's part of the review process.

238 00:12:27:06 00:12:29:02
If nothing's changed, fine,
the file is documented

239 00:12:29:04 00:12:31:11
and it's recorded
that that is the information.

240 00:12:31:13 00:12:32:13
If things have changed,

241 00:12:32:15 00:12:36:13
then it's discussing how to put in
different strategies going forward.

242 00:12:36:15 00:12:37:18
And, again, evidencing

243 00:12:37:20 00:12:40:13
and thinking through
what that actually means to a client.

244 00:12:41:03 00:12:44:16
And this all comes down to the systems
and controls that are in place

245 00:12:45:21 00:12:48:01
within both Cobb's rules

246 00:12:48:03 00:12:52:16
and also, clearly, the FCA handbook
on systems and controls.

247 00:12:52:18 00:12:55:18
And the areas that they particularly
look at, if we think about that,

248 00:12:55:20 00:13:02:17
is systems sets out the controls
and systems that the firm must have.

249 00:13:02:19 00:13:06:23
It talks about the need for robust
governance processes and arrangements,

250 00:13:07:00 00:13:11:13
and this would include such things
as a clear organisation structure

251 00:13:11:15 00:13:15:03
with well-defined, transparent,
and consistent lines of responsibility

252 00:13:15:05 00:13:17:15
you see within that framework.

253 00:13:17:17 00:13:21:22
Effective processes to identify, manage,
monitor and, indeed, report

254 00:13:21:24 00:13:25:19
on any risks
that the firm might be exposed to

255 00:13:25:21 00:13:28:10
and the advice framework
might be exposed to.

256 00:13:28:12 00:13:31:02
And also having
the internal control mechanisms

257 00:13:31:04 00:13:35:02
including sound administration
and accounting procedures,

258 00:13:35:04 00:13:38:19
and that effective control
and safeguard arrangements

259 00:13:38:21 00:13:40:20
for any information processing.

260 00:13:41:07 00:13:46:23
And you could argue, perhaps,
that all of that sits within a framework

261 00:13:47:00 00:13:50:01
that some people might call
a centralised retirement proposition.

262 00:13:50:03 00:13:54:03
Now, a CRP is not a necessity.
You don't have to have one in place.

263 00:13:54:05 00:13:56:10
And, to be honest,
it doesn't really matter what you call it.

264 00:13:56:12 00:14:01:14
It's just how are these processes,
these guidelines, this framework,

265 00:14:02:06 00:14:04:04
embedded within your business

266 00:14:04:06 00:14:07:10

to ensure that consistent approach
to providing advice?

267 00:14:07:12 00:14:10:07
It's not advice by numbers,
it's just a framework that says:

268 00:14:10:09 00:14:11:23
this is how we do things around here.

269 00:14:12:00 00:14:15:14
And, clearly, given the needs
and objectives of individual clients,

270 00:14:15:16 00:14:18:24
you will flex according
to those needs and objectives

271 00:14:19:01 00:14:20:05
and evidence that on the file.

272 00:14:20:07 00:14:24:23
But it is that starting point and it does
provide that element of consistency

273 00:14:25:00 00:14:28:22
so no matter which advisor within a firm
is to provide advice to a client,

274 00:14:28:24 00:14:31:22
broadly speaking the same process
would be delivered.

275 00:14:31:24 00:14:36:02
And you would see very similar outcomes
in terms of the advice that came through.

276 00:14:36:22 00:14:39:18
And there's some talk about this
within the Finalised Guidance, as well,

277 00:14:39:20 00:14:44:01
or the paper
that we've just seen come out.

278 00:14:44:03 00:14:47:16
And there's a lot
of really useful pieces in there

279 00:14:47:18 00:14:49:15
that talks about
what the regulator has seen,

280 00:14:49:17 00:14:51:11
both from the good practice perspective

281 00:14:51:13 00:14:54:04
and also, as they call it,

a poor practice perspective.

282 00:14:54:06 00:14:58:13
And this is just an example, really,
of managing certain conflicts of interest.

283 00:14:58:15 00:15:01:08
So, it looked
at vertically integrated firms

284 00:15:01:10 00:15:04:00
and it talked about some of the controls
in place that they had

285 00:15:04:02 00:15:08:19
to make sure that where
they were recommending internal solutions,

286 00:15:08:21 00:15:12:01
that it was still delivering
the best outcome for the client.

287 00:15:12:03 00:15:13:17
And, hence, they were trying to

288 00:15:13:19 00:15:16:02
both recognise
potential conflicts of interest

289 00:15:16:04 00:15:17:21
and, indeed, manage that.

290 00:15:17:23 00:15:20:21
So that was an example
of where the regulator saw that.

291 00:15:20:23 00:15:24:00
That sort of system
being very effective in a business.

292 00:15:24:18 00:15:28:09
And it all does come down
to know your client, doesn't it?

293 00:15:28:11 00:15:30:23
I'm not going to tell you
how to do a fact finder.

294 00:15:31:00 00:15:33:06
I think you know that much better than I.

295 00:15:33:08 00:15:36:17
But it is looking at some
of the intricacies involved within that

296 00:15:36:19 00:15:41:17
and thinking about the relevance
of what that means to the client

297 00:15:41:19 00:15:47:04
and, indeed, is it picking up
all of the issues and any potential risks

298 00:15:47:06 00:15:50:00
that have now become relevant
and known to the client

299 00:15:50:02 00:15:51:20
that perhaps weren't previously.

300 00:15:51:22 00:15:57:09
And, as I said, the way advice is provided
has changed significantly over the years.

301 00:15:57:11 00:16:00:10
I think back to five, six years ago
when I was advising,

302 00:16:00:12 00:16:03:24
sequence of return risk wasn't really part
of the mainstay conversation

303 00:16:04:01 00:16:06:15
whereas now it needs to be
because it can have a massive impact,

304 00:16:06:17 00:16:09:14
and we'll look at that
more in detail later.

305 00:16:09:16 00:16:11:18
None of this is particularly new.

306 00:16:12:23 00:16:15:22
Documents like the PFS Good Practice
Guide and Drawdown,

307 00:16:15:24 00:16:18:08
they set out some of the parameters,

308 00:16:18:10 00:16:21:12
some of the key considerations
that you might want to consider.

309 00:16:21:14 00:16:23:16
And, certainly in my experience,

310 00:16:23:18 00:16:26:04
almost every advisor
almost does this intuitively.

311 00:16:26:06 00:16:28:15
It's what you do,
it's how you provide advice,

312 00:16:28:17 00:16:30:21

it's how you engage with clients.

313 00:16:30:23 00:16:34:00
Perhaps the issue - and going back
to the first thematic review -

314 00:16:34:02 00:16:38:14
was the issues perhaps become apparent

315 00:16:39:12 00:16:41:12
because the recording of that information

316 00:16:41:14 00:16:43:07
is not at the standard
that they want to see.

317 00:16:43:09 00:16:46:12
So, the proving of that conversation
is the key issue.

318 00:16:46:14 00:16:48:16
So, a lot of this is about process:

319 00:16:48:18 00:16:51:02
not how you give advice
or the advice you give,

320 00:16:51:04 00:16:53:03
but how you record that information.

321 00:16:53:05 00:16:56:16
And, critically, how you make sure
a client understands those risks.

322 00:16:56:18 00:17:00:22
And it's sort of bringing these thoughts
out that I think are very relevant.

323 00:17:00:24 00:17:03:21
And why the Finalised Guidance
is so important, really,

324 00:17:03:23 00:17:06:22
and the considerations for drawdown advice

325 00:17:06:24 00:17:08:18
and for DC advice generally.

326 00:17:08:20 00:17:10:17
Now, I read a recent blog
that I saw online

327 00:17:10:19 00:17:12:10
from an outsource compliance firm,

328 00:17:12:12 00:17:17:19
and I think the conclusion he put on
the piece that he wrote was very relevant.

329 00:17:17:21 00:17:23:04
And he finished off his blog
with the lines, and he actually said:

330 00:17:23:06 00:17:24:24
above all else, remember this:

331 00:17:25:01 00:17:28:00
it matters not how good your advice is.

332 00:17:28:02 00:17:31:15
If your file process is poor,
you're heading towards a red mark.

333 00:17:31:17 00:17:34:03
Make the time to build a process

334 00:17:34:05 00:17:38:16
that works for you, your team,
your business, and the regulator.

335 00:17:38:18 00:17:43:00
And I think that's a really good test
to think about how fit-for-purpose is it

336 00:17:43:02 00:17:46:10
and do we need to change things,
do we need to tweak accordingly

337 00:17:46:12 00:17:49:22
to bring it up to date
with current thinking, current views,

338 00:17:49:24 00:17:53:06
and, indeed, being aware
of what the regulator is saying

339 00:17:53:08 00:17:55:11
to make sure that those particular issues

340 00:17:55:13 00:17:57:05
are both understood
and are appropriately addressed,

341 00:17:57:07 00:17:59:15
if that's relevant to the firm

342 00:17:59:17 00:18:02:02
and to the client
in terms of the final outcome.

343 00:18:02:18 00:18:05:08
A lot of what came out
of the Finalised Guidance

344 00:18:05:10 00:18:10:23
was around MIGs,

so not Soviet-era warplanes,

345 00:18:11:00 00:18:13:19
it's about Material Information Gaps.

346 00:18:13:21 00:18:15:09
And I think one of the things
that came up,

347 00:18:15:11 00:18:19:10
particularly from the observations
around the DB arena -

348 00:18:19:12 00:18:20:07
and I think perhaps, again,

349 00:18:20:09 00:18:25:15
thinking about how you can read
through this into the world of DC -

350 00:18:25:17 00:18:29:03
is, if you don't have
all the necessary information,

351 00:18:30:11 00:18:32:14
certainly from a DB perspective,
as it said in the paper,

352 00:18:32:16 00:18:34:22
then you can't give
a personal recommendation.

353 00:18:34:24 00:18:37:22
And why would that not flow through
into the world of DC?

354 00:18:37:24 00:18:40:06
So, some of the technicalities
might be different,

355 00:18:40:08 00:18:42:17
but the principles are very much the same.

356 00:18:42:19 00:18:44:01
And some of the key areas

357 00:18:44:03 00:18:48:00
that the regulator found were missing
in the files reviews that they looked at,

358 00:18:48:02 00:18:53:06
was around the areas
of anticipated income and expenditure

359 00:18:53:08 00:18:55:08
and how that might well fluctuate

360 00:18:55:10 00:18:58:16

as the client goes
through the retirement journey

361 00:18:58:18 00:19:01:01
and, indeed,
some of their needs may change.

362 00:19:01:15 00:19:03:00
But also...

363 00:19:04:09 00:19:07:01
ensuring that the objectives in retirement

364 00:19:07:03 00:19:10:16
and the role that the pension
will provide against that

365 00:19:10:18 00:19:12:08
are fully understood.

366 00:19:13:05 00:19:15:22
And this comes back to the point that...

367 00:19:18:10 00:19:22:15
you have to be very clear with the client
about what information is needed.

368 00:19:22:17 00:19:26:01
And if they mislead you
or hold back information,

369 00:19:26:03 00:19:27:24
then you can't
be held responsible for that.

370 00:19:28:15 00:19:29:19
If that's been documented,

371 00:19:29:21 00:19:33:07
then you've done everything you can
to ensure a good job.

372 00:19:33:09 00:19:36:21
If the client, perhaps, won't or can't
provide that information to you,

373 00:19:36:23 00:19:38:17
then maybe
you just have to make a decision.

374 00:19:38:19 00:19:41:04
And I think the regulator
is pretty clear here.

375 00:19:41:06 00:19:44:23
If you don't get the necessary information
to assess suitability,

376 00:19:45:00 00:19:47:19
then really you can't make
a personal recommendation

377 00:19:47:21 00:19:51:07
and have that decision
to trade with the client.

378 00:19:51:09 00:19:52:18
Perhaps if we translate that,

379 00:19:52:20 00:19:55:06
that's the situation
where the regulator is suggesting

380 00:19:55:08 00:19:59:11
that, effectively, in that place,
you would need to walk away.

381 00:20:01:00 00:20:03:14
And what they saw
in terms of some of the practices

382 00:20:03:16 00:20:05:07
that caused them some concerns

383 00:20:05:09 00:20:09:10
was around some of the processes
that were in place.

384 00:20:09:12 00:20:11:11
So, a misunderstanding

385 00:20:11:13 00:20:14:03
of some of the requirements
that the regulator had.

386 00:20:14:05 00:20:17:01
Now, I appreciate some of these
are pretty weighty tomes

387 00:20:17:03 00:20:19:00
that you are asked to read through,

388 00:20:19:02 00:20:22:11
but really the only way you can understand
that is to be aware of some of the issues.

389 00:20:22:13 00:20:24:10
And that's partly
what we're trying to do today,

390 00:20:24:12 00:20:26:10
is bring out the issues and think,

391 00:20:26:12 00:20:28:12
are they relevant
to the way we do business

392 00:20:28:14 00:20:30:20
and the outcomes that we get for clients?

393 00:20:31:10 00:20:35:01
They were concerned
around some of the systems that they saw.

394 00:20:35:03 00:20:38:04
Perhaps they were poorly designed
in their opinion,

395 00:20:38:06 00:20:42:05
particularly in terms
of how information was recorded.

396 00:20:43:01 00:20:47:05
And that overriding question,
if somebody else picked up the file

397 00:20:47:07 00:20:49:22
that hadn't looked at it before,
doesn't know the client,

398 00:20:49:24 00:20:53:03
could they really understand
what's been done and why it's been done?

399 00:20:54:19 00:20:57:08
There was a question
around outdated processes.

400 00:20:57:21 00:21:00:05
Is the fact find still in the right format

401 00:21:00:07 00:21:01:22
in terms of asking
all the right questions,

402 00:21:01:24 00:21:05:14
and particularly the style of questions,
perhaps a bit more on that later on.

403 00:21:05:16 00:21:09:20
And is enough information
being gathered around things

404 00:21:09:22 00:21:14:22
like the client's income requirement
in retirement,

405 00:21:14:24 00:21:18:15
and breaking that down into various needs
to make sure that it actually delivers

406 00:21:18:17 00:21:22:01
against what the client
is trying to achieve,

407 00:21:22:03 00:21:24:07
taking into account inflation,

408 00:21:24:09 00:21:26:10
thinking about how stress testing
might be done

409 00:21:26:12 00:21:29:20
and how the client understands
the potential impact of that.

410 00:21:29:22 00:21:32:21
And thinking about the basis
on how I do that stress testing

411 00:21:32:23 00:21:34:00
or cash flow modelling.

412 00:21:34:02 00:21:37:24
Is it still relevant today? Do I need
to change some of my assumptions?

413 00:21:38:01 00:21:41:00
And just look
to update those processes, as ever.

414 00:21:41:15 00:21:44:00
And one of the areas
that they did pick up on

415 00:21:44:02 00:21:48:12
was around disclosures and the information
that was provided to clients.

416 00:21:48:14 00:21:50:06
So, do clients clearly understand

417 00:21:50:08 00:21:52:24
what they're going to pay
both now and in the future?

418 00:21:53:01 00:21:56:10
And have, in terms of advice
and the recommendation that's been given,

419 00:21:56:12 00:22:00:16
have alternatives been considered
to meet the client's objectives

420 00:22:00:18 00:22:05:17
that perhaps sit outside the needs
or what the retirement plan

421 00:22:05:19 00:22:08:23
is actually going to provide
in the current space?

422 00:22:09:10 00:22:15:16
So, these are all risks that can present themselves to your business.

423 00:22:15:18 00:22:18:23
So, managing those can help manage some of the risks, potentially,

424 00:22:19:00 00:22:22:19
within your business, as well as getting the right processes in place

425 00:22:22:21 00:22:24:12
to deliver that great outcome for the client

426 00:22:24:14 00:22:26:15
that everybody's seeking to achieve.

427 00:22:29:01 00:22:30:22
The regulator went on to say

428 00:22:30:24 00:22:33:09
and look at things around knowing your customer.

429 00:22:33:11 00:22:35:04
Again, here's an example

430 00:22:35:06 00:22:40:07
of what they consider good practice in terms of asking open questions.

431 00:22:40:09 00:22:42:03
Again, framed in the DB world,

432 00:22:42:05 00:22:45:08
but it equally applies to defined contribution.

433 00:22:45:10 00:22:48:12
So, it's partly the way questions are asked

434 00:22:49:01 00:22:50:20
because that can significantly influence

435 00:22:50:22 00:22:53:14
the way a client will potentially respond to those.

436 00:22:53:16 00:22:56:19
So, open questions along the lines of: how would you?

437 00:22:56:21 00:23:00:03
What do you want? What is important? Why is that important?

438 00:23:00:05 00:23:03:14
They're all example of what
the regulator saw as good practice.

439 00:23:03:16 00:23:05:11
So, again, just thinking about

440 00:23:05:13 00:23:07:22
how you ask those questions
to your clients at the moment.

441 00:23:07:24 00:23:10:16
And, indeed, document
and evidence those responses,

442 00:23:10:18 00:23:13:01
because that's ultimately what will frame

443 00:23:13:03 00:23:16:01
the final recommendation
that you're going to give to the client

444 00:23:16:03 00:23:18:01
to meet those stated objectives.

445 00:23:19:00 00:23:21:18
It also went into information
around know your client.

446 00:23:22:24 00:23:26:17
So, again,
this will not be a surprise to you.

447 00:23:26:19 00:23:28:04
This is all fairly obvious stuff,

448 00:23:28:06 00:23:32:01
so thinking about both the individual,
the principle that you're advising,

449 00:23:32:03 00:23:35:16
but also the family circumstances,
including their health,

450 00:23:35:18 00:23:37:16
the financial circumstances,

451 00:23:37:18 00:23:40:06
so their current income needs,
their future income needs,

452 00:23:40:08 00:23:43:06
their future outgoings
for both them and the partner,

453 00:23:43:08 00:23:45:16
any other assets they have,

not just the pension.

454 00:23:46:14 00:23:48:13

An interesting piece
around knowledge and experience,

455 00:23:48:15 00:23:53:15

both of transferring
and understanding of investment risk

456 00:23:53:17 00:23:57:03

and it could be interesting how some
clients' views might have changed

457 00:23:57:05 00:23:58:20

given the experience of the last year,

458 00:23:58:22 00:24:00:10

so what does that look like?

459 00:24:01:06 00:24:05:04

Attitude to transfer is probably
a very much more defined benefit piece,

460 00:24:05:06 00:24:09:23

but it also has a place to play within DC,

461 00:24:10:00 00:24:12:22

particularly when we think
about the need to, at some point,

462 00:24:12:24 00:24:16:10

annuitize the client if they're looking
to secure income at some point.

463 00:24:16:12 00:24:20:02

So, I think that's
an important consideration, as well.

464 00:24:20:04 00:24:22:09

The attitude to investment risk:
has that changed?

465 00:24:22:11 00:24:24:05

How do they view that going forward?

466 00:24:24:07 00:24:26:13

Do they see risk in a different way?

467 00:24:26:15 00:24:27:21

And what's been their experience -

468 00:24:27:23 00:24:29:08

particularly
if they're drawing an income -

469 00:24:29:10 00:24:33:05

of how things like sequencing risk

might well have come home to roost

470 00:24:33:07 00:24:36:06
and affected their overall portfolio.

471 00:24:36:08 00:24:39:16
So, this isn't an exhaustive list,
but it's highlighting

472 00:24:39:18 00:24:42:22
some of the key points
that the regulator was picking up on.

473 00:24:42:24 00:24:45:05
And just thinking about
how do we discuss these?

474 00:24:45:07 00:24:47:10
How do we make sure
the client understands these?

475 00:24:47:12 00:24:49:16
And then how do we evidence these
on the files

476 00:24:49:18 00:24:51:11
to be able to demonstrate that?

477 00:24:51:13 00:24:53:11
So, just picking up on a couple of those,

478 00:24:53:13 00:24:55:04
knowledge and experiences in that area

479 00:24:55:06 00:24:58:22
that the regulator was keen to see more on

480 00:24:58:24 00:25:02:18
in the file reviews
that they'd undertaken.

481 00:25:02:20 00:25:04:16
So, some of the evidence
that you might want to think about

482 00:25:04:18 00:25:08:08
is what's the familiarity
with any other type of investments?

483 00:25:09:13 00:25:12:08
How much have they invested
and how often before?

484 00:25:12:22 00:25:15:15
What level of education
and experience do they have?

485 00:25:17:14 00:25:19:07

And remembering to put that into context,

486 00:25:19:09 00:25:22:15
so an individual
who works in financial services

487 00:25:22:17 00:25:25:02
doesn't necessarily have
a lot of financial services knowledge.

488 00:25:25:04 00:25:28:06
They might work in a different branch
of that particular industry.

489 00:25:28:08 00:25:32:13
So, it's making sure it's contextual
to the client and their actual needs.

490 00:25:32:15 00:25:34:19
And recognising, ultimately, also

491 00:25:34:21 00:25:36:15
that for different clients
it will be different.

492 00:25:36:17 00:25:39:17
So, it's not a one-size-fits-all approach.

493 00:25:40:24 00:25:44:09
An example, perhaps,
of a good example to ask a client

494 00:25:44:11 00:25:47:22
might be around whether they've been in
or are currently in a workplace pension,

495 00:25:47:24 00:25:48:24
for example.

496 00:25:49:01 00:25:50:23
How involved have they been with this?

497 00:25:51:00 00:25:53:00
Did they go to the default fund

498 00:25:53:02 00:25:55:12
or did they make
their own active fund choice?

499 00:25:55:14 00:26:00:18
And how do they feel or were they aware
that those funds can go up and down

500 00:26:00:20 00:26:02:11
and what was their reaction to that,

501 00:26:02:13 00:26:04:20
again, given the experience

of the last 12 months?

502 00:26:06:05 00:26:09:16
An example of practice
that they saw as good

503 00:26:09:18 00:26:11:14
that came out
within the Finalised Guidance

504 00:26:11:16 00:26:16:01
was in how those steps
are actually recorded

505 00:26:16:03 00:26:19:09
so that you can evidence
that the client's understanding the risks

506 00:26:19:11 00:26:21:22
involved with any particular transaction.

507 00:26:22:18 00:26:24:22
So, if they do have other investments,

508 00:26:24:24 00:26:27:05
it's perhaps worth
and important to understand

509 00:26:27:07 00:26:29:05
how they've responded previously

510 00:26:29:07 00:26:31:22
if those investments
didn't perform as expected.

511 00:26:33:11 00:26:37:02
Within the subject
around financial circumstances,

512 00:26:37:04 00:26:41:00
again, the conversation
has been discussed many times

513 00:26:41:02 00:26:44:01
and really came out
with the initial DB papers

514 00:26:44:03 00:26:45:22
going back two, three years or so,

515 00:26:45:24 00:26:49:09
was around understanding
income requirements.

516 00:26:50:06 00:26:54:11
Now, within the paper,
within the Finalised Guidance,

517 00:26:54:13 00:26:57:08
what the regulator has done
is split it down

518 00:26:57:10 00:27:01:01
into identifying three needs
of income for a client.

519 00:27:01:03 00:27:04:14
And they've defined that as essential,
lifestyle, and discretionary.

520 00:27:04:16 00:27:06:16
So, from an essential perspective,

521 00:27:06:18 00:27:11:11
that's really expenditure
that reflects bills the client must pay

522 00:27:11:13 00:27:15:07
and which they'd find very hard
or impossible to reduce.

523 00:27:15:09 00:27:17:22
From a lifestyle perspective,
this is probably the middle ground one,

524 00:27:17:24 00:27:20:07
which is really expenditure that supports

525 00:27:20:09 00:27:22:24
the client's expected or required
standard of living.

526 00:27:23:01 00:27:26:03
So, that would possibly include
holidays, eating out,

527 00:27:26:05 00:27:28:02
whatever it is
that the client finds important

528 00:27:28:04 00:27:30:05
and is not prepared to compromise on.

529 00:27:30:07 00:27:32:07
And then discretionary, on top of that,

530 00:27:32:09 00:27:36:06
is around covering of things
like luxury items, gifting,

531 00:27:36:08 00:27:39:07
further investments
that the clients are making, etcetera.

532 00:27:39:09 00:27:40:17
Those sorts of areas.

533 00:27:40:19 00:27:44:12
And this isn't new, because if we think
back to previous other guides,

534 00:27:44:14 00:27:47:01
the Defaqto guide
that's been out for a number of years,

535 00:27:47:03 00:27:49:14
again, it broke
that sort of information down,

536 00:27:49:16 00:27:50:23
talked about the various levels

537 00:27:51:00 00:27:53:06
of income requirement
that the client could have,

538 00:27:53:08 00:27:54:22
but it's just thinking
about how you record

539 00:27:54:24 00:27:57:20
that income and expenditure analysis
with the client.

540 00:27:57:22 00:28:00:15
And can you identify those various levels?

541 00:28:00:17 00:28:03:23
And then thinking, perhaps,
about the strategies that were employed

542 00:28:04:00 00:28:06:07
to try and meet some of those requirements

543 00:28:06:09 00:28:08:09
where you're not utilising
a secured income.

544 00:28:09:05 00:28:12:04
Obviously, in the world of DC,
you're maybe not annuitizing,

545 00:28:12:06 00:28:16:17
and why that's appropriate to lead
into what the client's trying to achieve.

546 00:28:16:19 00:28:19:15
So, whether you call it core,
aspirational, nice to have,

547 00:28:19:17 00:28:23:05
essential, lifestyle, discretionary...
that doesn't really matter.

548 00:28:23:19 00:28:25:06
What's important is how it's established,

549 00:28:25:08 00:28:28:12
how it's recorded,
and how it's explained to the client

550 00:28:28:14 00:28:30:14
so, again, that they can understand
what that means

551 00:28:30:16 00:28:33:17
and you can demonstrate
that that conversation has been had

552 00:28:33:19 00:28:35:06
and has been understood.

553 00:28:35:21 00:28:38:03
So, as ever, in the eyes of the regulator,

554 00:28:39:00 00:28:41:14
what they're expecting,
what they see your job to be,

555 00:28:41:16 00:28:45:19
is to identify
and help the client to understand this.

556 00:28:45:21 00:28:48:06
And, largely,
if you can't come back to this,

557 00:28:48:08 00:28:50:17
if you can't demonstrate this,
if the client doesn't understand it,

558 00:28:50:19 00:28:53:11
it's really difficult to be able
to make a personal recommendation,

559 00:28:53:13 00:28:55:04
because how could you justify

560 00:28:55:06 00:28:57:13
what the need
or the objective actually was?

561 00:28:58:11 00:29:04:15
And I do recognise that this
is not necessarily black and white.

562 00:29:05:10 00:29:10:15
What one individual's aspirational income
is could be somebody else's core income.

563 00:29:10:17 00:29:14:11
So, reasonable standard of living

is very key here,

564 00:29:14:13 00:29:18:02
and it's something that you have
to explore individually with the client

565 00:29:18:04 00:29:21:10
so there's not a one-size-fits-all process
that sits around that.

566 00:29:22:08 00:29:23:13
And if I've expected something,

567 00:29:23:15 00:29:26:20
I might not be prepared
or willing to give that up,

568 00:29:26:22 00:29:29:11
and that's looking at the differential

569 00:29:29:13 00:29:33:09
between risk tolerance
and capacity for loss,

570 00:29:33:11 00:29:36:05
and we'll come back to that
in a bit more detail in a moment.

571 00:29:36:07 00:29:38:11
But some of the things
that often get discussed

572 00:29:38:13 00:29:41:21
and questions are often raised about

573 00:29:41:23 00:29:45:21
is what level of detail
should I go into in this?

574 00:29:45:23 00:29:47:22
How much detail do I need to get?

575 00:29:47:24 00:29:51:06
Should I be modelling my cashflow
based on core income alone?

576 00:29:51:18 00:29:55:01
What if the client insists on a different
level of income to what I'm recommending

577 00:29:55:03 00:29:59:00
or has higher levels of withdrawal rate
than I would normally recommend?

578 00:30:00:02 00:30:04:05
Do I need to take aspirational, lifestyle
income into account in that model?

579 00:30:05:14 00:30:09:05
And I think the answer to that is
it really depends and is down to you.

580 00:30:09:07 00:30:13:11
It's about gathering this information
and then making it client-specific

581 00:30:13:13 00:30:17:07
to ensure that both the client
understands what that means

582 00:30:17:09 00:30:20:00
and that you can demonstrate
that conversation's been had.

583 00:30:20:02 00:30:23:18
And that can evidence
the recommendation that's been made.

584 00:30:23:20 00:30:26:06
So, as always,
making sure that it's client-specific,

585 00:30:26:08 00:30:28:11
but probably
having that framework in place,

586 00:30:28:13 00:30:31:14
which is the starting point
for how that information is put together.

587 00:30:33:04 00:30:36:08
And there were some examples,
again, of good or poor practice.

588 00:30:36:10 00:30:39:15
So, recording in the client's own words

589 00:30:39:17 00:30:43:00
about what are some
of the specific objectives

590 00:30:43:02 00:30:45:00
that they're looking to achieve.

591 00:30:45:02 00:30:49:23
And, for many clients, it's very likely
that you will need to consider trade-offs.

592 00:30:50:00 00:30:52:01
And the client
will need to think about that.

593 00:30:53:03 00:30:59:05
What if I retire early? What's that mean
with the potential to run out of money?

594 00:30:59:07 00:31:01:05
What if I want to leave
an inheritance to the children?

595 00:31:01:07 00:31:03:22
Am I prepared to live
on less income for now?

596 00:31:03:24 00:31:06:19
And those sort of questions.
So, again, that sort of questioning

597 00:31:06:21 00:31:09:05
and the framing of those questions
can be really useful

598 00:31:09:07 00:31:11:24
to help establish what the client
is looking to do.

599 00:31:12:01 00:31:14:19
And, as ever,
your role isn't to take orders

600 00:31:14:21 00:31:17:19
and just deliver what the client
says this is what I want to do.

601 00:31:17:21 00:31:20:11
It's challenging,
questioning, as appropriate

602 00:31:20:13 00:31:24:15
to make sure that it is deliverable
and that the client understands

603 00:31:24:17 00:31:26:24
potential trade-offs
across the whole piece.

604 00:31:27:18 00:31:30:12
One of the things that they did
put in the Finalised Guidance

605 00:31:30:14 00:31:33:07
was around an area of poor practice
that they saw that -

606 00:31:33:09 00:31:36:05
and I think this
really illustrates it very well -

607 00:31:36:24 00:31:38:24
the framing of the question
can be very, very important.

608 00:31:39:01 00:31:41:20
So, asking leading questions

609 00:31:41:22 00:31:45:04
where it's fairly obvious
you're likely to only get one answer,

610 00:31:45:06 00:31:48:20
so: would you like to retire early?
Most people would answer yes to that.

611 00:31:49:23 00:31:52:20
Was seen as, well, you're likely to get
similar outcomes from everybody

612 00:31:52:22 00:31:56:18
because it's not really exploring exactly
what the client is trying to achieve.

613 00:31:56:20 00:31:59:15
And what it doesn't do
is help the client really understand

614 00:31:59:17 00:32:02:17
that there might be
a compromise involved in this.

615 00:32:02:19 00:32:04:04
So, no leading questions

616 00:32:04:06 00:32:07:12
and the framing of the question
is really, really important there as well.

617 00:32:09:04 00:32:12:08
When we think
about attitude to investment risk,

618 00:32:12:21 00:32:17:11
there's a lot spoken in the guidance which
has the link directly to defined benefit

619 00:32:17:13 00:32:20:19
about attitude to transfer risk,
that's a really important scenario.

620 00:32:21:17 00:32:25:12
But, also, that can fit
into the world of defined contribution.

621 00:32:27:17 00:32:29:22
I think, really, when you're considering

622 00:32:29:24 00:32:33:01
the need or the question
around should I be annuitizing,

623 00:32:33:03 00:32:36:06
should I be securing an income
for a client at that particular point,

624 00:32:36:08 00:32:38:00
what are the trade-offs involved in that?

625 00:32:38:18 00:32:42:21
It's very easy to have a bias:
I see annuities as poor value.

626 00:32:42:23 00:32:45:16
The client may well have
that bias themselves.

627 00:32:45:18 00:32:48:04
But what about the certainty
that provides about the income?

628 00:32:48:06 00:32:50:12
What about the peace of mind
that might actually give to the client?

629 00:32:50:14 00:32:52:13
So, it's not just
a financial consideration.

630 00:32:52:15 00:32:56:15
It is really understanding
what the client is trying to understand.

631 00:32:57:13 00:33:00:19
So, I think the thing
around investment risk

632 00:33:00:21 00:33:03:02
is very much that risk tolerance

633 00:33:03:04 00:33:08:24
is more akin to an emotional response:
how do you feel peace?

634 00:33:09:01 00:33:12:10
For example, if your money goes down,
how would you feel about that?

635 00:33:12:23 00:33:16:23
When we look at what that means
from an understanding capacity for loss -

636 00:33:17:00 00:33:18:16
and I think this is the real difference

637 00:33:18:18 00:33:21:17
certainly
in a centralised retirement proposition

638 00:33:21:19 00:33:24:00
as opposed
to a centralised investment proposition -

639 00:33:24:02 00:33:28:14
is some of the risks are different
and will manifest in different ways

640 00:33:28:16 00:33:29:20
once I'm in decumulation.

641 00:33:29:22 00:33:36:08
So, measuring for capacity for loss
is a really important consideration there.

642 00:33:36:10 00:33:37:24
And remembering that it's actually

643 00:33:38:01 00:33:41:00
all about the client's ability
to absorb a loss

644 00:33:41:02 00:33:44:01
before it has a material impact
on their standard of living.

645 00:33:44:20 00:33:47:03
So, it goes back
to the expenditure analysis.

646 00:33:47:05 00:33:49:20
What expenditures
do I need to take into account?

647 00:33:49:22 00:33:54:07
And you have to know the client in order
to be able to do that conversation around

648 00:33:54:09 00:33:57:23
what they deem as prepared to compromise
and not prepared to compromise?

649 00:33:58:20 00:34:03:19
So, remembering that establishing
a client's capacity for loss

650 00:34:03:21 00:34:07:00
is not about
how they would feel about certain things,

651 00:34:07:02 00:34:10:21
it's much more
and absolutely about the numbers.

652 00:34:10:23 00:34:14:02
So, you can numerically quantify
capacity for loss

653 00:34:14:04 00:34:16:03
and I think what the regulator
is expecting to see

654 00:34:16:05 00:34:18:23
is that analysis has actually taken place.

655 00:34:19:00 00:34:23:01
So, there's no specific way
or no mandated way of doing that,

656 00:34:23:03 00:34:25:01
it's just that
that conversation has been had

657 00:34:25:03 00:34:27:06
and that that's recorded on the file.

658 00:34:27:08 00:34:30:20
So, I think as long as you carry out
some sort of numbers-based analysis,

659 00:34:30:22 00:34:34:24
record it on the file
to demonstrate that it's been assessed,

660 00:34:35:01 00:34:39:15
understand
what the client's capacity for loss is,

661 00:34:39:17 00:34:43:12
and just remembering
that a risk questionnaire

662 00:34:43:14 00:34:47:11
is asking the client
about how they might feel about a loss

663 00:34:47:13 00:34:51:04
and it's more about assessing
their attitude to risk

664 00:34:51:06 00:34:52:13
and not their capacity for loss.

665 00:34:52:15 00:34:54:12
I think they're very different beasts.

666 00:34:55:02 00:34:57:13
And there were some examples
of good practice, again,

667 00:34:57:15 00:34:59:03
that the regulator looked at there

668 00:34:59:05 00:35:01:09
in terms of the questions
and understanding, really,

669 00:35:01:11 00:35:03:14
what the client
was prepared to compromise.

670 00:35:04:11 00:35:06:00
And just thinking
about a very simple example

671 00:35:06:02 00:35:09:02
of what that might mean
for a client in a situation.

672 00:35:09:04 00:35:10:24
Again, totally contrived,
so I'm just making this up.

673 00:35:11:01 00:35:13:06
It's just to illustrate the point.

674 00:35:13:22 00:35:17:17
And helping a client understand what level
of compromise they're prepared to make.

675 00:35:17:19 00:35:19:14
So, we have Peter and Margaret here.

676 00:35:20:04 00:35:22:10
We've identified, or you've identified,

677 00:35:22:12 00:35:24:18
their income requirements,
core and aspirational.

678 00:35:24:20 00:35:26:05
There's a state pension involved

679 00:35:26:07 00:35:29:14
and some healthy pension assets
between the two of them.

680 00:35:30:03 00:35:32:06
So, it's helping them understand
what that might look like

681 00:35:32:08 00:35:33:21
from their retirement perspective.

682 00:35:34:13 00:35:37:00
And doing some simple cash flow
modelling initially,

683 00:35:37:02 00:35:39:12
just looking
at when the money might run out,

684 00:35:39:14 00:35:41:07
how long will the fund last,

685 00:35:41:09 00:35:44:09
just utilising
the initial core income requirement

686 00:35:44:11 00:35:46:08
and factoring in the state pension.

687 00:35:46:10 00:35:49:16
For these individuals,
it looks to be a very healthy position.

688 00:35:49:18 00:35:51:22
The fund will continue to grow.

689 00:35:51:24 00:35:53:16
It'll last beyond age 120,

690 00:35:53:18 00:35:56:06
so you can probably make
a reasonable assumption

691 00:35:56:08 00:35:58:15
that that's beyond normal life expectancy.

692 00:35:58:17 00:36:04:00
And we just put in here some growth
numbers linked to proof on growth,

693 00:36:04:02 00:36:08:22
so 5.7% growth rate,
built in some advisor fee,

694 00:36:08:24 00:36:12:15
so it's not so much
about what the numbers are showing,

695 00:36:12:17 00:36:13:15
it's around the framework

696 00:36:13:17 00:36:17:01
and the process to help the client
understand those particular issues.

697 00:36:17:03 00:36:21:03
If we then factor in
that full aspirational income piece,

698 00:36:21:05 00:36:26:08
again, the situation looks very rosy
from a client's perspective.

699 00:36:26:10 00:36:31:05
The fund still continues to last beyond
or up to age 99.

700 00:36:31:07 00:36:33:00
But it's helping the client understand

701 00:36:33:02 00:36:35:13
what the implications
of taking a higher income will have.

702 00:36:35:15 00:36:38:17
You'd never want a client to come to you
at some point in the future

703 00:36:38:19 00:36:41:19
and say, you never told me
I could run out of money.

704 00:36:41:21 00:36:43:02
In this situation, they wouldn't.

705 00:36:43:04 00:36:45:18
But it's all about being specific
to the client.

706 00:36:46:12 00:36:49:21
If we look at the situation which might
be the compromise for the client

707 00:36:49:23 00:36:54:01
and perhaps the middle ground
is something like £45,000 worth of income.

708 00:36:54:03 00:36:56:02
Again, it's just demonstrating the client

709 00:36:56:04 00:36:58:15
and evidencing
that that conversation's been had

710 00:36:58:17 00:37:01:22
about what that could mean
based on reasonable assumptions.

711 00:37:01:24 00:37:04:10
And, again,
they'll be specific to the client.

712 00:37:04:12 00:37:06:17
But probably have a standardised approach

713 00:37:06:19 00:37:08:10
that you start with
from your initial framework

714 00:37:08:12 00:37:11:05
in terms of how you provide
guidance and advice,

715 00:37:11:07 00:37:15:03
but tweaked, as I said,
to the relevant needs of the client.

716 00:37:15:05 00:37:17:07
And that's all around understanding,

717 00:37:17:09 00:37:20:03

balancing the needs and objectives
of the client, as well.

718 00:37:21:01 00:37:24:00
So, thinking about the process
that you might want to go through

719 00:37:24:02 00:37:29:10
and what the regulator has suggested,
what they see as being good practice

720 00:37:29:12 00:37:32:05
as some of the considerations
that you might want to look at.

721 00:37:32:07 00:37:35:23
So, both identifying
all the client's needs and objectives,

722 00:37:36:00 00:37:42:15
identifying where the needs and objectives
are in conflict with each other,

723 00:37:42:17 00:37:45:06
or, indeed, can't actually be achieved,

724 00:37:45:08 00:37:48:21
and then discussing with the client
the specific compromise relative to them,

725 00:37:48:23 00:37:50:24
so, what are they prepared to compromise,

726 00:37:51:01 00:37:56:07
rather than a generic approach to dealing
with different and conflicting views.

727 00:37:56:09 00:37:59:10
And then work through those specific
compromises with the client,

728 00:37:59:12 00:38:04:21
just clearly demonstrating the reason
and the rationale for each client.

729 00:38:04:23 00:38:07:08
And this is the piece that provides
that evidence, isn't it?

730 00:38:07:10 00:38:11:15
If it provides that documentation
and can help illustrate

731 00:38:11:17 00:38:14:05
both that the conversation has happened
and the client has understood it

732 00:38:14:07 00:38:17:07

and there was a reason
for any particular course of action.

733 00:38:17:09 00:38:21:05
And this is where cash flow modelling
can really help

734 00:38:21:07 00:38:24:12
in the delivery of some
of these conversations with clients.

735 00:38:24:14 00:38:29:05
Now, I think most of the marketplace now
uses cashflow modelling

736 00:38:29:07 00:38:31:11
and there's lots
of different tools out there.

737 00:38:31:13 00:38:34:24
If it's something you're looking at
or if you're just reviewing particularly

738 00:38:35:01 00:38:38:23
the process and the systems
or the tools that you use at the moment,

739 00:38:40:15 00:38:42:21
that might be of relevance to you,

740 00:38:42:23 00:38:46:12
if you want some background
to how certain tools work,

741 00:38:46:14 00:38:50:23
we've hosted a session from five
of the leading providers on PruAdviser.

742 00:38:51:00 00:38:53:24
Your account manager
can point you in the right direction.

743 00:38:54:01 00:38:59:00
Which basically is the tool provider
explaining how their system works

744 00:38:59:02 00:39:00:18
and where it might be relevant.

745 00:39:00:20 00:39:03:10
So, thinking about how that fits
into your own target market.

746 00:39:03:12 00:39:09:04
So, there's short videos both with xxx
pension, cashcount and Defaqto,

747 00:39:09:06 00:39:12:06

so if that's relevant to you,
you might want to have a look at those.

748 00:39:13:01 00:39:14:11
But, as ever, it's really important

749 00:39:14:13 00:39:17:06
to understand
how the cash flow modelling tool works,

750 00:39:17:08 00:39:21:07
what are the assumptions
that underlie the output that you get,

751 00:39:21:09 00:39:24:01
and indeed why that's relevant
to the clients that you're advising

752 00:39:24:03 00:39:26:04
and how that particularly works.

753 00:39:26:06 00:39:28:13
So, what did the regulator
say about cash flow modelling?

754 00:39:28:15 00:39:30:10
And, again, taking this from the guidance,

755 00:39:30:12 00:39:32:20
and obviously this was relating
to defined benefit,

756 00:39:32:22 00:39:35:13
so there's a reference to APTA here,

757 00:39:35:15 00:39:37:18
but what they've said
is that they don't specify

758 00:39:37:20 00:39:40:13
that a firm must use cash flow modelling,

759 00:39:40:15 00:39:42:11
certainly in the APTA process,

760 00:39:42:13 00:39:44:20
but what they do say
is if you do use cash flow modelling,

761 00:39:44:22 00:39:46:11
we have certain requirements.

762 00:39:47:04 00:39:48:09
So, what that's talking about

763 00:39:48:11 00:39:53:15
is the model should carry out projections
that go beyond normal life expectancy.

764 00:39:53:17 00:39:56:05

So, first question is:

how do I define that?

765 00:39:56:07 00:39:58:08

On what basis? Again, that's not mandated.

766 00:39:58:10 00:40:00:19

What's appropriate to my target market?

767 00:40:00:21 00:40:01:20

And how do I ensure

768 00:40:01:22 00:40:05:11

that all my advisors and my business
operate a similar model?

769 00:40:05:13 00:40:07:18

That comes back

to the centralised retirement proposition.

770 00:40:08:10 00:40:13:00

And then about stress testing outcomes
that come from the cash flow model.

771 00:40:13:02 00:40:16:12

Again, not specifically dictating
what must be shown,

772 00:40:16:14 00:40:17:23

but talking about examples,

773 00:40:18:00 00:40:21:01

so illustrating
a significant fall in the market

774 00:40:21:03 00:40:24:22

soon after a client
starts taking withdrawals from the fund.

775 00:40:24:24 00:40:27:11

So, there's lots
of cash flow models out there,

776 00:40:27:13 00:40:30:22

be it a stochastic basis,
be it a deterministic-type basis.

777 00:40:30:24 00:40:33:02

It's understanding what
that's going to deliver for my client.

778 00:40:33:04 00:40:34:22

Does it help their understanding?

779 00:40:34:24 00:40:38:12

Have I ensured that I understand

how that cash flow model,

780 00:40:38:14 00:40:41:14
how that tool actually creates the output,

781 00:40:41:16 00:40:44:00
so the inputs, as ever,
are critically important

782 00:40:44:02 00:40:46:08
and why that's relevant to my client.

783 00:40:46:10 00:40:49:23
And reviewing whether I need
to change some of those assumptions

784 00:40:50:00 00:40:51:08
for my clients going forward.

785 00:40:51:10 00:40:55:22
So, that's all part of the due diligence
process that you will go into, as well.

786 00:40:56:11 00:40:59:12
And, again, just reminding
some of the other guidance out there

787 00:40:59:14 00:41:02:21
is the PFS guide
on use of cash flow modelling.

788 00:41:02:23 00:41:07:08
I think, again, it brings out
some really useful areas to consider

789 00:41:07:10 00:41:09:00
that might be relevant for a client.

790 00:41:09:02 00:41:11:15
Now, individual clients
will have specific needs,

791 00:41:11:17 00:41:14:14
and they need to be addressed
and documented, as well.

792 00:41:14:16 00:41:19:13
But there might be a starting point
that's the framework for most clients.

793 00:41:19:15 00:41:22:12
And I think,
if we're in the world of drawdown,

794 00:41:22:14 00:41:24:21
there's only one fundamental risk
of drawdown, isn't there?

795 00:41:24:23 00:41:26:22

And that's the risk
of running out of money.

796 00:41:26:24 00:41:28:06

And that's one of the key concerns,

797 00:41:28:08 00:41:31:18

and probably was the big issue
that the regulator was going to look at

798 00:41:31:20 00:41:34:19

or when they do they bring out
suitability review 2,

799 00:41:34:21 00:41:36:12

they'll want to review.

800 00:41:36:14 00:41:39:08

And I think those particular issues
are really important.

801 00:41:39:10 00:41:40:12

Now, clearly, as an advisor,

802 00:41:40:14 00:41:44:13

there are lots of other potential risks
that you have to explain to clients

803 00:41:44:15 00:41:50:12

but I think this guide and those bullet
points summarise those really well.

804 00:41:51:18 00:41:54:10

The need, for example,
to take out withdrawals.

805 00:41:54:12 00:41:57:19

Many clients might have experienced that
in the last 12 months.

806 00:41:57:21 00:42:01:09

The different needs of inflation
being higher or lower than expected.

807 00:42:01:11 00:42:03:05

We saw how the markets reacted yesterday

808 00:42:03:07 00:42:05:15

getting spooked by the thought

809 00:42:05:17 00:42:09:11

that the inflation rates
will be going up in the medium term,

810 00:42:09:13 00:42:11:12

see how that plays out
in the market place.

811 00:42:12:04 00:42:15:01
The whole question of longevity,
a really important risk.

812 00:42:15:03 00:42:17:21
Future returns being lower than expected.

813 00:42:17:23 00:42:19:21
Might have seen some of that
in the last 12 months.

814 00:42:19:23 00:42:22:04
What does that mean
for a client going forward?

815 00:42:22:06 00:42:24:19
And certainly the last one,
unpredictable returns.

816 00:42:25:18 00:42:30:23
Stock market crashes, the portfolio
not performing as was actually expected.

817 00:42:31:00 00:42:33:10
So those are probably
some of the key risks

818 00:42:33:12 00:42:37:15
that are important
to identify to a client.

819 00:42:37:17 00:42:40:21
And the framework will help you understand

820 00:42:40:23 00:42:43:11
the what, the why, and the when
of how you explain those risks.

821 00:42:43:13 00:42:46:08
So, the what: what do I do?
Why do I use those numbers?

822 00:42:46:10 00:42:49:19
The why? What is the evidence
that supports the rational

823 00:42:49:21 00:42:54:22
for x growth rate
or y longevity number that I use?

824 00:42:54:24 00:42:58:03
And when, very importantly,
when do I review those?

825 00:42:58:05 00:42:59:19
And that's all about helping the client

826 00:42:59:21 00:43:01:14
understand the risk
of running out of money,

827 00:43:01:16 00:43:03:22
which, as I said, is the fundamental risk.

828 00:43:03:24 00:43:05:23
And then we come into the timing aspect,
don't we?

829 00:43:06:00 00:43:10:06
How timing will affect
the potential return for a client.

830 00:43:10:08 00:43:12:23
And the whole issue
of managing those risks,

831 00:43:13:00 00:43:16:00
be it both within the pension
but also other assets,

832 00:43:16:02 00:43:18:05
and particularly what might have come
home

833 00:43:19:06 00:43:21:13
to affect many clients
in the last 12 months, also,

834 00:43:21:15 00:43:24:01
has been the impact of sequencing risk.

835 00:43:24:03 00:43:26:16
Do clients really understand that?
How do we explain it?

836 00:43:26:18 00:43:28:15
And thinking about different ways

837 00:43:28:17 00:43:30:21
of actually taking
that message to clients.

838 00:43:31:11 00:43:34:19
So, I think many clients could have
experienced that over the last 12 months,

839 00:43:34:21 00:43:40:08
particularly the way we see weekly,
monthly, and even daily large movements

840 00:43:40:10 00:43:45:10
in asset values:
plus 1, 2, 3%, minus 1, 2, 3%

841 00:43:45:12 00:43:47:02

and on a very regular occurrence.

842 00:43:47:04 00:43:48:19
That's not been normal market.

843 00:43:48:21 00:43:52:01
This is very extreme conditions
that we've been experiencing.

844 00:43:52:03 00:43:54:22
And that can have a big impact
on the client.

845 00:43:54:24 00:43:58:10
So, if I see this as a future risk,
how do I want to manage that future risk?

846 00:43:58:12 00:43:59:18
Do I need to change my strategy?

847 00:43:59:20 00:44:02:14
Do I need to think
about how I do that in the future?

848 00:44:02:16 00:44:05:24
And you won't be unfamiliar
with market movements.

849 00:44:06:01 00:44:07:12
That's the nature of investing.

850 00:44:07:14 00:44:09:17
And we've seen lots of market movements.

851 00:44:09:19 00:44:10:20
What we do tend to see

852 00:44:10:22 00:44:14:22
is crashes and downturns in the market
tend to happen quite quickly,

853 00:44:14:24 00:44:18:18
over a matter of weeks, days and weeks,

854 00:44:18:20 00:44:21:18
and recoveries tend to happen
much more slowly.

855 00:44:21:20 00:44:24:03
You're looking at weeks and months.

856 00:44:24:05 00:44:27:07
Perhaps with the exception
of what happened in March last year

857 00:44:27:09 00:44:30:06
and the way, largely speaking,
many markets have recovered.

858 00:44:30:08 00:44:33:19
But, really importantly, particularly
where I'm drawing down an income,

859 00:44:33:21 00:44:38:23
the impact of sequencing returns
and the volatility that we've experienced.

860 00:44:39:00 00:44:42:14
So, we often use volatility
as the metric of risk, isn't it,

861 00:44:42:16 00:44:44:00
to help clients understand risk.

862 00:44:44:02 00:44:47:04
And, absolutely,
it has a very important part to play.

863 00:44:47:06 00:44:49:07
But volatility in isolation,

864 00:44:49:09 00:44:53:20
it's not the perfect way
of measuring or explaining risk.

865 00:44:54:16 00:44:56:17
Effectively what I'm looking at
is standard deviations,

866 00:44:56:19 00:44:58:16
so there's a formula that looks at it,

867 00:44:58:18 00:45:00:18
and I can quite easily change volatility

868 00:45:00:20 00:45:05:18
just by changing the frequency
by which I measure the data points.

869 00:45:05:20 00:45:11:12
So, understanding both what volatility
can help a client understand

870 00:45:11:14 00:45:13:04
but also the shortcomings, potentially,

871 00:45:13:06 00:45:16:14
and especially depending on the nature
of the investment that you're in,

872 00:45:16:16 00:45:17:12
is really important.

873 00:45:17:14 00:45:20:23
And another area looking at that
might be maximum drawdown

874 00:45:21:00 00:45:24:05
and thinking about
the peaks to troughs of the portfolio,

875 00:45:24:07 00:45:27:12
so buying at the top
and selling at the bottom, for example.

876 00:45:27:14 00:45:29:18
What that might actually look at
for a client.

877 00:45:29:20 00:45:32:10
And this example here, again,
just looking at the ten-year figure,

878 00:45:32:12 00:45:34:07
is just looking at the maximum drawdown

879 00:45:34:19 00:45:36:14
over that period of time.

880 00:45:36:16 00:45:39:02
And then helping a client,
utilising that number

881 00:45:39:04 00:45:41:08
to help the client understand
what that might mean

882 00:45:41:10 00:45:44:06
from a risk
and/or a stress-testing perspective.

883 00:45:45:00 00:45:47:09
So, going back to the example
we looked at earlier,

884 00:45:47:11 00:45:49:16
the £45,000 worth of income,

885 00:45:50:16 00:45:53:06
what if I overlay onto that

886 00:45:53:08 00:45:58:08
the stress test
or a minus 16.67% downturn in the market?

887 00:45:58:10 00:46:00:17
So, reflecting the maximum drawdown?

888 00:46:00:19 00:46:02:05
Again, not a prescribed format.

889 00:46:02:07 00:46:04:17
You might want to do it differently,
but it might be a manner

890 00:46:04:19 00:46:08:12
in which you can help a client
understand some of the potential risk

891 00:46:08:14 00:46:10:03
and some of the effect of that.

892 00:46:10:05 00:46:12:16
And just to demonstrate
that that conversation's been had

893 00:46:12:18 00:46:15:08
and then recording how the client feels.

894 00:46:16:06 00:46:18:00
Because sequencing risk
can be a challenge,

895 00:46:18:02 00:46:20:24
and it can be quite difficult
to explain to clients

896 00:46:21:01 00:46:23:22
and show
what that might actually mean to them.

897 00:46:23:24 00:46:26:18
So, sequencing risk
and understanding journey risk

898 00:46:26:20 00:46:28:03
is a really important consideration.

899 00:46:28:05 00:46:32:10
So, various portfolios, A, B, and C,

900 00:46:32:12 00:46:34:10
with variable returns
over a period of time.

901 00:46:34:12 00:46:39:22
Totally made up, I appreciate,
but whether you start well or end well,

902 00:46:40:13 00:46:42:04
what you see throughout those portfolios

903 00:46:42:06 00:46:44:18
is the final destination
is exactly the same.

904 00:46:44:20 00:46:47:18
The client would have got
to the same end point total return.

905 00:46:47:20 00:46:49:23
Once you overlay withdrawals on that,

906 00:46:50:00 00:46:53:10
and this is just assuming you took
a 5% withdrawal from the portfolio,

907 00:46:53:12 00:46:55:08
the numbers are very, very different.

908 00:46:56:02 00:46:59:03
So, the message, the simple message
around managing sequencing risk

909 00:46:59:05 00:47:01:07
is just avoid getting off to a bad start.

910 00:47:01:22 00:47:03:21
There you go.
That's easy enough, isn't it?

911 00:47:03:23 00:47:07:00
It's just the problem, I suppose,
of knowing when the bad start is

912 00:47:07:02 00:47:08:09
and when I'm in drawdown,

913 00:47:08:11 00:47:13:13
effectively every point I take in income
out is almost recessing it, isn't it?

914 00:47:14:01 00:47:17:06
The potential to getting off
to a bad start has reappeared.

915 00:47:17:08 00:47:21:01
So, if a client has experienced that
or now understands that better,

916 00:47:21:03 00:47:23:08
managing that in a different way
might be a consideration.

917 00:47:24:02 00:47:26:06
And just looking at
some of the tools out there.

918 00:47:26:08 00:47:27:22
that can help you with this.

919 00:47:27:24 00:47:30:05
Again, I'm not advocating
any particular solution.

920 00:47:30:07 00:47:33:12
There's lots of various options out there.
I'm just looking at this one.

921 00:47:33:24 00:47:37:14

This has come out recently from Defaqto within their Engage package.

922 00:47:38:17 00:47:40:12
And, as ever, it's really,
really important, first of all,

923 00:47:40:14 00:47:42:00
to understand what the inputs are,

924 00:47:42:02 00:47:44:12
what the assumptions are,
that underlie the output.

925 00:47:44:14 00:47:45:20
And really what they're trying to do

926 00:47:45:22 00:47:49:06
is help to explain to the client
what stress testing is

927 00:47:49:08 00:47:51:17
and what sequencing risk
can mean to a client.

928 00:47:52:06 00:47:56:17
And really looking at the projected fund
over a period of time for a client

929 00:47:56:19 00:47:59:09
and thinking about sustainability
of that income:

930 00:47:59:11 00:48:00:18
how long the fund will last,

931 00:48:00:20 00:48:06:00
depending on market conditions,
be they average, good, or weak.

932 00:48:06:20 00:48:08:19
And then trying to put over that

933 00:48:08:21 00:48:12:22
understanding what sequencing risk
could actually mean for a client.

934 00:48:12:24 00:48:14:11
So, under this report,

935 00:48:14:13 00:48:17:07
it's really looking at a specified level
of income for the client

936 00:48:17:09 00:48:19:04
and this table would come up.

937 00:48:19:06 00:48:21:22

And essentially what that's saying is,

938 00:48:21:24 00:48:24:14
depending on the sequencing risk
the client's prepared to accept -

939 00:48:24:16 00:48:25:24
low, medium or high -

940 00:48:26:01 00:48:27:17
how long the fund will last.

941 00:48:27:19 00:48:31:11
And also it shows some of the actions
that could be taken

942 00:48:31:13 00:48:33:09
given that the one thing we know

943 00:48:33:11 00:48:37:00
is projected returns
won't actually happen,

944 00:48:37:02 00:48:39:08
that won't be the reality for the client.

945 00:48:39:10 00:48:41:19
So, for example, reducing
the amount of income withdrawal,

946 00:48:41:21 00:48:44:18
stopping income withdrawals
for a period of time,

947 00:48:44:20 00:48:48:00
or accepting that the money will run out
at an earlier date,

948 00:48:48:15 00:48:49:16
and an extension of that

949 00:48:49:18 00:48:54:11
could be modelling what the maximum
deemed sustainable income,

950 00:48:54:13 00:48:57:10
again, based on the assumptions
that the tool is using,

951 00:48:57:12 00:48:58:09
would actually look like.

952 00:48:58:11 00:48:59:20
Again, with similar outcomes,

953 00:48:59:22 00:49:04:02
but giving clients an option and a view
around potential remedial actions.

954 00:49:04:22 00:49:07:22
And if you just think
about sequencing risk in action,

955 00:49:07:24 00:49:10:00
and particularly over the last 12 months,

956 00:49:10:02 00:49:14:14
a different course of action can have
very, very different outputs for clients,

957 00:49:14:16 00:49:16:06
different outcomes for clients.

958 00:49:16:22 00:49:19:12
And just utilising numbers
over the last 12 months.

959 00:49:19:14 00:49:22:07
Just thinking of a very simple example,

960 00:49:22:09 00:49:24:23
if we had James here
who went into drawdown in January,

961 00:49:25:10 00:49:26:17
with a large pension fund,

962 00:49:26:19 00:49:30:09
has some other assets
requiring a certain level of income,

963 00:49:30:11 00:49:34:04
a different strategy would have had
a very different outcome for the client.

964 00:49:34:20 00:49:36:21
So, what if, in March,
the client had panicked

965 00:49:36:23 00:49:39:01
and moved
all their drawdown money into cash

966 00:49:39:03 00:49:40:22
but continued to take the withdrawal?

967 00:49:41:21 00:49:44:18
That would have a significant impact
on the pension fund,

968 00:49:44:20 00:49:47:06
but they'd still have had
some other cash savings.

969 00:49:47:08 00:49:49:09
Perhaps if they'd had

a different strategy,

970 00:49:49:11 00:49:51:23
perhaps if they'd looked
to withdraw the income,

971 00:49:52:00 00:49:54:00
or reduce the income from the pension

972 00:49:54:02 00:49:57:16
and actually withdraw the required income

973 00:49:57:18 00:50:00:03
from that cash holding
within the cash ISA,

974 00:50:00:05 00:50:02:03
it would have given
a very different outcome,

975 00:50:02:05 00:50:05:13
so the client could have been
in a significantly different place.

976 00:50:05:15 00:50:09:10
So, it is about having the concept
and the understanding

977 00:50:09:12 00:50:12:05
of what a recovery plan could look like.

978 00:50:12:18 00:50:16:22
But, clearly, any plan,
this is still informed by hindsight.

979 00:50:16:24 00:50:20:02
And different outcomes, different
variations of what actually happened,

980 00:50:20:04 00:50:22:11
would have vastly affected the income.

981 00:50:22:13 00:50:24:16
And what we don't know
is what the future holds.

982 00:50:24:18 00:50:26:18
And neither does the client.

983 00:50:26:20 00:50:30:17
So, really understanding what that might
mean to the client, explaining that line,

984 00:50:30:19 00:50:34:10
and helping them, talk through variables -

985 00:50:34:12 00:50:36:08
again, based on reasonable assumptions -

986 00:50:36:10 00:50:39:07
is really important
to help document and then evidence

987 00:50:39:09 00:50:41:13
why any particular course of action
was undertaken.

988 00:50:43:17 00:50:48:12
And the last section within the guidance
was really interesting,

989 00:50:48:14 00:50:49:24
a real interesting final chapter,

990 00:50:50:01 00:50:53:04
because it was all about how the regulator

991 00:50:53:06 00:50:57:17
sees and was suggesting to the advisors
how they can demonstrate suitability.

992 00:50:57:19 00:50:59:20
So, what does a good footfall look like?

993 00:50:59:22 00:51:01:10
And I think this is really worth a look,

994 00:51:01:12 00:51:05:04
just to think about what you do
at the moment, what your processes are,

995 00:51:05:06 00:51:08:10
and think about
is there a need to change anything,

996 00:51:08:12 00:51:12:09
are we covering all the areas that
the regulator is now seeing is relevant?

997 00:51:12:11 00:51:16:24
And it was going back to what is a pension
switch in the context of the DC world.

998 00:51:17:01 00:51:19:03
It's all about basing your evidence

999 00:51:19:05 00:51:21:15
and demonstrating that
with contemporary evidence.

1000 00:51:21:17 00:51:24:22
Picking up all of the areas that really,
as we went through this,

1001 00:51:24:24 00:51:29:16
we've discussed in terms of the client's

objectives, circumstances, etcetera.

1002 00:51:29:18 00:51:31:17
I'll just repeat all of those,
all of the things

1003 00:51:31:19 00:51:34:11
that we've already considered,
thought about.

1004 00:51:34:13 00:51:36:23
But relevant to the individual client.

1005 00:51:37:15 00:51:40:00
And then demonstrating that on the file.

1006 00:51:40:02 00:51:43:09
Just one other thought, as well, is around
- this wasn't in the Finalised Guidance

1007 00:51:43:11 00:51:46:14
but is, again, a very important
consideration - is around cost.

1008 00:51:46:16 00:51:48:15
What does it cost
if I change the arrangement?

1009 00:51:48:17 00:51:50:08
And what does that mean for the client?

1010 00:51:51:02 00:51:56:06
It's worth remembering what the regulator
- and this was FSA back in 2012 -

1011 00:51:56:08 00:51:59:12
actually said,
is additional costs may be justified

1012 00:52:00:04 00:52:04:21
where they are associated with a specific
benefit that is valued by the client.

1013 00:52:04:23 00:52:06:15
So, the world of DC

1014 00:52:06:17 00:52:09:23
and whether I'm making a switch,
a change to the arrangement,

1015 00:52:10:00 00:52:13:19
again, I think you can overlay
the DB principle, as well.

1016 00:52:13:21 00:52:15:08
So, if I can clearly demonstrate

1017 00:52:15:10 00:52:17:19

how and why the proposed change,
the proposed switch,

1018 00:52:17:21 00:52:20:01
provides a better client outcome,

1019 00:52:20:03 00:52:22:22
and why the original plan
cannot deliver this,

1020 00:52:22:24 00:52:24:16
then I should be pretty much
on firm ground

1021 00:52:24:18 00:52:27:07
in terms of the appropriateness
of that advice.

1022 00:52:29:00 00:52:30:07
The regulator then went on to,

1023 00:52:30:09 00:52:32:08
within the demonstrating
suitability piece,

1024 00:52:32:10 00:52:35:02
around checking client understanding.

1025 00:52:35:04 00:52:38:02
I think this is quite an interesting
and important consideration

1026 00:52:38:04 00:52:39:24
in terms of different styles out there.

1027 00:52:40:13 00:52:44:10
So, one of the areas that the regulator
said they were particularly keen on

1028 00:52:44:12 00:52:47:10
is having checks and balances
throughout the whole process

1029 00:52:47:12 00:52:49:04
that have got to be ticked from them.

1030 00:52:49:06 00:52:52:02
And what they didn't like
was the situation

1031 00:52:52:04 00:52:54:21
where there was
a tick box sign off at the end

1032 00:52:54:23 00:52:58:14
saying my client understands
all of the risk and is happy to proceed.

1033 00:52:58:16 00:53:01:15
So, again, see that out
in the market place sometimes,

1034 00:53:01:17 00:53:05:00
and it's thinking about, do I need
to change the way I do that?

1035 00:53:05:02 00:53:08:12
Do I really need to check client's
understanding throughout the whole
process

1036 00:53:08:14 00:53:10:12
to demonstrate continued suitability?

1037 00:53:11:10 00:53:12:13
And then there was some guidance

1038 00:53:12:15 00:53:15:04
around the effectiveness
and suitability of reports.

1039 00:53:15:06 00:53:18:11
Nothing new there. This is what they've
been striving for for a number of times,

1040 00:53:18:13 00:53:22:22
and a lot of the advice is built
into trying to keep suitability reports

1041 00:53:22:24 00:53:27:05
to a manner that is concise,
laid out well, written in plain English

1042 00:53:27:07 00:53:29:19
that the client will understand
and want to read,

1043 00:53:29:21 00:53:31:21
but bringing out the emphasis
on the key information,

1044 00:53:31:23 00:53:35:07
so making it very client-specific
and breaking up text as appropriate

1045 00:53:35:09 00:53:38:24
to make it engaging to the client,
as well, as much as anything else.

1046 00:53:39:01 00:53:43:02
So, I think suitability reports
can always be amended.

1047 00:53:43:04 00:53:45:20
What they don't like to see

1048 00:53:45:22 00:53:50:01
is a lot of templated,
generic-type paragraphs inserted

1049 00:53:50:03 00:53:52:02
that are not necessarily relevant

1050 00:53:52:04 00:53:56:00
to that particular client
that you're advising on and dealing with.

1051 00:53:56:23 00:53:59:22
Particularly what they would like to see
in terms of the effectiveness

1052 00:53:59:24 00:54:03:11
is really looking
at the client-specific circumstances,

1053 00:54:03:23 00:54:06:21
being objective very much
on what the client is looking to achieve,

1054 00:54:06:23 00:54:10:11
so that could be an understanding
of the needs and objectives,

1055 00:54:10:13 00:54:15:00
explaining what that means to a client,
where any trade-offs have been undertaken,

1056 00:54:15:02 00:54:19:14
and what the potential to the client
would that actually mean.

1057 00:54:19:16 00:54:22:19
Really explaining
any relevant information to the client

1058 00:54:22:21 00:54:24:21
And having
only client-specific risk warnings

1059 00:54:24:23 00:54:27:16
rather than a long list
of generic risk warnings.

1060 00:54:27:18 00:54:32:16
So, these are key areas
that the regulator is really keen to see.

1061 00:54:33:07 00:54:34:07
And they put up an example

1062 00:54:34:09 00:54:38:05
of what they consider to be
a good suitability report, as well.

1063 00:54:39:01 00:54:43:11
And that's the situation of,
from the suitability report,

1064 00:54:43:13 00:54:49:19
would a third-eye review fully understand
both the client's needs, the discussion,

1065 00:54:49:21 00:54:52:08
and any compromises
that have been undertaken,

1066 00:54:52:10 00:54:57:03
and why that particular course of action
has been undertaken and recommended.

1067 00:54:57:05 00:55:00:22
And why that would provide
the best outcome to the client.

1068 00:55:01:24 00:55:04:16
And it's sort of the proving piece.

1069 00:55:04:18 00:55:06:13
And this reminds me,
when I was a young lad,

1070 00:55:06:15 00:55:08:08
many years ago, when I was at school,

1071 00:55:08:10 00:55:11:15
I had the honour and the pleasure
of going to grammar school,

1072 00:55:11:17 00:55:15:12
and if there are some people on this call
who are of a similar age to me,

1073 00:55:15:14 00:55:17:11
this is going back about 40 years,

1074 00:55:17:13 00:55:21:12
they taught you how to recognise
a triangle was a triangle, didn't they?

1075 00:55:21:14 00:55:23:16
And what the angles
should be adding up to.

1076 00:55:23:18 00:55:26:12
But what you had to write after you proved
that triangle was a triangle

1077 00:55:26:14 00:55:30:20
was the three letters QED:
quod erat demonstrandum.

1078 00:55:30:22 00:55:33:11

And that basically means
it has been proved.

1079 00:55:34:06 00:55:38:12
And maybe this is what the regulator
is seeking within suitability reports.

1080 00:55:38:14 00:55:40:08
Now, I think it would be
pretty pretentious

1081 00:55:40:10 00:55:43:15
if you were writing QED
at the end of each of your reports,

1082 00:55:43:17 00:55:44:22
but it's that thought process.

1083 00:55:44:24 00:55:47:05
Have I proved
that this is appropriate to the client

1084 00:55:47:07 00:55:52:04
given all of the circumstances
that I'm looking to achieve?

1085 00:55:52:06 00:55:55:19
Recognising that providing financial
advice is not an exact science.

1086 00:55:55:21 00:55:58:23
Absolutely. A lot of assumptions
have to be made.

1087 00:55:59:00 00:56:00:23
But maybe where the regulator is heading

1088 00:56:01:00 00:56:03:13
is that they want to see
a greater level of proof.

1089 00:56:03:15 00:56:07:16
And I think, underlying all of this,
having a very strong process,

1090 00:56:07:18 00:56:10:24
and documenting this process
and evidencing this process

1091 00:56:11:01 00:56:12:06
can only help in that piece.

1092 00:56:12:08 00:56:13:24
And maybe that's what this paper
is all about

1093 00:56:14:01 00:56:17:22
and the need to think

about what this means to clients

1094 00:56:17:24 00:56:20:16
and what the regulator
is looking to achieve.

1095 00:56:20:18 00:56:23:19
Because this whole point, I've mentioned
managing future risk a couple of times,

1096 00:56:23:21 00:56:24:24
but what does that mean for clients?

1097 00:56:25:01 00:56:26:11
What does that look like?

1098 00:56:26:13 00:56:28:20
If we think about it, a drawdown contract

1099 00:56:28:22 00:56:32:02
when I'm taking my income
or preparing to take my income,

1100 00:56:32:04 00:56:33:11
is really a facilitator, isn't it?

1101 00:56:33:13 00:56:35:06
It's not a product, as such.

1102 00:56:35:08 00:56:37:09
It's a means of managing
some of those risks

1103 00:56:37:11 00:56:42:04
and some of those needs and objectives
that a client has identified.

1104 00:56:42:06 00:56:44:06
So, it's sort of thinking about this.

1105 00:56:44:08 00:56:47:18
And when the original plan
is put in place, with certain assumptions,

1106 00:56:47:20 00:56:51:23
we are hoping for that straight road
ahead, clear pathway

1107 00:56:52:00 00:56:55:20
so that we can actually meet
all of those objectives.

1108 00:56:56:21 00:56:58:15
But, if anything,
the last 12 months have taught us

1109 00:56:58:17 00:57:01:22
that that road doesn't look that straight.

1110 00:57:02:16 00:57:05:16
Perhaps we have seen a reset moment.

1111 00:57:05:18 00:57:08:23
Events do happen.
Clients' views do change.

1112 00:57:09:00 00:57:12:18
How they feel about things,
how they view future risks going forward.

1113 00:57:13:09 00:57:16:07
And these events
can potentially disrupt the plan.

1114 00:57:16:09 00:57:19:07
So, what the client potentially saw
as that clear road

1115 00:57:19:09 00:57:21:18
and having utilised drawdown
as a facilitator

1116 00:57:21:20 00:57:24:02
to get you there
and manage some of those risks,

1117 00:57:24:04 00:57:26:06
the road looks more
like a ploughed field now.

1118 00:57:26:08 00:57:29:10
It's all about, well,
I'm more concerned about,

1119 00:57:29:12 00:57:31:16
as a result of this reset moment,

1120 00:57:31:18 00:57:34:05
the sharp jolts that I've experienced

1121 00:57:34:07 00:57:36:09
and I want to manage better
my journey risk.

1122 00:57:36:11 00:57:39:02
I want to try and dampen
some of the ups and downs,

1123 00:57:39:04 00:57:41:18
the peaks and troughs
that I've experienced at the market.

1124 00:57:41:20 00:57:44:18
I've seen the effect of sequencing risk
and what that means to me.

1125 00:57:44:20 00:57:47:08

So I might want
to think about different strategies

1126 00:57:47:10 00:57:51:00

that can help me manage
some of those particular risks.

1127 00:57:51:02 00:57:55:09

And those are some of the key areas that,
from a proposition and support piece,

1128 00:57:55:11 00:57:56:22

we're very happy and very pleased,

1129 00:57:56:24 00:57:59:05

our account management team,
to talk to you about,

1130 00:57:59:07 00:58:02:08

about where we believe
we can add some good solutions

1131 00:58:02:10 00:58:04:07

to those areas
where that's been identified,

1132 00:58:04:09 00:58:07:06

and where clients are now concerned

1133 00:58:07:08 00:58:09:10

and thinking about the strategies
that can be employed

1134 00:58:09:12 00:58:11:21

to help manage some of those risks.

1135 00:58:12:17 00:58:14:17

In terms of key takeaways on this,
thinking about guidance,

1136 00:58:14:19 00:58:17:04

yes, this is guidance, it's not mandated,

1137 00:58:17:06 00:58:20:09

it was about DB transfers but I do think
there's a massive read through

1138 00:58:20:11 00:58:24:09

to defined contribution, and thinking
about what that means to clients,

1139 00:58:25:10 00:58:29:10

Take on board and think about this
principles, this is not what you must do

1140 00:58:29:12 00:58:32:09

but I think it's a good place to start,

these are some of the considerations

1141 00:58:32:11 00:58:35:00
we might want to have, and look at where
we want to [Inaudible]

1142 00:58:38:13 00:58:41:20
...the dot though, so when
Suitability Review 2 has come,

1143 00:58:41:23 00:58:43:08
no matter when it is down the line,

1144 00:58:43:13 00:58:46:14
our files reflect current thinking
and practices.

1145 00:58:47:10 00:58:50:00
Just before we go to the
Question and Answer session,

1146 00:58:50:02 00:58:53:15
just to remind you - and this is the
area I think our account management team

1147 00:58:53:17 00:58:58:02
would be really keen and really pleased
to talk to you in much more detail about

1148 00:58:58:04 00:59:01:05
is in terms of, having identified
some of those issues,

1149 00:59:01:07 00:59:02:13
thinking about some of the solutions

1150 00:59:02:15 00:59:06:20
that might well be appropriate
to your client going forward.

1151 00:59:07:19 00:59:10:24
Whether it's retirement savings or any
wrapped investment,

1152 00:59:11:02 00:59:15:23
the principles operate the same,
but in terms of how we manage money,

1153 00:59:16:10 00:59:22:04
we aim to manage all clients' money to
achieve the best return we can

1154 00:59:22:06 00:59:24:08
for the level of risk
they're prepared to take,

1155 00:59:24:10 00:59:29:18
be that on an active or passive basis

or on a smoothed,

1156 00:59:29:20 00:59:33:20
thinking about what the client is trying
to achieve and what sort of a solution,

1157 00:59:33:22 00:59:37:17
relative to their risk tolerance, but
also recognising the capacity for loss

1158 00:59:37:20 00:59:39:11
might be appropriate going forward.

1159 00:59:39:18 00:59:44:04
So, if we think about the smoothed
scenario, if I'm concerned about

1160 00:59:44:06 00:59:48:12
managing sequencing of return risk,
having a mechanism that helps me dampen

1161 00:59:48:14 00:59:51:04
that sequence of return risk
might be important to clients.

1162 00:59:51:08 00:59:55:00
If I'm seeking to manage the client's
journey risk, manage their expectation

1163 00:59:55:02 00:59:59:17
of return, again, it may well be
important within a smoothed fund range

1164 00:59:59:19 01:00:01:13
that you know what
the expected return is.

1165 01:00:01:15 01:00:05:07
We're the only provider that tells you
what we expected

1166 01:00:05:09 01:00:08:18
over the medium and long term for those
various approved fund arrangements

1167 01:00:08:20 01:00:12:13
to actually produce, so within
the EGR (expected growth rate)

1168 01:00:12:18 01:00:15:17
we're helping you help the
client manage that expectation.

1169 01:00:16:02 01:00:19:15
As one wise old sage said to me
many years ago,

1170 01:00:20:17 01:00:24:20

perhaps the best return you can give to a client is the return they most expect.

1171 01:00:25:03 01:00:26:13
That might be important to the client,

1172 01:00:26:17 01:00:30:05
so really thinking about what's appropriate and how that actually fits.

1173 01:00:30:16 01:00:35:06
But be it smoothed, active or passive, it's understanding the fundamental basis

1174 01:00:35:08 01:00:38:01
of how we manage money, and I think this is what differentiates us

1175 01:00:38:13 01:00:40:18
in terms of the solutions that we offer to you.

1176 01:00:41:11 01:00:44:02
Our core specialism is all-round asset allocation,

1177 01:00:44:11 01:00:47:14
we outsource stock selection to experienced fund managers,

1178 01:00:48:02 01:00:51:18
and as a provider, the financial strength that we have

1179 01:00:51:22 01:00:55:16
and the time horizon on which we invest allows us

1180 01:00:55:18 01:01:00:08
to exploit certain opportunities that perhaps other funds can't exploit.

1181 01:01:01:05 01:01:03:19
Looking to exploit risk premium over the longer term

1182 01:01:04:00 01:01:08:03
can be a really useful mechanism to help clients get to where they want to,

1183 01:01:08:05 01:01:10:05
and fundamentally underpins things like

1184 01:01:10:07 01:01:12:21
how we determine what our expected growth rate is,

1185 01:01:13:14 01:01:16:03

and understanding that
within the business, in terms of

1186 01:01:17:11 01:01:22:13
managing those potential risks,
having our own due diligence in place

1187 01:01:22:15 01:01:25:04
is the reason why we have a
Treasury and Investment office,

1188 01:01:25:06 01:01:29:09
they exist specifically to manage
the asset allocation and safeguard

1189 01:01:29:11 01:01:34:01
the whole retirement philosophy
and manage the managers on our behalf,

1190 01:01:34:05 01:01:38:18
so you know that people are delivering
what they say they're aiming to deliver.

1191 01:01:39:06 01:01:43:17
I do hope that's been useful to you and
given you some things to think about,

1192 01:01:43:19 01:01:47:08
from what finalised guides means
to the defined contribution world.

1193 01:01:48:10 01:01:51:13
I'm going to hand back to Les now and
we're going to go into the Q&A session.

1194 01:01:51:15 01:01:52:15
Thanks very much.

1195 01:01:55:06 01:01:57:20
Thanks Andy, I think that was
a really good session there.

1196 01:01:57:22 01:02:02:06
I think it's inconceivable that the
regulator won't expect to see

1197 01:02:02:08 01:02:04:12
some of that good practice
from the DB work

1198 01:02:04:19 01:02:08:15
being replicated again in the
drawdown annuity space as well.

1199 01:02:09:04 01:02:10:21
So, a lot of ground covered there today,

1200 01:02:10:23 01:02:14:14

I think you fully met
our learning objectives.

1201 01:02:15:11 01:02:18:13
Now I've got a to-do list for
all of you in the audience.

1202 01:02:19:14 01:02:23:06
First thing to do is, if you haven't
signed up for the third of our three

1203 01:02:23:08 01:02:26:12
seminars tomorrow, I would
encourage you to do that.

1204 01:02:26:14 01:02:29:15
You can go to the seminar page
and register for tomorrow's one.

1205 01:02:30:08 01:02:34:08
We've taken a look at DB transfers
and retirement income advice,

1206 01:02:35:01 01:02:37:05
but unless people put money
in their pensions

1207 01:02:37:07 01:02:39:07
we've no funds to give
retirement income advice on,

1208 01:02:39:09 01:02:42:13
so tomorrow as a bit of a tax relief
and annual allowance

1209 01:02:42:15 01:02:44:18
and a couple of whizzy
tax tools we have,

1210 01:02:44:20 01:02:49:06
so I would encourage you to sign up
for that if you haven't already.

1211 01:02:49:24 01:02:54:12
Your CPD and feedback - there's a
feedback button somewhere down below -

1212 01:02:55:00 01:02:58:11
if you give us your feedback,
that generates your CPD certificate.

1213 01:02:58:23 01:03:02:09
Your CPD certificate should come out
by the end of the week.

1214 01:03:03:02 01:03:07:24
If you haven't got it by Monday morning,
something's happened.

1215 01:03:08:19 01:03:13:01
One thing that could happen, it goes to
your spam folder, so have a look there.

1216 01:03:13:24 01:03:17:01
If you don't see it there then
get in touch with your account manager

1217 01:03:17:06 01:03:20:22
and they'll be able to sort out
your CPD certificate for you.

1218 01:03:21:05 01:03:26:02
All the seminars, the slides and
the videos to re-watch under 'Replay'

1219 01:03:26:09 01:03:31:00
will be getting loaded up as the week
progresses so put on your to-do list

1220 01:03:31:02 01:03:34:21
for next week to check the
PruAdviser seminar area,

1221 01:03:35:00 01:03:40:11
and you'll get all the slides and
video replays from the three sessions.

1222 01:03:41:04 01:03:43:12
Anyone who isn't going to
stay for the Q&A,

1223 01:03:44:08 01:03:47:06
thanks for joining us,
hope to see you again tomorrow.

1224 01:03:47:20 01:03:51:16
If you are staying for the Q&A,
I may as well start

1225 01:03:51:18 01:03:56:01
and give Andy a bit of a grilling on his
content, we've had some quite good

1226 01:03:56:03 01:04:01:18
questions in, so without further ado
I'll get on with the questions.

1227 01:04:03:20 01:04:07:12
Right, first one - I found
this one quite interesting:

1228 01:04:08:10 01:04:14:12
Risk capacity, capacity for loss
is identified at inception,

1229 01:04:15:14 01:04:17:03

but this audience member thinks

1230 01:04:17:05 01:04:22:03
not everybody is necessarily taking
it into account as time passes,

1231 01:04:22:05 01:04:26:10
at the review and things like that -
how important do you think it is

1232 01:04:26:12 01:04:31:11
to continually reassess
risk capacity, capacity for loss?

1233 01:04:32:06 01:04:36:24
I think that's fundamental to the review
process, and one of the points I was

1234 01:04:37:01 01:04:41:04
trying to make as went through that was
what an interesting year we've had

1235 01:04:42:00 01:04:45:19
for many clients because, even if
their actual needs and objectives

1236 01:04:45:21 01:04:48:14
haven't changed, the way they feel
about things may well have changed.

1237 01:04:48:16 01:04:51:16
That reset moment is
an important consideration.

1238 01:04:53:03 01:04:56:17
Reaffirming or re-establishing
how the client feels from

1239 01:04:56:19 01:05:00:08
a capacity for loss perspective - which
again I think is very much a numerical,

1240 01:05:00:10 01:05:03:20
you can work that out in a way
that a client can understand -

1241 01:05:04:01 01:05:07:14
is really important, because this will
help you determine whether the strategy

1242 01:05:07:16 01:05:09:16
you have at the moment is still
appropriate for the client,

1243 01:05:10:05 01:05:14:11
because if their capacity for loss has
changed then a different strategy may

1244 01:05:14:13 01:05:17:20
be an important consideration, you
might want to manage that differently,

1245 01:05:18:08 01:05:20:17
the client might want you
to manage that differently,

1246 01:05:20:20 01:05:25:15
and therefore the strategy might change
in order to try and facilitate that.

1247 01:05:25:21 01:05:30:12
Even if things remain as were,
coming back to the world of regulator

1248 01:05:30:14 01:05:34:02
looking at files of the future,
evidencing that conversation is a

1249 01:05:34:04 01:05:39:24
really important piece, a fundamental
piece of ongoing reviews with clients.

1250 01:05:40:01 01:05:43:22
It's checking what's going on, what's
happened, how clients feel about things.

1251 01:05:44:06 01:05:49:22
Although we don't know the future,
helping a client to visualise what that

1252 01:05:49:24 01:05:53:20
could mean for them is really important,
because that will shape and frame

1253 01:05:53:22 01:05:57:23
how things go in the future
in terms of strategy, but also

1254 01:05:58:00 01:06:01:24
manage that client's expectations
in terms of having a slightly different

1255 01:06:02:02 01:06:06:03
view on things now and understanding
why things will need to change slightly.

1256 01:06:06:18 01:06:08:12
That's a very important consideration.

1257 01:06:08:14 01:06:09:24
Yes, absolutely.

1258 01:06:10:02 01:06:13:23
This one's kind of related:
how important is -

1259 01:06:14:00 01:06:17:02
I've never actually been asked this
question, I've been asked the opposite,

1260 01:06:17:04 01:06:20:17
I've been asked quite a lot how
important capacity for loss is

1261 01:06:20:19 01:06:23:16
for accumulation clients -
but this one's asking:

1262 01:06:23:18 01:06:27:13
how important is capacity for loss
for de-cumulation clients

1263 01:06:27:24 01:06:30:19
and what would the regulator
expect to see?

1264 01:06:32:22 01:06:36:10
What the regulator would expect to see
has never been defined,

1265 01:06:36:13 01:06:39:18
other than helping a client understand
what that might mean for them,

1266 01:06:39:20 01:06:43:14
so again, what we try to do is
suggest different ways

1267 01:06:43:16 01:06:48:06
of looking at these issues;
ultimately every client is different and

1268 01:06:48:08 01:06:51:11
probably one of the joys of providing
advice is clients are not homogenous,

1269 01:06:51:13 01:06:54:20
it's not advice by numbers,
it's about individual needs

1270 01:06:55:04 01:06:58:09
and trying to help a client get to
where they want to get to.

1271 01:06:58:18 01:07:01:08
But I think the impact of
capacity for loss

1272 01:07:01:10 01:07:07:02
is different in decumulation, and
probably frames the difference between

1273 01:07:07:04 01:07:10:10
a centralised investment proposition and

a centralised retirement proposition.

1274 01:07:10:18 01:07:13:02
They're very similar in what you're
trying to achieve for a client,

1275 01:07:13:04 01:07:16:07
but the nuance is different when you're
taking money out, and one of the

1276 01:07:16:09 01:07:20:13
key areas that is different is that time
tends to be against you once you're in

1277 01:07:20:15 01:07:26:02
decumulation, you tend to be older and
have a more finite timeline than when

1278 01:07:26:04 01:07:31:19
you're creating or generating wealth, so
the effect of suffering a loss makes it

1279 01:07:31:21 01:07:35:01
so much more difficult to recover from
if that's not being measured.

1280 01:07:35:22 01:07:39:02
From a personal perspective, I think
it's a very important consideration

1281 01:07:39:04 01:07:42:22
in the decumulation phase and is why
you'd want to think about what that

1282 01:07:42:24 01:07:46:08
means for your client, and reading
through from what the regulator said

1283 01:07:46:10 01:07:50:24
about the DB guidance, I think it's
something they would expect to see

1284 01:07:51:08 01:07:52:23
covered to a certain degree.

1285 01:07:53:02 01:07:57:05
Now, the level of detail that you need
to go into probably then becomes

1286 01:07:57:07 01:08:02:06
client-specific: how important is that
to a client, how have they reacted to

1287 01:08:02:08 01:08:06:20
some of the open questions that have
been broached to them around

1288 01:08:07:01 01:08:09:24

what does that mean to you, what are you prepared to compromise on?

1289 01:08:10:16 01:08:15:20
A client who doesn't exhibit much concern about that will need much less

1290 01:08:15:22 01:08:18:15
explaining around that particular issue, as long as it's been covered.

1291 01:08:18:21 01:08:22:20
A client who maybe says: I'm getting a bit jittery about this, I didn't like

1292 01:08:22:22 01:08:27:23
what happened last year, some months my income's gone down because of this thing

1293 01:08:28:00 01:08:31:15
you're telling me about now, sequencing risk - that's a very different scenario

1294 01:08:31:17 01:08:34:13
and would probably need a bit more explanation and a bit more detail,

1295 01:08:34:18 01:08:37:07
and may then mean that you change some of the strategy for the client

1296 01:08:37:09 01:08:39:01
and manage some of that future risk.

1297 01:08:40:07 01:08:41:09
Yes, definitely.

1298 01:08:41:11 01:08:45:20
I was at a session a couple of months ago with Mark Goold from the FCA,

1299 01:08:46:05 01:08:49:14
and he covered something similar, he was talking about all that sort of stuff,

1300 01:08:49:21 01:08:54:18
but one of the key points he said was capacity for loss is determined by the

1301 01:08:54:20 01:08:59:14
adviser doing a numbers-based analysis; customers don't tell you

1302 01:08:59:16 01:09:03:16
what their capacity for loss is, the advisers decide what it is.

1303 01:09:04:09 01:09:07:18

About what the regulator would expect to see, I think they definitely

1304 01:09:07:20 01:09:11:05
expect to see some form of numbers-based analysis--

1305 01:09:11:07 01:09:14:20
Yes, I think it has to be discovered doesn't it, it has to be discovered and

1306 01:09:15:13 01:09:17:18
you can only do that in conversation with your client.

1307 01:09:18:05 01:09:20:23
I totally agree, the client doesn't know what their capacity for loss is

1308 01:09:21:04 01:09:24:18
but you can help them understand what it means and work out the number from that.

1309 01:09:24:21 01:09:31:15
Yes, in principle, he said you do capacity for loss back in the office

1310 01:09:31:17 01:09:35:07
with the information you've gathered, you don't decide the capacity for loss

1311 01:09:35:09 01:09:39:13
with the client there for it, I think it was basically firmly on the adviser.

1312 01:09:39:16 01:09:41:22
To give an example of some of the things,

1313 01:09:41:24 01:09:47:22
you felt as if you could live on half your income - that wasn't

1314 01:09:47:24 01:09:51:13
cutting the mustard: you're proving they could live on half the income.

1315 01:09:51:21 01:09:55:22
-Attitude to risk vs capacity for loss.
-Absolutely, yes.

1316 01:09:56:22 01:09:58:00
What else have we got here?

1317 01:09:59:00 01:10:04:17
This one says: it seems contradictory that nice-to-have income can be deemed

1318 01:10:04:19 01:10:08:14
emergency fund home improvement,
can you explain?

1319 01:10:10:02 01:10:12:07
Again, it depends on what's
relevant to the client.

1320 01:10:12:19 01:10:16:14
I think this is just trying to give
examples of what might constitute

1321 01:10:16:16 01:10:18:06
that sort of income.

1322 01:10:20:11 01:10:27:16
What one client might view as,
"I must have this income"

1323 01:10:27:18 01:10:30:09
will be different to another client -
you might have a client who says

1324 01:10:30:11 01:10:34:19
"If I don't pay my golf membership
fees I can't live,"

1325 01:10:34:21 01:10:39:14
that is absolutely critical, for one
individual it might be a discretionary

1326 01:10:39:16 01:10:41:19
spend with their golf membership.

1327 01:10:42:03 01:10:46:23
A lady client who wants to get their
nails done or go to the hairdresser

1328 01:10:47:00 01:10:50:19
once a week, it might be absolutely
critical, for another it might be

1329 01:10:50:21 01:10:53:11
aspirational or nice to have.

1330 01:10:53:22 01:10:55:20
I think, again, it's working it out
with the client

1331 01:10:55:22 01:10:59:16
but breaking down the income analysis
so that you can understand that,

1332 01:11:00:13 01:11:03:21
and most importantly
help the client understand that,

1333 01:11:03:23 01:11:07:14

because if somebody says, "Do you want some money to do some stuff,"

1334 01:11:07:16 01:11:11:05
most people are going to say, "Yes, and I want to do the maximum that I can do."

1335 01:11:11:15 01:11:15:19
It's really trying to work out what those potential compromises

1336 01:11:15:21 01:11:19:07
might look like given that you can have different outcomes.

1337 01:11:19:10 01:11:22:17
We're in the world of defined contribution, there's no certainty, we

1338 01:11:22:19 01:11:27:03
have investment risk, we're not talking about secured income or defined benefit

1339 01:11:27:05 01:11:30:10
income here, so helping a client understand what that means and what that

1340 01:11:30:12 01:11:34:11
looks like is the challenge and is going to be different for different clients.

1341 01:11:34:15 01:11:38:09
I think it's just that framework really of, "How do we ask the questions

1342 01:11:38:11 01:11:40:03
that establish that with the various clients?"

1343 01:11:40:05 01:11:44:09
Yes, because you're looking to meet their standard of living aren't you,

1344 01:11:44:11 01:11:49:19
and eating out four times a month might be an aspiration

1345 01:11:49:21 01:11:53:14
but if their absolute minimum is once a month to go out, you're going to

1346 01:11:53:16 01:11:58:10
have to do all your planning around that, so accept the standard of living

1347 01:11:58:12 01:12:01:09
they expect to have in retirement, it's what you're trying to protect.

1348 01:12:01:19 01:12:03:18
Yes, what you don't want is a client
saying to you,

1349 01:12:03:20 01:12:06:09
"I want £20,000 worth of income
and you say, "Ok."

1350 01:12:07:24 01:12:09:09
It's when you get underneath it,

1351 01:12:09:11 01:12:16:03
is £20,000 too much or is £20,000
too little, what does that look like?

1352 01:12:16:05 01:12:19:08
Given that different situations may
affect that level of income,

1353 01:12:19:10 01:12:20:24
what would that mean to you?

1354 01:12:21:23 01:12:26:03
If they've done the work and £20,000 is
the minimum standard of living they want

1355 01:12:26:05 01:12:28:02
you know where you're hitting
your capacity for loss

1356 01:12:28:05 01:12:30:08
and what they're trying to
generate for the rest of their life.

1357 01:12:31:03 01:12:33:12
-It's all linked.
-Yes, it's all linked together.

1358 01:12:34:15 01:12:39:21
A couple of modeller-type questions:
how can you use the modeller to show

1359 01:12:39:23 01:12:44:02
the impact of a significant market
loss over the time frame

1360 01:12:44:04 01:12:48:08
we have to assume a year such as 2020,
which had a big impact on capital?

1361 01:12:48:18 01:12:53:00
This would impact figures, you'd show
them one of your case studies,

1362 01:12:53:02 01:12:54:22
but I think the general query is:

1363 01:12:55:01 01:12:59:22
how can you use the modeller to show
the impact of significant market loss?

1364 01:13:00:03 01:13:04:06
-Are we talking about our modeller?
-Yes, our modeller.

1365 01:13:07:01 01:13:08:14
There are numerous ways.

1366 01:13:10:01 01:13:16:08
One way of using the modeller
to show that could be

1367 01:13:16:10 01:13:20:03
that I show the effect of
taking a large withdrawal,

1368 01:13:20:05 01:13:24:21
so the withdrawal replacing the
market crash in terms of the output.

1369 01:13:25:09 01:13:31:16
The other way could be a big reduction
in anticipated or expected growth rate

1370 01:13:32:02 01:13:34:15
over that 12-month period,
so putting a negative in there

1371 01:13:34:17 01:13:35:23
to show the effect of the crash.

1372 01:13:36:02 01:13:38:15
There are various ways of doing it
in terms of how one might want to

1373 01:13:38:17 01:13:43:08
show that to the client, it's all about
what output to give to the client

1374 01:13:43:10 01:13:48:23
and how to help them understand the
impact of that, so fundamentally this is

1375 01:13:49:00 01:13:54:17
all about sustainability of fund act
income and what that means to a client.

1376 01:13:55:11 01:13:58:07
There are various ways of using our tool
to do it, but obviously there are

1377 01:13:58:09 01:14:02:09
lots of other tools, there are some more
sophisticated arrangements that could do

1378 01:14:03:19 01:14:08:01
quite in-depth cash flow modelling,
you can build in all sorts of scenarios.

1379 01:14:08:10 01:14:11:11
Again, it's about being proportionate to
what your client is looking to achieve,

1380 01:14:11:13 01:14:15:10
because the more work you do, the more
time, effort and effectively cost

1381 01:14:15:12 01:14:21:12
that is to you, so what's right
for the client I'm advising,

1382 01:14:21:19 01:14:28:13
do I need a more simplified or much more
complex cash flow modelling scenario?

1383 01:14:28:15 01:14:30:22
It will depend on the client
and, critically,

1384 01:14:30:24 01:14:34:16
understanding what the inputs are
because as we all know with spreadsheets

1385 01:14:34:21 01:14:38:12
what you put in will have a big effect
on what comes out, so making sure

1386 01:14:38:14 01:14:42:24
they're appropriate and relevant to
the client is a really important piece,

1387 01:14:45:10 01:14:51:02
and why I get to the numbers that I use,
so if I use a 5% or 6% growth rate,

1388 01:14:51:04 01:14:54:22
why is that relevant,
what evidence is that based on?

1389 01:14:54:24 01:14:56:16
These are really important considerations;

1390 01:14:56:24 01:15:02:05
for compound interest
over a 20- or 30-year period,

1391 01:15:02:07 01:15:05:23
a 1% differential is going to have
a huge effect on the output.

1392 01:15:06:12 01:15:08:07
Just make sure it's relevant
to the client, I think.

1393 01:15:08:09 01:15:11:11
So yes, the modeller can do that,
it depends what you're trying to show

1394 01:15:11:13 01:15:15:18
with your client, and if you need help
as an individual who wants to know more,

1395 01:15:15:20 01:15:19:01
our account management team will be very
happy to come and talk you through and

1396 01:15:19:03 01:15:23:19
show how that could work for what you're
trying to achieve for your clients.

1397 01:15:24:10 01:15:27:11
Yes, definitely; if you don't know
who your account manager is

1398 01:15:27:13 01:15:31:09
just drop an email to the events team
with your name and postcode,

1399 01:15:31:11 01:15:33:17
they'll be able to find your
account manager for you.

1400 01:15:34:16 01:15:40:09
This is another one that's slightly
related: would not a variable return

1401 01:15:40:11 01:15:45:03
better illustrate sequencing risk
than an assumed linear return?

1402 01:15:45:21 01:15:49:17
It can do, yes, and again there are lots
of different ways of doing it, it's

1403 01:15:49:19 01:15:53:03
what's appropriate to the client, how
much it will help them to understand it.

1404 01:15:54:08 01:15:57:08
There are some tools out there where
you can put in variable rates of return

1405 01:15:57:10 01:16:01:14
over a long period of time, that could
show you the effect of sequencing risk.

1406 01:16:02:07 01:16:04:16
I suppose the fundamental question
really is

1407 01:16:04:18 01:16:06:10

how is my client going to understand this?

1408 01:16:06:12 01:16:08:01
Will they understand this?

1409 01:16:08:06 01:16:10:24
And that's what dictates how
you're going to seek to try and explain it.

1410 01:16:11:05 01:16:12:14
And this goes back to

1411 01:16:13:02 01:16:16:21
having an understanding about
the client's knowledge and experience,

1412 01:16:18:06 01:16:20:18
and probably also reasserts that,

1413 01:16:20:20 01:16:24:05
one way of explaining it
won't work for every single client

1414 01:16:24:07 01:16:27:12
because different people will grasp
some of these concepts differently

1415 01:16:27:15 01:16:29:06
and understand those differently.

1416 01:16:29:08 01:16:30:10
With one client,

1417 01:16:30:12 01:16:33:11
you might be able to explain
sequencing risk just through conversation.

1418 01:16:33:13 01:16:36:18
For another, it might be:
what are you on about?

1419 01:16:36:24 01:16:40:14
So it's what's appropriate to the client
and thinking about

1420 01:16:40:16 01:16:43:04
what's the best way of showing that
for a client going forward.

1421 01:16:43:07 01:16:44:12
But, yeah, no,
I totally agree.

1422 01:16:44:14 01:16:48:06
So one way of showing, sequencing risk
is putting in,

1423 01:16:48:16 01:16:50:18

and demonstrating variable xxx,
if that's the best way,

1424 01:16:50:23 01:16:52:23
most appropriate to your client,
then I would agree.

1425 01:16:53:00 01:16:54:01
That's the way it should be done.

1426 01:16:55:00 01:16:56:05
Absolutely. Yeah.

1427 01:16:56:20 01:17:00:22
A person who asks about capacity
for loss has come back in and said:

1428 01:17:01:03 01:17:03:11
whoops,
I meant to ask about capacity,

1429 01:17:03:13 01:17:05:17
for a loss and accumulation.

1430 01:17:07:23 01:17:11:07
So I think you covered
the accumulation aspect of it anyway.

1431 01:17:11:09 01:17:12:12
Yeah. Yeah.

1432 01:17:12:14 01:17:14:13
It still applies to accumulation.

1433 01:17:14:15 01:17:16:16
It's just you generally have more time
on your side.

1434 01:17:16:18 01:17:19:12
I think it's important that clients
understand what that can mean

1435 01:17:20:10 01:17:21:17
because ultimately

1436 01:17:21:19 01:17:25:21
you're investing almost certainly
to achieve some sort of goal or objective.

1437 01:17:26:19 01:17:30:03
So having an understanding
and capacity for loss.

1438 01:17:30:05 01:17:34:01
But if I do suffer a loss,
I generally have time more on my side

1439 01:17:34:03 01:17:35:10

to try and recoup that.

1440 01:17:37:16 01:17:41:20
The important thing is helping the client understand how I manage that risk,

1441 01:17:41:22 01:17:43:00
if it's important to me.

1442 01:17:43:08 01:17:44:15
Absolutely. Yep.

1443 01:17:45:15 01:17:47:13
My first controversial one for you.

1444 01:17:48:14 01:17:52:15
Some firms recommend a switch from perfectly suitable pensions

1445 01:17:52:17 01:17:57:03
to facilitate ongoing income as per their charging model.

1446 01:17:57:08 01:17:59:10
So fundamentally, the question is:

1447 01:18:00:16 01:18:04:00
would it not be better to charge a fixed fee

1448 01:18:04:16 01:18:07:06
rather than switch pensions?

1449 01:18:07:08 01:18:12:10
I think to sum up, what do you think of doing a pension switch

1450 01:18:12:12 01:18:15:18
purely for the purpose of facilitating an ongoing adviser charge?

1451 01:18:17:03 01:18:19:12
That's a very interesting one as well.

1452 01:18:20:22 01:18:24:02
If we go back to the fundamentals of all of this and thinking around

1453 01:18:24:04 01:18:28:09
what is a switch and demonstrating why a switch is appropriate.

1454 01:18:29:08 01:18:34:04
If you can demonstrate the facilitation of that fee is getting or delivering

1455 01:18:34:06 01:18:38:24

a better client outcome,
then, yeah, I'm absolutely fine.

1456 01:18:39:12 01:18:44:17
The challenge is demonstrating that
and making sure that actually

1457 01:18:44:19 01:18:47:18
the client is the focus on this,
and that

1458 01:18:48:01 01:18:50:12
because we take this particular
course of action,

1459 01:18:50:22 01:18:52:22
I can,
on contemporary evidence,

1460 01:18:52:24 01:18:55:17
demonstrate that that's going to give
the client a better outcome,

1461 01:18:55:19 01:18:57:05
whatever that might be.

1462 01:18:57:11 01:18:59:00
And it doesn't just have to be
numbers based.

1463 01:18:59:02 01:19:00:10
Absolutely. It can be...

1464 01:19:01:09 01:19:02:18
emotional stuff or whatever.

1465 01:19:02:24 01:19:07:23
But if it's not documented and
it's not explained and it's not evidenced,

1466 01:19:08:08 01:19:12:20
then you could see the regulator looking
at raising an eyebrow at the very least.

1467 01:19:13:08 01:19:14:06
I think so.

1468 01:19:14:10 01:19:17:02
I think that's a little bit of read-across
from the DB stuff.

1469 01:19:17:04 01:19:19:08
I think Mark mentioned it yesterday.

1470 01:19:19:10 01:19:23:24
I think the DB stuff
they were saying,

1471 01:19:24:01 01:19:27:14
look for an alternative method
of getting your charges

1472 01:19:27:16 01:19:29:14
before you do the pension switch
to do it.

1473 01:19:29:17 01:19:31:21
If they do need advice
as to an alternative

1474 01:19:31:23 01:19:34:13
you can get it to wave
the existing arrangement untouched,

1475 01:19:34:21 01:19:37:09
a lot of the stuff about
workplace pensions,

1476 01:19:37:19 01:19:41:24
I think there's a lot of that area
where you could look at and as you say,

1477 01:19:42:01 01:19:43:10
it's matching it to a need.

1478 01:19:43:24 01:19:46:24
If you've got a need that has to be
fulfilled by ongoing advice,

1479 01:19:47:01 01:19:50:13
then you're going to tick your box
as long as that box is in your report,

1480 01:19:50:15 01:19:51:14
as you say.

1481 01:19:51:16 01:19:53:19
I think we'll go off
the controversial ones.

1482 01:19:56:02 01:19:59:03
Can you give an example
of a client risk warning

1483 01:19:59:05 01:20:01:18
as opposed to a generic risk warning?

1484 01:20:03:09 01:20:05:20
So the point I'm trying to make really is,

1485 01:20:05:22 01:20:09:23
and again, back in the day
when I was advising on suitability reports,

1486 01:20:10:00 01:20:13:12
I had at least half a page or so of A4,

1487 01:20:13:14 01:20:15:14
which was all the risk warnings
put in that,

1488 01:20:15:16 01:20:18:13
this is how suitability reports
were written back then.

1489 01:20:18:15 01:20:19:20
It's not suggesting that

1490 01:20:19:22 01:20:21:19
that was a terrible thing to do,
it's just how it was.

1491 01:20:22:21 01:20:25:19
I think there are some specific risk warnings
which are very relevant,

1492 01:20:26:05 01:20:28:05
given what you're trying to achieve
for a client.

1493 01:20:28:13 01:20:31:08
But when we talk about
specific risk warnings,

1494 01:20:31:16 01:20:34:24
I guess really the point is,
is through that discovery phase

1495 01:20:35:01 01:20:37:20
with your client about what they're trying to
do and their understanding of

1496 01:20:38:05 01:20:42:24
the potential impact of any risk
is the level of detail you go into it.

1497 01:20:43:01 01:20:45:01
So that's where it becomes
client-specific.

1498 01:20:45:08 01:20:48:19
If the client says: I've sort of experienced
sequencing risk now,

1499 01:20:48:21 01:20:51:10
I sort of now understand it
and I'm worried about that.

1500 01:20:51:21 01:20:57:11
The risk warning around that might be
much stronger or explained in more detail.

1501 01:20:57:15 01:21:01:18
So it's sort of being client-focused

and that comes out

1502 01:21:01:20 01:21:06:22
within the finance guidance,
is try and make risk warnings

1503 01:21:06:24 01:21:10:24
relevant to your client and you will only know
what's relevant to your client

1504 01:21:11:04 01:21:15:04
through that discovery,
that customer xxx that you do anyway.

1505 01:21:15:13 01:21:18:01
And then to understand
through conversation

1506 01:21:18:11 01:21:20:09
what is actually really important.

1507 01:21:21:13 01:21:22:17
If a client says:

1508 01:21:22:22 01:21:26:11
I'm not bothered about inflation,
for example,

1509 01:21:26:13 01:21:27:21
poor example, maybe,

1510 01:21:28:10 01:21:32:00
the conversations are about
why inflation could be very, very important,

1511 01:21:32:06 01:21:33:08
client says: I get that.

1512 01:21:33:10 01:21:35:05
I understand that,
that's not a concern for me.

1513 01:21:35:10 01:21:36:22
Then you might have
a lower risk warning

1514 01:21:36:24 01:21:41:01
around that particular aspect, I used inflation
because that's the first thing I thought of,

1515 01:21:41:04 01:21:45:01
might not be the best example,
because inflation can destroy your portfolio.

1516 01:21:45:13 01:21:47:24
But, it's that sort of principle.

1517 01:21:48:03 01:21:51:04

As long as you can demonstrate,
we've had a conversation about this,

1518 01:21:51:07 01:21:54:04
the level of detail you need to go to
would be dependent on

1519 01:21:54:06 01:21:56:05
how the clients react
to any particular risk.

1520 01:21:57:00 01:22:02:03
Yeah, definitely.
My usual example is lifetime allowance.

1521 01:22:02:11 01:22:04:21
The risk that you might get
a lifetime allowance charge

1522 01:22:04:23 01:22:06:21
if your fund grows by so much.

1523 01:22:07:07 01:22:09:05
I've seen that
in a suitability report for somebody

1524 01:22:09:07 01:22:13:03
that put 200 thousand pounds
in their drawdown and had no other money.

1525 01:22:13:11 01:22:16:13
So unless they were expecting
like four million percent growth,

1526 01:22:16:15 01:22:23:12
it's a completely irrelevant risk warning...
a poor explaining lifetime allowance.

1527 01:22:24:12 01:22:26:00
As per my example, earlier,

1528 01:22:26:02 01:22:30:18
there was real examples of
cut-paste suitability and risk warnings

1529 01:22:30:20 01:22:32:13
going into suitability reports.

1530 01:22:32:15 01:22:35:06
And I think really all the regulator's saying is:
don't do that,

1531 01:22:35:24 01:22:37:09
make it relevant to the client.

1532 01:22:37:21 01:22:40:07
Look at all your generic warnings
and score out the ones

1533 01:22:40:09 01:22:42:02
that aren't relevant to the circumstances

1534 01:22:42:04 01:22:45:22
because you are not adding anything
other than length to your suitability report,

1535 01:22:46:01 01:22:47:09
which is too long, probably.

1536 01:22:47:21 01:22:48:17
Yeah.

1537 01:22:52:09 01:22:54:14
It's around 25 past I think.

1538 01:22:56:16 01:22:59:13
A certain type of admin things,
as I said before,

1539 01:22:59:15 01:23:04:00
CPD certificates, videos to replay,
etc., will all be available.

1540 01:23:04:22 01:23:10:11
You should get an email by Friday
with the links to the various things on,

1541 01:23:10:13 01:23:13:08
if not, go into Seminar one.

1542 01:23:14:01 01:23:16:24
One final question.

1543 01:23:17:01 01:23:19:22
And somebody at the last minute,
somebody has done a Columbo on you.

1544 01:23:20:23 01:23:25:04
If you're amalgamating various DC schemes
and you're considering SIPP

1545 01:23:25:06 01:23:30:08
versus a lower cost PP,
and both plans meet the client's objectives

1546 01:23:30:15 01:23:34:00
to varying extents,
what kind of cost-benefit analysis

1547 01:23:34:09 01:23:37:19
should you be undertaking
if recommending the SIPP?

1548 01:23:39:12 01:23:40:14
It's a hard one.

1549 01:23:40:23 01:23:42:07
Don't know if there's enough time
to answer that.

1550 01:23:43:20 01:23:46:02
Well, I can only assume that
if you're looking at

1551 01:23:46:04 01:23:49:04
a SIPP or a non-SIPP arrangement,

1552 01:23:49:09 01:23:53:03
you're thinking about the SIPP
as a solution for the client

1553 01:23:54:04 01:23:56:04
because it's giving you something

1554 01:23:56:06 01:23:59:21
or giving the client something
that the non-SIPP can't give.

1555 01:24:00:22 01:24:02:16
Otherwise,
you're always in the realm of,

1556 01:24:02:21 01:24:07:03
well, you would seek the SIPP out
as and when that becomes relevant

1557 01:24:07:05 01:24:08:05
and appropriate to the client.

1558 01:24:08:07 01:24:11:20
So, there's no point paying for
additional features

1559 01:24:11:22 01:24:16:07
that you don't need at the moment,
if you need to switch plan later on

1560 01:24:16:09 01:24:19:22
and open up a SIPP arrangement
as and when that becomes necessary.

1561 01:24:20:04 01:24:22:03
And I think, again,
this goes back to

1562 01:24:22:06 01:24:25:18
that slide I put around the FSA
on cost analysis.

1563 01:24:26:14 01:24:28:08
It's about working out

1564 01:24:28:10 01:24:33:07
can I do this in any other way

that is going to deliver the client outcome?

1565 01:24:33:12 01:24:35:08

Now, if I do it in a way
which is going to give

1566 01:24:35:10 01:24:38:15

the best outcome for the client
and it's a little bit more expensive,

1567 01:24:38:21 01:24:40:03

then there's no issue with that.

1568 01:24:40:05 01:24:44:11

There's no problem because ultimately
what you're focusing on is client outcome,

1569 01:24:44:21 01:24:47:05

as long as it's again reasonably
contemporary things

1570 01:24:47:07 01:24:49:06

we talked about this afternoon.

1571 01:24:49:22 01:24:53:18

But, having expensive benefits
which are not used,

1572 01:24:54:09 01:24:56:24

I go all the way back to
the first thematic review,

1573 01:24:57:01 01:24:59:09

those are areas where the regulator
was very concerned,

1574 01:24:59:15 01:25:01:13

paying for things
that you don't need at the moment.

1575 01:25:01:19 01:25:04:05

They say, well,
the simple question is why?

1576 01:25:05:12 01:25:09:07

Yeah, absolutely, it goes back to
the point on your slide, isn't it?

1577 01:25:10:05 01:25:15:16

No unnecessary costs,
only pay the cost that you actually need

1578 01:25:15:18 01:25:16:22

sort of thing, something like that.

1579 01:25:17:07 01:25:18:13

That's the proving bit.

1580 01:25:18:15 01:25:20:22

So can I prove that
this is the best outcome?

1581 01:25:22:17 01:25:25:03

You've learned that I recognise
what triangles are like

1582 01:25:25:05 01:25:26:09

and I know a little bit of Latin.

1583 01:25:26:11 01:25:28:06

So that's been an interesting day today.

1584 01:25:28:15 01:25:29:11

Yeah.

1585 01:25:30:04 01:25:31:04

Yeah, it has indeed.

1586 01:25:31:06 01:25:34:04

And we are out of questions,
which is quite handy

1587 01:25:34:13 01:25:36:09

because we are also out of time.

1588 01:25:36:11 01:25:40:18

So all that leaves for me to thank Andy
for his time today.

1589 01:25:40:20 01:25:43:07

Great session.
Great answers to the question.

1590 01:25:44:00 01:25:46:20

If you haven't signed up for tomorrow,
then by all means, do it.

1591 01:25:46:24 01:25:50:07

But otherwise I'm going to draw stumps,

1592 01:25:50:09 01:25:52:15

to use a cricketing analogy
from a Scotsman,

1593 01:25:52:17 01:25:55:16

which you don't often hear,
and say thanks for attending

1594 01:25:55:18 01:25:58:02

and we'll see you all later.
Bye-bye.

1595 01:25:58:12 01:25:59:19

Thanks very much. Bye