



AKG

Research Paper 2022

NextGen or LostGen?

The need to develop new client acquisition strategies

IN ASSOCIATION WITH:

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INTRODUCTION



1.1 // BACKGROUND

What is involved and what is needed for targeting and acquiring different types of new customers, including so-called NextGen customers, for financial advice firms, providers and for the financial services industry more broadly? At a high-level that's what this AKG research paper is seeking to address.

Obviously understanding consumer beliefs and requirements is a huge part of this, as is contemplating the impact of recent seismic issues, including COVID-19 and the cost of living crisis.

Further, it's important to acknowledge different perspectives and requirements from different age groups and types of potential new customers, including those labelled as NextGen customers, and this is also something we've sought to achieve through this project work and publication.

For many in financial advice there has been a tendency for strong focus on retention and development of existing client relationships and indeed some firms are comfortable to maintain this focus, remain profitable and leave the challenges of new client acquisition to others.

However, for advice firms planning strategies beyond the short-term there is surely a requirement to consider new business growth outside of the existing client pool and hence appraise NextGen and/or wider new client acquisition approaches. Again, something that this paper shines a light on.

In keeping with AKG's approach to such industry research projects, this paper is informed by three separate but complementary market research exercises – one with consumers and two with advisers – and associated insight and findings are discussed throughout.

Finally, given this is a huge subject area and not everything can be answered or resolved here, this paper is designed to provide an informed platform for further debate and discussion about NextGen and new customer targeting and acquisition in financial services.

I.2 // RESEARCH EXERCISES

Consumer survey

The consumer research was facilitated on AKG's behalf by Opinium (<https://www.opinium.com/>). Between 6th and 9th September 2022 an online survey was carried out with a sample of 2000 UK Adults, weighted to be nationally representative.

AKG was able to interrogate survey findings at total response level and then across high-level age-breaks of 18 – 34, 35 – 54 and 55+, as well as further age group breakdowns of 18-24, 25-34, 35-44, 45-54, 55-64 and 65+ where required.

A full list of the headline questions posed in the online consumer survey is provided in the Appendix.

Adviser survey

The quantitative adviser research was facilitated on AKG's behalf by Pureprofile (<https://www.pureprofile.com/>). During August 2022 an online survey was carried out with a sample of 100 financial advisers. A full list of the headline questions posed in the online adviser survey is provided in the Appendix.

Adviser interviews

The qualitative adviser research was facilitated on AKG's behalf by Frank Fletcher of Widewater Consulting in compliance with Market Research Society guidelines. All interviews were confidential.

This series of in-depth telephone interviews was conducted between mid-August and early September 2022 with representatives operating in a range of advisory, technology, network and service provider firm types. Interviews took approximately 30 minutes, with the following structure:

- Brief description of firm, respondent and role in firm
- Respondent firm involvement in financial services and advice provision
- Definition of NextGen
- Perceptions of the NextGen market and its current status
- The way the market works
- Challenges, issues and opportunities
- The future

To understand what is happening in the NextGen space, we targeted firms and firm types that appear to have defined strategies and approaches (whether positive about the potential of the NextGen market or not). This way we felt that we would be able to optimise the outputs coming from the interviews.

Consequently, we conducted interviews with 19 people from 18 firms involved in the advice and distribution sector. To achieve a balance of perspectives they represented varied roles within their firms, ranging from the most senior CEO/strategy directors through to client facing advisers.

One financial planner on our panel said he would be delighted to participate but instead recommended one of his colleagues who is actually a recently qualified NextGen adviser making a start on his career. We also spoke to two other NextGen advisers as part of the mix allowing some insight into day-to-day work in this part of the market.

The mix of firms and interviewees was as follows:

- 4 interviews with 4 Network/Service Provider firms, including a specialist Employee Benefits Consultancy with a strong workplace proposition (marked N in the verbatim comments)
- 5 interviews with representatives of 4 National/Mainstream financial advisory firms, including IFAs and restricted/vertically integrated providers (marked M in the verbatim comments)
- 5 holistic financial planning firms (marked H in the verbatim comments)
- 5 disruptors/consolidators and tech-based firms offering non-traditional approaches to the advice market and distribution more widely (marked D in the verbatim comments)

I.3 // SPONSORS

The two sponsors for this AKG research project and publication are Fluido (<https://www.fluidogroup.com>) and Schroders (<https://www.schroders.com>).



AKG would like to thank both companies for their support.

Contextual comments from representatives at Fluido and Schroders also feature in this paper.

1.4 // DEFINITION OF NEXTGEN

When AKG initiated this project there was a clear sense of what NextGen might look like. It was envisaged that it would refer primarily to customers in the early stages of their financial journey through life – typically those aged 18-35.

But from the adviser firm interviews, it seems the industry has a wider perspective on the subject, often reflecting where firms are placed on the advice/distribution spectrum. For some, the definition is indeed in line with AKG's initial thoughts but even here, firms would also acknowledge that active business acquisition work usually extends far beyond this definition.

For others, NextGen refers to the next generation down of clients from the current client base. These firms often regard the client as a family unit where the next generation client is the child (or possibly grandchild) of an existing client. These firms generally see a natural evolution of their client base over time with little need for business acquisition beyond these parameters alongside occasional warm introductions.

For some interview participants, they did not consider the 18-35 group as 'NextGen', but instead a 'future NextGen' – a challenge to be addressed at some indeterminate time in the future.

While there are also firms in this research who tend to think of NextGen as the next generation of advisers who will help them unlock the gate to younger/emerging clients with their often-different needs.

No matter how firms define NextGen, there is universal acceptance from the interviews that it is an area of great opportunity but also of great challenge.

Definition of NextGen, in their words – verbatim comments from interview participants

"Your ideal new client is not 19; 40+ is the right area for targeting proper long-term planning. This is when clients start to think about where future wealth and resources are coming from and how they can be optimised." N

"As far as we are concerned, NextGen is when people start to think about planning for retirement – age 40+. Below that mortgage and protection needs are a logical staging post." N

"To us, NextGen is the clients due to inherit from older existing clients. With younger clients, dealings are much more transactional. This is where the market will be longer term, of course, so as an adviser firm we need to approach them and find the long-term links." M

"We always need new clients. Clients die so we need to acquire new ones. However, NextGen to us is probably still 50+. We are holistic financial planners, we are not in the mortgage market and have few obvious leads into or need to acquire younger clients. Our fee structure would be prohibitive for most and they are either not yet accumulating significant sums or may still be mired in debt." H

"I feel sorry for younger prospective clients unless they have rich parents or grandparents. Advice is too costly and the regulatory regime is unhelpful. If advisers are taking a risk, they need to be remunerated for it. The amount of paperwork leaves less scope for actual advice in terms of the costs of compliance." H

"To us, NextGen is literally the next generation down from our core client base. We work on a family basis and steer away from specific product advice and focus on advice as our product." H

"NextGen clients rarely come our way because of our fee structure and minimum fee levels. Which NextGen client has investable assets of £800k +? From our point of view, they would be a serious pain to deal with." H

"For us, this is the next immediate generation inheriting wealth though it does include a lot of grandchildren as well." D

EXECUTIVE SUMMARY

Challenges of acquiring NextGen customers - 50% of advisers surveyed selected the cost of living crisis and 49% cost margins/pressures (on their firm) as the key challenges when it comes to acquiring NextGen customers.

Target new client age profile - Most advisers surveyed focus on recruiting new middle-aged clients, with a very healthy interest in those aged between 36 to 45 (91%) and 46 to 54 (93%). Reassuringly, 68% advisers were targeting NextGen customers, aged 18 to 35.

Target client type profile - 54% of advisers surveyed are targeting males with families and many females with families (42%). Beyond these 'norms', there is also interest displayed for targeting business owners and some shown in specialist (clients), for example medical profession, armed forces. 34% of advisers are targeting the Spouse/partner of existing clients; now seen as one of the first key steps intergenerational wealth transfer planning.

Targeting tactics for NextGen customers - 62% of advisers surveyed selected social media campaigns as the number one tactic being used to acquire new clients. Email campaigns are being used, but it was also interesting to see that a number are hosting or being involved in corporate events. The power of referrals should clearly not be underestimated as a tactic for advice firms, either referrals from existing clients of the firm or referrals from professional connections of the firm.

Developing NextGen advisers - Over the next five to ten years, the industry needs to work hard to develop a new army of financial advisers. A variety of methods will be needed to support this development including academies and the (returning) role of providers. These will then help to play a vital role in supporting the financial decisions and plans of NextGen and new customers.

Understanding appetite for responsible investing - Two-thirds of total consumer survey respondents, although noticeably more important for those aged 18-34, felt that responsible investing is important to them to varying degrees. However, there is an underlying requirement for access to low-cost products and funds.

Trusted sources of advice/guidance - Another key question for the financial services industry as we consider the future was who, if anyone, would consumers trust to give them guidance or advice on their finances/money matters? The top two consumer preferences identified, albeit not with great numbers, were famous financial experts and, reassuringly, financial advisers/planners.

Method of accessing advice/guidance - When asked how consumers would prefer to receive or engage with guidance/advice on their finances/money matters, face-to-face is evidently the preference. Support, but to a lesser extent, also seen for accessing online and for some the opportunity to access via a mixture of channels. Further food for thought as we plot what might be achievable in servicing the next wave of customers for the financial services industry, whether this be considered NextGen or otherwise.

Service model development requirements - Overwhelmingly, those completing the adviser survey felt that they would need to develop different levels/types of service/fee models to enable them to work with different client age-groups, client segments and client types. Some said they would need to add a more transactional (upfront rather than ongoing) service/fee model. Others recognised the need to develop both digital servicing and new charging models. An acknowledgement here that something different is going to need to be done to develop new advice/servicing models which can help to attract and efficiently deal with new clients which in many cases might have a different age/type profile to the majority of the firm's existing client bank.

Advice/guidance boundary progress a necessity - Whilst regulation can sometimes be used as an excuse and a hurdle to developments, it seems vital that the industry can see some marked progress in the delineation between advice and guidance. The regulator has now said that it will look again which is promising but we need to see some practical modifications made to the boundary which can subsequently promote innovative customer support solutions. But if this is done the industry will need to play its part by responding with said innovation.

Required provider traits and qualities - From a financial services provider perspective, when it comes to what traits/qualities consumers value the most from providers, consumers evidently want to see Honesty and feel they are receiving Value for money. Beyond these, next preferences were Clear communications, Transparency and Service that is easy to deal with. This set of required traits and qualities really sets a blueprint for providers in terms of how they might best attract, address and service customers in future.

SCENE SETTING – CONSUMER BEHAVIOUR & SENTIMENT

We operate in an industry which is being reminded again by its regulator, via the Consumer Duty initiative, of the need to focus more and work harder on ensuring positive consumer outcomes. Understanding evolving consumer behaviour and sentiment will be a key element here.

3.1 // UNDERSTANDING CONSUMER CONCERNS - NO ESCAPING COST OF LIVING CRISIS

When considering your current status with your finances/money matters, which, if any, of the following factors give you cause for concern? Please select the top three options:

Impact of inflation/cost of living on my lifestyle and finances (41%)

My finances/money matters in general (23%)

Not having a 'rainy-day' savings fund to rely on (20%)

I am not saving enough for my retirement (17%)

Care costs in older age (for me or my family members) (13%)

I am running out of money (11%)

Political instability/further changes in financial services legislation (10%)

I can't afford to buy a residential property (9%)

Debt issues (9%)

Becoming a victim of financial scams (8%)

Stock market volatility (8%)

Paying more tax than I might need to (7%)

Not being able to share money with or pass money onto loved ones (7%)

I cannot afford to make regular pension savings (7%)

I am struggling to pay the mortgage/the rent on my residential property (4%)

Myself and/or my family members are not protected by the right types of life insurance (4%)

Other (1%)

N/A – I don't have any concerns about finances/money matters (16%)

Source: Consumer survey findings

Getting straight to the heart of the matter, AKG asked consumers which factors, when considering their current status with finances and money matters, give them cause for concern.

Unsurprisingly, consumer concerns are clearly dominated by the **impact of inflation/cost of living on their lifestyle and finances** (41%). Slightly higher concern registered among females (44%). Apparently less marked (33%) in those aged 18-34, but more marked in (46%) in those aged 55+.

23% of those consumers surveyed were concerned about their **finances/money matters in general**. More concern among females (27%) than males (19%). Relatively consistent across age breaks.

Matters relating to an inability to save adequately also featured among key consumer concerns. One-fifth (20%) of those surveyed were concerned about **not having a 'rainy-day' savings fund to rely on**. More concern registered among females (23%) than males (16%).

17% felt they are **not saving enough for their retirement**. Up to 26% for those aged 35 to 54.

Underlining the requirement to consider the needs and requirements of different age groups when it comes to financial planning support, 13% were **concerned about care costs in older age, for themselves or for their family members**. Up to 20% for those aged 55+.

One-tenth (11%) of those surveyed felt they are **running out of money**, up to 20% for those aged 18-24.

Political instability/further changes in financial services legislation (10%) was a concern for some.

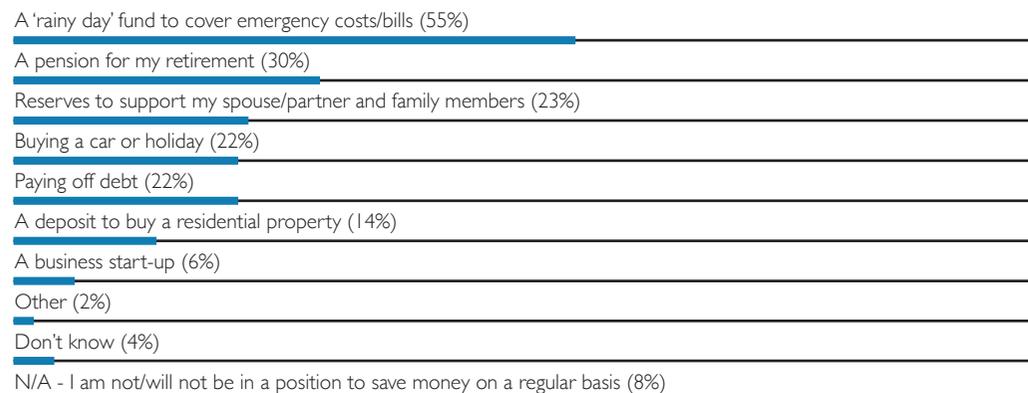
9% of those surveyed **can't afford to buy a residential property**. Up to 17% for those aged 18-34, highlighting the fact that getting a foot onto the property ladder for younger customers is becoming more and more challenging.

For the foreseeable future any engagement with clients, existing or new and across age groups, is likely to be impacted in some way by the associated cost of living considerations. But with finances obviously strained across the nation this creates something of a moral dilemma for advisers and providers who from a pure 'pounds and pence' perspective would typically want to see new clients committing to savings and investments, or other products such as mortgage and protection.

And so, a huge question for the provider and adviser world is how can we help and show value during these testing times, even when opportunities might not appear immediately profitable? Might this present an opportune time to (re)build trust by being helpful and supportive during difficult times?

3.2 // WHAT WOULD BE YOUR SAVINGS PURPOSE/PRIORITY?

If you are, or were to be, in a position to save money on a regular basis, which areas would you prioritise? Please select the top three options:



Source: Consumer survey findings

Despite current challenges, consumers evidently do recognise and are concerned about the need to save. AKG's research sought to ascertain that if they are, or were to be, in a position to save money on a regular basis, which areas they would prioritise.

The top purpose and priority selected by over half of those surveyed (55%) was to generate a **'rainy day' fund to cover emergency costs/bills**. Seemingly slightly less important for those aged 18-34 (45%).

On a similar theme, just under a quarter (23%) selected **reserves to support their spouse/partner and family members**.

Reassuringly from a pensions perspective, and despite short-term affordability pressures, 30% selected **(saving for) a pension for their retirement**. Less important (26%) to those aged 18-34; more important (37%) to those aged 35-54.

Buying a car or holiday (22%). Relatively consistent outlook across age groups.

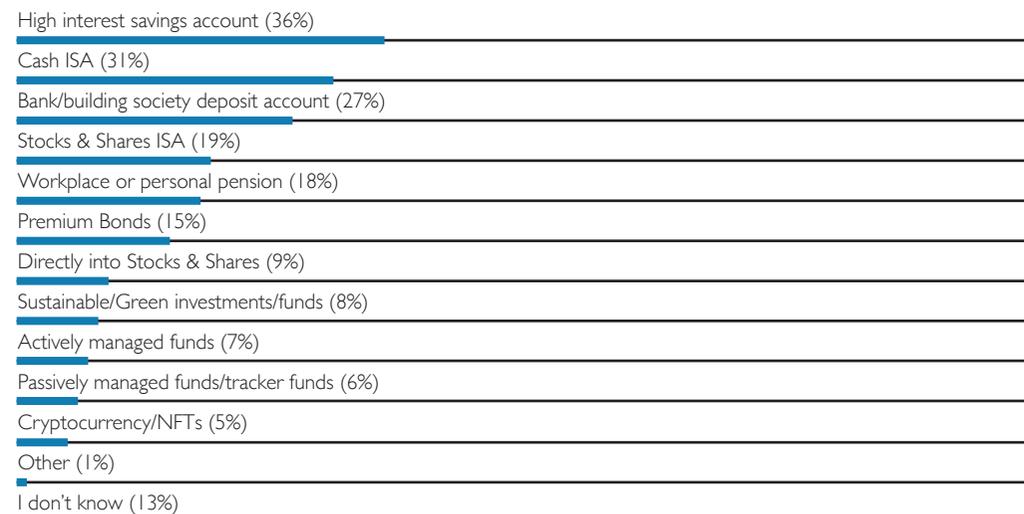
Paying off debt (22%). Higher (28%) among those aged 35-44.

14% selected **a deposit to buy a residential property**, still a big thing and a reminder about fascination in the UK with owning property. And this went up to 31% for those aged 18-34.

Useful insight provided here on different priorities for different age groups of consumers.

3.3 // INTO WHAT TYPE OF PRODUCT WOULD YOU SAVE/INVEST?

If you are, or were to be, in a position to save/invest money on a regular basis, in what type of product would you put this money? Please select the top three options:



Source: Consumer survey findings

Via the survey we also wanted to find out into what type of financial services product consumers would put money, if they are, or were to be, in a position to save/invest money on a regular basis.

High interest savings account selected by 36% of total sample. Less so by those aged 18-34 (27%), more so by those aged 55+ (42%).

Cash ISA selected by 31% in total. **Bank/building society deposit account** (27%).

With an interest for some in **Premium Bonds** (15%) as well, you can see a pattern through the survey findings for an appetite for those products deemed easier to understand and more conservative in their risk/return profile. Some of this may be related to access requirements, but it does beg the question of whether such vehicles can help customers keep pace with inflation.

From an investment perspective, there was some interest (19%) in **Stocks & Shares ISAs**. More appealing to males (25%) than females (14%).

“The low level of interest in investing as opposed to holding cash is a concern. Despite increasing interest rates, we also continue to live with rising inflation and there needs to be a greater understanding of the impact of this on savings.

The regulator identified that some people are at risk of harm by holding high levels of cash and as an industry we therefore need to communicate the benefits of investing whilst understanding the range of products available and the relationship between risk and reward.

Given that women are more affected by the savings gap for numerous reasons including the gender pay gap and often adopting a more flexible working pattern due to childcare, it is also concerning to observe that females are less likely to invest into stocks and shares.”

Gillian Hepburn, Head of UK Intermediary Solutions, Schroders

Also, some interest in **workplace or personal pension** (18%); More appealing (25%) to those aged 35-54.

9% selected **directly into stocks and shares**. More appealing for males (12%) than females (6%), and for those consumers aged 18-34 (14%).

8% in total selected **sustainable/green investments/funds**. More appealing (13%) to those aged 18-24.

5% in total selected **cryptocurrency/NFTs**. More appealing to males (7%) than females (3%), and more appealing to those aged between 18-34 (11%).

And so, this type of question in the consumer survey starts, to some extent, to help build out saver/investor profiles.

3.4 // APPETITE FOR RESPONSIBLE INVESTING

How important is responsible investing to you when choosing a financial product or provider?

This is the most important factor in my decision – I need to know my funds are invested responsibly (17%)

This is important - but it's as important for me to be able to access low-cost products/funds (32%)

This is important - but it's as important for me to see my investment/funds performing strongly (18%)

Responsible investing isn't important to me (15%)

I don't know (18%)

NET: Important (67%)

Source: Consumer survey findings

There is huge discussion and debate in the industry about responsible investing and ESG factors, and a swathe of linked proposition launches, but where do consumers stand on this from an investment perspective?

The survey sought to ascertain the importance of responsible investing to consumers when choosing a financial product or provider:

Two-thirds (67%) of total survey respondents, although noticeably more important for those aged 18-34 (82%), felt that responsible investing is important to them to varying degrees, which are outlined as follows:

- 17% in total responses (higher, 26% for those aged 18-34); - **This is the most important factor in my decision; I need to know my funds are invested responsibly**
- 32% in total responses (higher, 42% for those aged 18-34) - **This is important; but it's as important for me to be able to access low-cost products and funds**
- 18% in total responses (lower, 13% for those aged 18-34) - **This is important; but it's as important for me to see my investment/funds performing strongly**

Some fascinating insight provided here with a clear interest in responsible investing in general, but ostensibly more so from those customers aged 18-34. But an underlying requirement for access to low-cost products and funds also comes through here.

“The demand for sustainable investment solutions continues to increase and whilst noticeably more important for younger demographics we continue to see this stretch further across the age groups. There is still a requirement to ensure that these investments perform strongly to support financial goals but also deliver reassurance that funds are invested responsibly. Good quality reporting to demonstrate both of these factors is important and the regulator continues to work to ensure consistency of product labelling across the industry to enable consumers to understand the sustainability related features of their product and assess whether this meets both their needs and preferences.”

Gillian Hepburn, Head of UK Intermediary Solutions, Schroders

SCENE SETTING – ADVISER BEHAVIOUR & SENTIMENT

4.1 // RELATIVE IMPORTANCE OF NEXTGEN (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

There is growing awareness of and engagement with this sector of the market coming through from the advice firm interviews, but while almost all recognise it as important, and less than well served, approaches being taken to addressing the associated needs appear to be non-existent to variable.

The main issue is that since the Retail Distribution Review (RDR), and various changes in the mortgage and protection distribution areas, the advice market has changed profoundly. Prior to RDR, advisers had a dual focus on existing client service (let's call this, 'farming') and new client acquisition (let's call this, 'hunting'). Business models and remuneration structures (with commission still a key part of the mix) supported this dual focus, as did the fact that there was much less separation between investment advice and mortgage and protection advice.

RDR saw the emergence of wealth management and holistic financial planning models, often with investment management itself separated from the advice 'product'. These are necessarily focused on the needs of higher net worth and often older clients. This focus has served these clients and the advice firms well, but it has also certainly contributed to the widening of the advice gap.

There have been many other contributory factors, but the result is the status quo is an issue, but also an opportunity for the advice sector to further evolve.

4.2 // VIEWS VARY ACROSS THE MARKET (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

While acceptance of the opportunity in the interviews is almost universal, there are different views about what it means for the industry as a whole and for them as specific advisory firms.

As a set of generalisations and simply put:

- For wealth managers at the upper end of the market with a stable client base, there is little incentive, need or desire to go beyond the incremental 'replacement' of the client base with younger members of the same family unit and the warm introductions they facilitate. The closest many of these firms come to serving NextGen customers is when primary clients bring grandchildren and other younger generation members into the fold.

- For holistic financial planners with a broader spread of clients, and often a network of professional contacts, there is more potential for development of NextGen customers business but again it is not the primary source of new business.
- For national and more mainstream financial advice firms, whether independent or restricted, there is clearly more engagement with NextGen clients but again these firms typically report that their main sources of new business are referrals and warm leads. The one exception in this mix may be the restricted firms that are provider owned. These may be more akin to the old direct sales force firms of the pre-RDR years, but as they help and support their legacy product holding clients and orphan clients, they must tread a very fine line as these firms are also very heavily reliant on the relationships they have with independent advice firms. They certainly have a major role to play in developing NextGen business, but they tend to do so with a degree of caution and respect.
- For the Networks and service providers who address the needs of a very broad church of advisory and intermediary firms, there is a recognised need to provide appropriate and relevant training, support, and compliance services and, particularly, education and communications materials for their RIs and directly authorised clients many (but not all) of which will be targeting the NextGen opportunity. The onus is then very much on their members/clients to take advantage of the support they can provide. Firms of this type and, particularly the national advisory firms are actively looking at engaging with the concept of training academies (which in many ways would fulfil a similar function to that provided by the direct sales forces and bancassurers under earlier regulatory regimes).
- And then there are the disruptors, consolidators and new model advice firms some of which are adopting a more revolutionary approach to the market. In many cases unconstrained by historical business models, they are frequently more actively embracing what they see as the real opportunities offered by serving the needs of the emerging NextGen customer cohort.

“Regardless of the priority for the business in targeting new clients, providing reassurance to existing clients amidst market uncertainty and global issues, or indeed to achieve financial goals, one need remains constant - high quality client engagement. The ability to engage with clients in a relevant and timely manner to promote the opportunities to invest for their future, understand the benefits of advice or ‘stick to the plan’ needs to evolve. At this time, the ability to personalise communications is limited in terms of flexibility and scalability from incumbent technology in this sector. Investment is required by all playing a role in a client’s finances and future plans to enhance the approach to interact and enable real time interaction and engagement.”

Duncan Muir, Global Industry Lead - Financial Services, Fluidio

Varied views on NextGen, in their words – verbatim comments from interview participants

“NextGen business is vital to the future success of the business; we have to find ways to keep the pipeline working. We are bringing through younger advisers who can benefit from access to orphan clients in the business, the clients of retiring advisers and, of course, professional connections.” M

“The pivotal age for us is 25-34 and this group is critical to our long-term future development. The style of advice is multifaceted. We promote financial education to 18-25 year olds digitally through social media and website. The adviser community intended to service this group is slightly more problematic. Mortgage business is critical to this group and the savings to make the deposit is one of our ways in, but the rewards for generating this business are often unattractive and advisers may seek richer pickings elsewhere. The challenge for advisers is having to work with clients who are not in strong active accumulation.” M

“We have not yet targeted NextGen clients; our business does not really suit that age group. Compliance is a big barrier (in terms of burden and cost); NextGen clients are, at best, savers rather than suitable for long term financial planning.” H

“NextGen is vital to us – we operate as a mini family office. It is not an age thing. You can be young and have complex needs; you can be old and have simple needs. Complexity comes with wealth rather than with age.” H

“NextGen financial planning suggests a firm looking to the future. It may need changing the business model completely to take on different client types especially bearing in mind the regulatory costs, but we need to find ways of linking from the basic needs of younger clients linking services to financial planning and then wealth management.” H

“We have a specific strategy for attracting NextGen – our customer centric approach means we are agnostic about self-service and advice whether partial or full. It depends on what clients perceive they need.” D

4.3 // FACTORS DRIVING MARKET DEVELOPMENT (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

Most notably, sheer demographic developments will eventually drive the need for advice firms to open up to new, younger markets. There are many advisory firms strongly (and understandably happily) wedded to their longstanding and lovingly nurtured client bases – the ranks heavily populated by baby boomers. They feel little inclination to look beyond their immediate client circles for new business and their business model depends almost entirely on the recurring income from these clients.

The fact is, however, that many of these advisers will reach retirement and their client numbers will diminish through the ravages of old age and even before that income from static or shrinking assets under administration will have begun to decline.

For those whose long-term plan is to sell their business, they will need to find ways to maximise and prove value and this will inevitably require a flow of new blood.

Beyond this group of advisers, there is undoubted substance to the perceived ‘advice gap’. As focus has intensified on the needs of more affluent investors, adviser numbers have been declining and there are many challenges to addressing this issue.

But there is no shortage of prospective future clients in the pipeline as the UK population continues to grow rapidly. The challenge for advice firms in general is how best to capture and harness the power of this flow and translate into a profitable business opportunity.

4.4 // BUSINESS DEVELOPMENT PLANS – TARGET GROWTH IN CLIENT NUMBERS

Q. Development/growth plans for the business – By how much is your firm seeking to grow client numbers over the next three to five years?

ANSWER CHOICES	RESPONSES
5% to 10%	7%
11% to 20%	28%
21% to 30%	24%
31% to 40%	22%
41% to 50%	13%
51% plus	4%
We are not planning to grow client numbers	2%

Source: Adviser survey findings

Despite some obvious challenges to progress, we wanted to gauge via the online survey by how much adviser firms are seeking to grow client numbers over the next three to five years.

For starters, the vast majority of those surveyed are planning to grow client numbers to some extent.

Of the target percentage growth bandings provided for respondents to select, the most popular were for those targeting: between **11% to 20%** (28%), **21% to 30%** (24%) and **31% to 40%** (22%) growth in client numbers over the next three to five years.

The average target growth rate for client numbers over the next three to five years was 26.9%.

4.5 // BUSINESS DEVELOPMENT PLANS – TARGET CLIENT AGE PROFILE

Q. In terms of new business targeting for your firm, which age-group(s) of potential new clients are your main focus/do you see as main opportunity?

ANSWER CHOICES	RESPONSES
18 to 35	68%
36 to 45	91%
46 to 54	93%
55 to 64	41%
65 to 74	5%
75+	2%

Source: Adviser survey findings

We also wanted to learn via the survey which age-group(s) of potential new clients are the main focus and/or seen as the main opportunity.

Most focus seemed to centre on recruiting new middle-aged clients, with a very healthy interest in those aged between **36 to 45** (91%) and **46 to 54** (93%).

Some focus is inevitably on targeting those clients approaching retirement, aged **55 to 64** (41%), but little seen for those likely to already be in retirement, aged **65 to 74** (5%), or for those entering later retirement/ later life, aged **75+** (2%).

Reassuringly, and specifically for the purposes of this project, there was appetite seen for targeting what might be perceived as NextGen customers, aged **18 to 35** (68%).

4.6 // BUSINESS DEVELOPMENT PLANS – TARGET CLIENT TYPE PROFILE

Q. In terms of new business targeting for your firm, what type(s) of new client are you targeting?

ANSWER CHOICES	RESPONSES
Male with families	54%
Female with families	42%
Business owners	41%
Young families	35%
Spouse/partner of existing clients	34%
Single males	24%
Specialist, for example medical profession, armed forces	23%
Family unit - intergenerational wealth transfer	17%
Children/grandchildren of existing clients	15%
Single females	13%
We are not targeting specific types of clients	1%
We are not targeting new business opportunities	1%

Source: Adviser survey findings

Finally, we wanted to better understand what types of new clients are being targeted by survey respondents in terms of new business targeting for their firm.

Most, 54%, are targeting **males with families** and many (42%) **females with families**.

Beyond these 'norms', there is also interest displayed for targeting **business owners** (41%) and **specialist (clients), for example medical profession, armed forces** (23%).

As well as some interest seen in targeting **young families** (35%).

Interesting to see the level of interest in targeting the **spouse/partner of existing clients** (34%), now seen as one of the first key steps in broadening the advice discussion into family related financial matters and exploring further intergenerational planning opportunities.

Linked to this intergenerational wealth transfer theme there is interest in targeting **family units** (17%) and **children/grandchildren of existing clients** (15%).

"Whilst there is an indication of an appetite to target younger clients, the main focus for growth remains on the 'middle-aged' and therefore wealthier clients. This is safe territory where advisers have a proposition and believe that they can remain profitable. For those advisers considering an exit strategy, the importance of engaging with the next generation of clients as an asset retention strategy cannot be underestimated to maximise business valuations.

However, wealth often moves into female hands when male partners die first. Those advisers targeting 'males with families' might need to rethink their strategy and consider how they currently interact with these future widows and whether their approach and proposition needs a revisit."

Gillian Hepburn, Head of UK Intermediary Solutions, Schroders

Thoughts on market development, in their words – verbatim comments from interview participants

"You can't deny the need to bring in new clients to the market – otherwise the future for the adviser firm is limited. It may require a lot of flexibility and adjustments, however. Offering coaching and guidance for example almost for free." N

"Inheritors are less likely to remain with their parents' advisers unless relationships are developed earlier." N

"Across all age groups employees are taking more control of their lives and becoming more demanding. From graduates asking what are you going to offer me through to older employees looking at their work/life balance." N

"A lot of individuals in younger age groups don't know what they don't know and are always looking to trusted advisers (and that potentially includes employers). They are increasingly taking up digital/online services and resources for guidance and support." N

"Take up on benefits sites that include day to day offers/deals – for example discounts on shopping, good holiday insurance deals etc – are attracting greater take up. Sites offering education, guidance (including debt management and debt consolidation) also do well." N

"Younger clients have greater protection and mortgage needs and though pensions are still relevant depending on wealth, auto-enrolment takes care of a lot of the demand." D

ISSUES AND BARRIERS TO DEVELOPMENT

Market potential may be universally acknowledged but there are many considerations that inhibit its realisation, something explored in both the adviser survey and advice firm interviews.

5.1 // MAIN CHALLENGES OF ACQUIRING NEXTGEN CUSTOMERS/NEW CLIENTS

Q. What do you see as the main challenges of acquiring NextGen customers/new clients more broadly?

ANSWER CHOICES	RESPONSES
Cost of living crisis	50%
Cost margins/pressures for your firm	49%
Regulation	47%
Developing new service/fee models to accommodate them	47%
The timeframe of making new clients profitable in the short term	41%
Understanding their views on ESG	30%
Understanding their views on Cryptocurrency	23%
Knowing how to 'talk to' them	13%

Source: Adviser survey findings

AKG's adviser survey sought to pinpoint the main challenges perceived to get in the way of acquiring NextGen or new customers and the responses revealed that it was a very tight set of top factors from the list of options provided.

The **cost of living crisis** (50%) came out top, with **cost margins/pressures for firms** a close second (49%).

In joint-third as main challenges to acquiring NextGen or new customers were **regulation** (47%) and **developing new service/fee models to accommodate them** (47%).

And in fifth place was the **timeframe of making new clients profitable in the short term** (41%).

Whilst not featuring quite as highly as some of the above factors, a decent proportion of adviser survey respondents selected, **understanding their views on ESG** (30%), and **understanding their views on cryptocurrency** (23%) as main challenges to acquiring NextGen or new customers.

"The opportunity to adopt modern and innovative technology is here today, however, many aren't aware or don't have the roles in their business to define a route forward. There is too much reliance on providers developing new capabilities however there are too many conflicting demands on their table. Utilising technology to pick up the routine tasks and support front end elements of the advice process can reduce the cost to serve, manual intervention and enhance the experience of both user and client. All of these capabilities are accessible now and create the opportunity to increase capacity, reduce operating costs whilst not diminishing the invaluable services offered by advisers and meet the future expectations of clients in how they interact with their finances."

Duncan Muir, Global Industry Lead - Financial Services, Fluidio

5.2 // THE STATUS QUO - EXISTING ADVICE MODELS (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

As suggested previously, many of the business and advice models that have evolved since the RDR are more likely to support 'farming' of existing client bases rather than 'hunting' for new clients.

For all their well-known faults, some of the pre-RDR business models were more likely to support a balance of new business acquisition alongside existing client management.

Separation and division brought in with RDR and subsequent regulatory changes have made the market better in many ways, but have also made new business acquisition more complex and problematic for traditional advice firms.

'Cradle to grave' financial advice used to be the aim of good relationship-based advice firms. While this remains the focus of 'upper end' advisers, for the majority of mainstream and mass market financial customers, the way in which the advice sector has evolved makes access to and affordability of this lifelong service much more challenging.

The financial lifecycle, grossly simplified and stylised, goes from early years of unsecured debt through mortgage and protection requirements in family formation years, the beginning of accumulation, substantial accumulation activity and then retirement and decumulation. The advice market has been disrupted and segregated in so many ways that the concept of a single source of advice and guidance has been rendered almost redundant.

- Debt is regulated under a separate regime
- Mortgage and protection advice have also to all intents and purposes been separated out
- Auto-enrolment takes much of the spare accumulation capacity out of the market and away from the traditional ISA advice route at least in early years of adulthood

In short there is little for traditional advice-based firms to work with.

Advice model status quo, in their words – verbatim comments from interview participants

"There is an economic barrier to NextGen business. Many opportunities are simply not cost-effective. There is a threshold of around £50,000 assets below which it is simply not economic to engage. Links with high tech low touch partners can help but there is still a problem." N

"Benefits platforms are reliant on understanding what employees are doing. Younger groups want to look around and learn. The evidence from employer data is that they seem to trust certain sources – opening up the way for 'sniper' marketing." N

"Robo may have a place but in my view relationship with the client is essential and that is best achieved through a combination of face to face and Zoom." M

"The disconnect between mortgage advice, protection advice and distribution of low premium savings products like ISAs is a major defect in the market." H

"Growth in our business comes predominantly from existing clients and their circle." H

"Most advisers would say they are quite busy enough, thank you very much. Technology will play a part but robo is not taking over the world. Unless consumers are reasonably informed in the first place, it won't really work. People don't trust the computer; they need people involved." H

"People with no assets do not fit anywhere in the market as it is currently constructed." D

5.3 // REGULATION (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

The changing and increasingly demanding nature of regulation has many unforeseen and unintended consequences for NextGen advice.

To begin with, compliance is an expensive and heavy burden; it renders delivery of advice, or even anything but an extremely pared down service for small case sizes, almost impossible. Wealth managers may undertake this type of work on a discounted/subsidised basis for the children of their primary clients, but this is not a model that can be rolled out to the market at large.

The wonderfully convoluted semantics and reasoning that sometimes underlie the distinctions between information, guidance and advice cause much frustration and even hilarity across the industry. They compound the issues surrounding delivery of service on a simplified basis. A clear finding from these research interviews is that this is a problem that needs to be addressed urgently if a sensible route is to be found to helping NextGen clients at a time when doing nothing is a bad thing, but self-service could be even worse.

The regulatory infrastructure has become so complex that it does itself need radical overhaul in the view of many of those advice firms interviewed.

Regulation, in their words – verbatim comments from interview participants

“Regulation is a very big issue and increasingly so. There needs to be a rethink about core concepts like independence, advice, guidance, information, what are recommendations; we have the wrong terminology – what people need is help and support first and foremost.” N

“The problem is the banks. They have been taken out of the market through regulatory changes over the years. There may have been some bad practices in the area in the past, but they did serve the market for mortgages, protection and small premium savings and investment business – All the things that regulated advisers today struggle to be able to afford to do. They were able to accommodate entry level clients, give them familiarity and understanding with financial markets and prepare them for full advice in the longer term.” H

“There are two very different advice models needed – full blown financial planning and wealth management which is expensive and needs to be focused on those with complex needs on the one hand and a lighter version service which would be better than nothing at all. The biggest regulatory issue is that they currently assess services based on costs rather than value.” H

“Regulation of the advice process is not efficient and often focuses on the wrong things. Restricted advice should be more readily available for less complex needs (the majority of business in fact).” D

5.4 // IMPACT OF BIG-TICKET REGULATORY INITIATIVES

Q. How have recent regulatory requirements, including MiFIDII and Consumer Duty affected/impacted strategy for NextGen clients?

ANSWER CHOICES	RESPONSES
They have delayed plans for client acquisition	48%
They have deterred us from targeting new clients	46%
We have had to be more selective – avoid specific types of clients	31%
We have had to rethink our strategy	28%
They have made acquisition more expensive – for example reviewing practices/employing specialist staff/investing in technology	25%
They have had no impact	9%
We have withdrawn from areas of advice we previously offered	3%

Source: Adviser survey findings

Unsurprisingly ‘Regulation’ was selected by many adviser survey respondents as a challenge to acquiring NextGen or new customers, and it was ever thus, i.e., advisers feeling that regulatory focus and associated compliance activities act as an impediment to development.

For this reason, a further, more specific question was added into the survey to explore the impact of recent regulatory requirements, including MiFID II and Consumer Duty on adviser development strategies for acquiring NextGen clients.

Just shy of half (48%) of those responding to this question felt that such big-ticket regulatory initiatives **have delayed plans for client acquisition**, whilst 46% felt they **have deterred us from targeting new clients**.

31% **have had to be more selective – avoid specific types of clients**, 28% **have had to rethink our strategy** and 25% believe big ticket regulatory initiatives **have made client acquisition more expensive** (for example reviewing practices/employing specialist staff/investing in technology).

5.5 // THE YOUNG – A REQUIREMENT FOR INSTANT GRATIFICATION (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

Every generation is, of course, different. They talk a different language, they think differently, they behave differently, they want different things. But it was ever thus.

The challenge here is that because the advice market has developed in the way it has, dealing with the young becomes an issue. The age gap often also translates into an attitudinal gap.

Whatever the solution to the advice gap turns out to be, the fact is that the market will have soon lost a generation of advisory capability. Most of today's advisers originally came from the direct sales force and bancassurance 'factories' where they learned their trade in very large numbers. Some fell by the wayside, many left the industry, but an elite corps of advisers did emerge.

For the NextGen market, there is nothing like the volume of potential advisers churning through the mill and so it seems inevitable the resolution of the advice gap will be slowed by this fact.

As observed several times in the research interviews, in a number of different ways (some of which were unflattering), there is a perception that the young are being brought up on the concept of instant gratification – even obtaining credit to buy retail goods is instant and easy.

Unfettered social media promotes the excitement of cryptocurrency and the ability, rather like watching a horse race, to see your investment going up (or sadly in very many cases down) literally by the second. On this basis, which young adult will be readily persuaded to think in terms of a 3-4% real annual rate of return on a pension asset over 20-30 years?

On the evidence of adviser views from the qualitative research interviews, it is felt that NextGen investors are more likely to be thinking about cryptocurrency than ESG; indeed, ESG has reportedly already moved into the mainstream consciousness so that it may now be older, more experienced investors who may be asking questions about this.

The young, in their words – verbatim comments from interview participants

"They do talk about things differently from traditional older clients, but I have to say ESG is more of an issue for older clients than younger ones who are predominantly interested, it seems, in quick returns. They have the workplace pensions but beyond that want accessibility so at most we are looking at small premium ISA investments. And yes unregulated investments do also get mentioned." M

"I don't have a lot of answers to how to best address the needs of younger clients. There are big attitudinal barriers and we need to understand how best to talk to younger clients and help these attitudes develop from the formative years. Consumer duty plays into this as a long-term focus for advice firms. M

"The susceptibility to following trends is greater among the young. The investment comms team produce regular updates and we find that financial education is often not as bad as expected. What the young clients do with their knowledge, without the benefit of advice can be a different matter." M

"With younger clients you have to make a judgement on factoring in the potential for long term relationships and respond accordingly. You have to use your personal judgement about the potential for future fee income." M

"The mindset of the young is very short term and this does not fit with the long term nature and role of advice." H

"The mentality has to change; they won't pay or understand value. They want everything today. I'm afraid like earlier generations, unless they are educated, they are going to have to learn from their own mistakes." H

"We are aware of what is going on and the various influences they are open to, but the trick is to stick to what we know about. We are risk managers as well as financial planners." H

"The impact of social media cannot be overstated. It is everywhere for the young. They hear about more things through influencers etc. They are always talking about crypto. The industry needs to be better placed to shed a light on some of these things for them." H

"We are acutely aware of the different thinking of younger clients. They are more comfortable engaging remotely. They expect and are used to speed and efficiency, e.g. using Monzo bank." D

"Awareness of and interest in crypto is very real. The young also want answers now, not in three weeks. I think there will be a lot of tears, but every generation has to make its own mistakes." D

5.6 // ADVICE CAPACITY (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

This subject has been alluded to directly and indirectly already and it is a critical piece of the jigsaw for future consideration.

If all prospective financial clients were to seek advice, the gap would indeed be unbridgeable. However, the reality is much less extreme, and it is fair to say that many advisers of different types are quite sanguine on the matter:

It is regularly pointed out that most clients have simple and basic/occasional needs which could readily be addressed on a more transactional basis (if the regulations were able to accommodate it).

There are also other routes to market – technological and digital – easily and readily available for those who choose to use them.

There are new hybrid approaches capable of evolving, again if regulation becomes an enabler rather than an inhibitor:

There may be a short-term generational shortage of advisers caused by changes in the advice market, but many advisers feel that this is capable of being consigned to history if industry stakeholders work positively to change the environment.

Advice capacity, in their words – verbatim comments from interview participants

“There are not enough advisers out there. Some of the larger firms do run academies and apprenticeships, but what they teach is not always applicable to the wider financial advice market - for example, if the adviser firm is restricted and solutions are always in-house.” N

“Whether there is an advice gap or not depends what advice you need. For many people, advice needs are quite simple. Basic accumulation and protection needs can be well served through the workplace. The advice gap is small and needs are often episodic rather than ongoing especially at younger ages.” N

“We have looked at the idea of academies and you can spend a lot of money on a lot of people and provide future resources for other people as much as your own business.” N

“I wonder if we should look at the ‘advice gap’ in a slightly different way. Isn’t it more not an advice gap but availability of information you can trust? If after finding that information, you still need help, it can be signposted.” N

“Poor practices on the part of life offices and bancassurers led to the demise of direct sales forces; now there is a dearth of younger financial advisers.” H

“Our charging structure would not allow us to cope with the needs of lower value, lighter touch clients with simple needs. The likes of SJP can do it because of the way their charges work. We need to get insurance companies and banks to do the development work as they used to do. Nobody is putting the acorns down. H

“There is a shortage of advisers coming through and a marked shortage of those who would be the right sort of age range to deal with younger clients. There are behavioural issues that need to be considered – gambling versus investment for example. They would need to be re-educated from short term return goals to long term growth and that re-education would be very difficult. The young love risk.” H

5.7 // GOVERNMENT STRATEGY (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

The consensus view is that regulation must become more pliable and responsive, but that government strategy holds the key longer term.

The plea has long been there that financial education needs to be front and centre in the curriculum. Even basic matters like compounding of interest (positively and negatively) and the impact of compounding are not understood. The workplace is becoming a short-term stopgap route to financial education and the efforts of benign employers and their enlightened advisers are to be praised.

But maybe it should not be their problem to solve any more than the advice gap should be the problem of the current generation of financial advisory firms to solve given the way in which their business models have had to adapt to fit with regulatory requirements.

Government strategy, in their words – verbatim comments from interview participants

“There is not enough financial education in this country.” N

“Financial advice firms are seldom if ever represented at careers fairs and the like.” N

“It would be nice to see some relaxation of what firms can and can’t say regarding information, guidance and advice.” N

“There is a shortage of people and the journey to chartered financial planner is long and difficult. When compared with the professional journey of accountants and lawyers, it is longer and harder and less co-ordinated. As a profession, chartered financial planning needs to be radically overhauled and made more attractive. It is simply too long, badly structured and not formalised in the way other professions are.” H

APPROACHES AND SOLUTIONS FOR TARGETING NEXTGEN AND NEW CLIENTS

6.1 // BUSINESS DEVELOPMENT PLANS – LEVELS/ TYPES OF SERVICE/FEE MODELS

Q. Do you think you will need to develop different levels/types of service/fee models to work with different client age-groups/segments and client types?

ANSWER CHOICES	RESPONSES
Yes - we need to develop digital servicing capability/functionality	16%
Yes – we need to add a more transactional (upfront rather than ongoing) service/fee model	35%
Yes – we need to add a charging model to attract families – such as offering some free services to next generation clients	14%
Yes - both digital servicing and new charging models	26%
No – our current levels of service/fee models will suffice	6%
No – we are not targeting work with different client age groups/segments	3%

Source: Adviser survey findings

Overwhelmingly, 91% of those completing the online survey felt that they would need to develop different levels/types of service/fee models to work with different client age-groups, client segments and client types.

Broken down into different ways of facilitating such developments and targeting, 35% said they would **need to add a more transactional (upfront rather than ongoing) service/fee model.**

14% **need to add a charging model to attract families** – such as offering some free services to next generation clients.

16% would **need to develop digital servicing capability/functionality.**

26% felt that they would **need to develop both digital servicing and new charging models.**

An acknowledgement here that something different is going to need to be done to develop new advice/servicing models which can help to attract and efficiently deal with new clients which in many cases might have a different age/type profile to the majority of the firm's existing client bank.

6.2 // BUSINESS DEVELOPMENT PLANS – CLIENT ACQUISITION TACTICS

Q. What tactics is your firm using to acquire new clients?

ANSWER CHOICES	RESPONSES
Social media campaigns	62%
Media adverts	42%
Email campaigns	38%
Targeting media coverage	35%
Corporate events	28%
Referrals from existing clients of the firm	28%
Referrals from professional connections of the firm	21%
Buying adviser practices	4%
We are not using any tactics to acquire new clients	3%
Acquisition of client banks	1%

Source: Adviser survey findings

Via the adviser survey we also wanted to explore what type of tactics advice firms might be using to acquire new clients.

Social media campaigns, selected by 62%, were the number one tactic being used to acquire new clients.

Using **media adverts** (42%) and **targeting media coverage** (35%) were also well supported tactics being used.

As one might expect, **email campaigns** (38%) are being used, but it was also interesting to see that a number are hosting or being involved in **corporate events** (28%).

The power of referrals should clearly not be underestimated as a tactic for advice firms. 28% selected **referrals from existing clients of the firm** and 21% selected **referrals from professional connections of the firm**.

6.3 // TECHNOLOGY PARTNER/SOLUTION

Q. Which type(s) of technology partner/solution can help you create client servicing cost efficiencies within the firm?

ANSWER CHOICES	RESPONSES
Client Relationship Management system	51%
Back-office system provider	46%
Open banking/finance apps	44%
Client portal/servicing app	42%
Platform operator	32%
Pensions dashboards providers	9%
Not applicable	2%

Source: Adviser survey findings

To enable the delivery of the different types of client advice model/proposition required to target, acquire and service different client age groups and types, cost efficiencies and technological improvements will be a pre-requisite. But how can these be created in advice firms?

Just over half of those advisers surveyed (51%) selected **Client Relationship Management system** as the technology partner/solution which can help them to create client servicing cost efficiencies within the firm, and 46% selected **back-office system provider**. Both are market incumbents and so it may be the case that further advances and developments can be made by Client Relationship Management systems and back-office system providers to support new client acquisition activities at advice firms.

Really interesting to see support for **open banking/finance apps** (44%) and **client portal/servicing app** (42%). From a technology standpoint it does feel like the development and application of such apps can be game changers in helping advice firms to create client servicing cost efficiencies.

Another market incumbent, **platform operator**, was selected by 32% of those responding to this survey question. Perhaps another example of an existing solution which can target further enhancements to expand usefulness to advice firms.

6.4 // INDUSTRY SOLUTIONS - ADDRESSING NEXTGEN AND NEW CLIENT NEEDS (SENTIMENT FROM ADVICE FIRM INTERVIEWS)

Despite some of the glass half empty sentiment emerging from the advice firm interviews, there was also a seam of positivity about how some of the NextGen opportunities can be realised.

Many advice firms do see it as an opportunity, despite the challenges they identify. They suggest and are in the process of implementing many routes to helping to fill the gap and it is worth mentioning that it is not just the age gap they are considering but diversity more generally defined, seeking ways to ensure that as much of the population can access relevant services as possible.

However, advice firms act at the micro-level and so there is only so much they can individually (and even collectively) achieve. Many of the improvements they can make are incremental and piecemeal. Big change can only really be facilitated at the macro-level.

Routes to boosting the market include:

// Warm leads and referrals

One of the key consequences of the change in infrastructure brought about by the RDR has been the decline of cold business development and the rise of referred business from existing clients and professional connections. Again, this is of importance at the micro-level but at the macro-level does not affect numbers greatly. However, it does 'cut into' the universe of prospective clients who need or value advice.

// Development of a corps of NextGen advisers (and indeed advisers focused on neglected segments of the market)

It makes sense to many firms to have advisers closer demographically to their clients; talking their language is a key driver here though of course the adviser must be presented as experienced and knowledgeable. This approach is being practised by several larger firms through routes like academies and training through the paraplanner profession or straight from university (though the deficiencies of our education system and the lack of a progression ladder akin to the legal and accounting professions makes this route problematic at present).

// Professional relationships/access to a range of related services in house

This applies to advisers of all types whether specialist wealth managers, holistic financial planners, or mainstream generalists. And for firms interested in NextGen business it can be particularly important. First relationships between financial consumers and the industry often relate to mortgage/loan and protection business. Cross-referrals in both directions are potentially extremely valuable.

// The workplace

Auto-enrolment has been profoundly positive in putting pension provision for most individuals on a firmer footing than it was at any time since the decline in DB pension arrangements began. It is also a core product on which wider ranging financial arrangements can be founded. There are several issues however; that need to be considered, but nevertheless the concept has a role to play now and into the future:

- The client of the EBCs is the employer
- Products/services can only be offered, and take-up depends on the individual employee
- Employers shy away from the risks involved in recommending products/services (or even advisers to their employees)

// Technology and digital services

Financial clients in general and younger ones in particular are increasingly used to transacting business at the click of a button. You can build a proposition, but without a relevant nudge people do not have to use it. The argument is that acceptance and usage will inevitably increase over time and word of mouth/social media, in theory could help (though on this matter, there are many bad news stories, not least relating to crypto scams).

// Product providers/vertically integrated firms (especially strong brand ones)

Roles are being developed somewhat akin to the roles they once had with direct sales forces, albeit heavily adapted and modified to fit with modern regulation and business relationships. This may be seen as an integral part of the infrastructure that could address NextGen customers. The role they are developing is based on the needs of orphan clients or single product clients that might have arrived via a mortgage or protection transaction sometime in the past. They do walk the tightrope over the advice landscape and are sensitive to their strong relationships with IFAs who provide much of their current business. They are readily able to address the simple needs of their product holders and also readily able to refer clients on for financial advice. This sort of collaborative working may have an increasing role to play in the future.

// Academies

There is much debate and some current activity around the development of financial advice academies. The interviews reveal that many larger firms and networks have looked at the concept or are actively doing so, but at present the jury is out. On the one hand, they are seen as a very powerful route to building a workforce of younger, newly qualified advisers who can be targeted firmly at NextGen customers and other diverse market opportunities. On the other hand, they are seen as expensive to run; whilst their graduates are very attractive to other employers, and they sit outside the more formal education system. If they sat within the education system and offered a clear achievable and attractive career progression like the legal and accounting professions their appeal would be significantly enhanced. This is where much of the current debate is focused. And, of course, if they did sit more formally within the education infrastructure, should they be run separately from the advice firms that would currently be bearing all of the financial risk?

Industry solutions for NextGen, in their words - verbatim comments from interview participants

"The mortgage and associated protection are central to the needs of NextGen clients. We need to see greater collaboration and cooperation between professional advisers of different types (including mortgage professionals). Consumer Duty may drive this sort of change." N

"Our academy is a key pillar in building our business with younger generations. We have a big infrastructure that interacts with customers – the retail experience and technology will be a key part of this. We need to engage (regardless of age group), empower and drive individuals to and can do more than many smaller adviser firms can." M

"Life coaching is becoming more important and offering younger clients support." M

"You need a robust digital platform that is convenient and accessible. Things like paper statements are behind us. Websites need to be better and more intuitive than they often are. On processing new business, turnaround times need to be faster than they have historically been." M

"We are exploring lots of new initiatives for example 'Money Coaching'. Services are predominantly web-based and focused on engaging with customers whether they are buying or not. We feel there may be an opportunity to monetise this approach with people perhaps paying a small subscription." M

"We have a product relationship with customers first and foremost. We are there when they need support; we raise awareness and aim to put out the right messages through marketing and via the workplace. We have direct interaction via call centres, the internet and website and also have an advice resource via video and telephone where necessary. We can offer non-advised services and advice via video, telephone or even face to face. The bulk of engagement is via the telephone and web-based; we are not seeing much demand for face to face." M

"I am learning all the time. There is nothing formal about the development process for our NextGen advisers, but we have good mentoring on an individual basis initially informal but over time becoming more official. The firm encourages talking new young clients through an education/coaching process with 'free' coaching, helping clients find their way with the ultimate aim of converting them to financial planning." M

"The mortgage is the foundation product (with associated protection products) for NextGen customers and we do not do this work – we outsource to specialists and we do get cross-referrals coming the other way." H

"Our core product is advice, but we use technology to improve what the client receives. It is not the be all and end all, it is merely a tool." H

"The biggest opportunity at present is the advice gap but the question is who and how it can be filled. Things like Nutmeg are not right. You need a hybrid between digital and face to face advice. The best way is to build a structure including automated reviews covering regulatory needs with digital or face to face meetings at extra cost if required or requested. Human interaction is essential and financial planning is the way in." H

"The workplace, digital apps and mortgage business are all sensible ways to get to people. A good firm will have links with other professionals providing warm opportunities." H

"Dealing with NextGen clients requires a profoundly different approach from that of an established holistic financial planning firm. It needs to be online, light touch, with no on-going financial advice; all transactional – mortgage or a plan to get one at the start perhaps. Light touch for an ISA or similar savings arrangement. Auto-enrolment gets people started on pensions saving so again no need for ongoing advice." H

"We have a simple open digitally driven proposition that is supported by availability of digital advice where needed. It is education-based, very low cost and available through an app. It can be white-labelled for other firms to use to target NextGen and other population groups that don't need complex full advice services." D

"We ensure that graduate IFAs target NextGen clients as part of their remit. They are tasked to generate at least 1-2 appointments a month with younger new clients. They are supported by a great deal of marketing activity across a range of traditional and newer media." D

"Younger newer advisers are part of our approach. We work with some specific target groups for example younger doctors. We are launching a new limited advice telephone-based service for younger clients or those clients not needing ongoing service." D

MEETING THE NEEDS OF CUSTOMERS IN 2023 AND BEYOND

7.1 // TRUSTED SOURCES OF GUIDANCE/ADVICE

Who, if anyone, would you trust to give you guidance or advice on your finances/money matters? Please select the top three options

Famous financial experts (e.g. Martin Lewis) (29%)

Financial adviser/planner (29%)

Your friends/family (24%)

Bank/building society (24%)

Citizens Advice Bureau (16%)

Government/Money and Pensions Service (14%)

Accountant/Solicitor/Lawyer (11%)

A financial services provider with whom you have existing policy (11%)

Pension Wise/MoneyHelper (10%)

Your employer (5%)

Press/media (4%)

Social media influencer/TikTok (3%)

Other (1%)

N/A I would not trust anyone to give me guidance or advice (11%)

Don't know (7%)

Source: Consumer survey findings

Via the consumer survey we wanted to check the pulse on who, if anyone, respondents would trust to give them guidance or advice on their finances/money matters. Another huge question for the financial services industry as we consider the future.

The top consumer preferences coming through were:

29% in total, **famous financial experts (e.g., Martin Lewis)**. Less appealing to those aged 18-34 (21%); more appealing to those aged 35-54 (32%).

29% in total, **financial adviser/planner**, which is reassuring for the purposes of the advice industry but also illustrates scope for growth. Most appealing to those aged 35-54 (34%).

24% in total, **friends and family**. More likely for females (27%) than males (21%). Most appealing to those aged 18-34 (33%).

24% in total, **bank/building society**. More likely for females (26%) than males (21%). Relatively consistent across age groups.

Elements of support for help from a government funded resources perspective - **Citizens Advice Bureau** (16%), **Government/Money and Pensions Service** (14%) and **Pension Wise/MoneyHelper** (10%) – although potentially illustrating that awareness of the capability and capacity of these resources could be grown further. Especially given recent structural and propositional rearrangements.

Reinforcing the need for financial advice firms to further develop professional connections, 11% in total selected **Accountant/Solicitor/Lawyer**.

Underlining the requirement for providers to come back to the table on advice/guidance provision, 11% of the total sample selected **financial services providers with whom you have existing policy**.

Specifically, from a NextGen perspective, while there was only 3% support in total for **social media influencer/TikTok**, this was predictably more appealing to those aged 18-34 (9%).

7.2 // METHOD OF ACCESSING GUIDANCE/ADVICE

How would you prefer to receive or engage with guidance or advice on your finances/money matters?



Source: Consumer survey findings

Having explored trusted sources of guidance/advice for those consumers surveyed we then wanted to ascertain preferences for access and engagement. Further food for thought here as we plot what might be achievable in servicing the next wave of customers for the financial services industry, whether this be considered NextGen or otherwise.

When asked how consumers would prefer to receive or engage with guidance/advice on their finances/money matters, **face-to-face** (41%) is evidently (still) the preference. Consistent across males and females. Least appealing (33%) to those aged 18-34, but much favoured (51%) by those aged 55+. The advice industry knows that this is typically the most expensive route to provision.

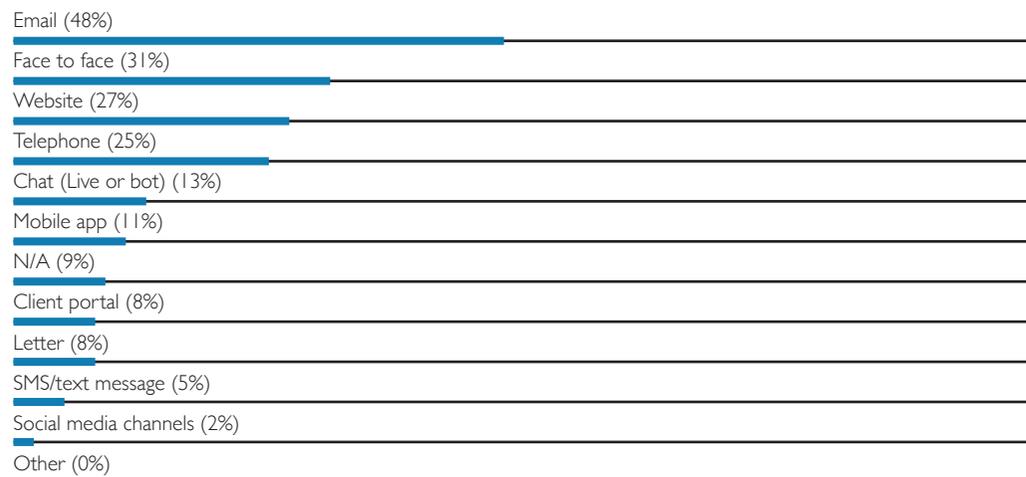
Just under one quarter in total prefer **online** (23%). Higher for those aged 18-24 (26%), 25-34 (28%) and 35-44 (32%).

Only 7% specifically selected **on the phone**, up to 10% for those aged 18-34, and 5% selected **video meetings (e.g., Zoom, Teams etc)**, again up to 10% for those aged 18-34.

13% of total respondents selected **a mix of the options provided**.

7.3 // INTERACTION WITH FINANCIAL PROVIDERS - COMMUNICATION PREFERENCES

What methods of communication do you prefer to use when interacting with your financial providers? - accessing/requesting information*



*consumers were also asked about preferences for receiving information

Source: Consumer survey findings

The survey also sought to establish preferred methods of communication for consumers to use when interacting with their financial providers.

By some distance, **email** was the preference for interacting with financial providers, for both accessing/requesting information (48%) – most favoured by those aged 35-54 (54%) - and receiving information (60%).

Face to face, was second preference for both - accessing/requesting information (31%) and receiving information (22%).

Website was third preference for both - accessing/requesting information (27%) and receiving information (17%).

Telephone was fourth preference for both - accessing/requesting information (25%) and receiving information (14%).

In terms of areas where there were obvious NextGen preferences, **chat (live or bot)** was 13% in total responses for accessing/requesting information, but this rose to 20% for those aged 18-34.

Mobile apps were 11% in total responses for accessing/requesting information, but this rose to 19% for those aged 18-34.

Client portal was 8% in total responses for accessing/requesting information, but this rose to 12% for those aged 18-34.

Social media channels were only 2% in total responses for accessing/requesting information, but this rose to 7% for those aged 18-34.

A picture is starting to form around how flexible financial providers will need to be in future to meet the varied communication and information provision requirements of varied customer age groups.

“There are arguably too many channels of engagement available today and many different preferences. Attempting to meet all needs becomes a daunting task and can often add complexity and additional cost to support and manage. Client portals have become the new ‘trend’ but often don’t fulfil needs other than presenting financial detail in graphs and charts. Enabling singular access to the details pertaining to the financial plan along with the ability to access all communications and important updates, plus the ability to send/receive requests or tasks (2-way) can create a more flexible, nimble and effective engagement layer for all parties.”

Duncan Muir, Global Industry Lead - Financial Services, Fluidio

7.4 // INTERACTION WITH FINANCIAL PROVIDERS – FREQUENCY PREFERENCES

Q. How frequently do you want to interact with financial services providers?

ANSWER CHOICES	SPECIFIC TO MY FINANCES	GENERAL CONTENT
On demand (24/7)	12%	8%
Daily	6%	6%
Weekly	11%	11%
Monthly	19%	20%
Quarterly	15%	16%
Half-yearly	8%	9%
Annually	8%	9%
Less than once a year	8%	8%
Never	12%	13%

Source: Consumer survey findings

In addition to preferences for communication methods, we also used the survey to ask consumers how frequently they want to interact with financial services providers.

Monthly was the preference, although by a fine margin, for frequency of interaction with financial services providers for communications **specific to my finances** (19%) and relating to **general content** (20%). **Quarterly** was next - 15% for communications **specific to my finances**; 16% relating to **general content**. **Weekly** - 11% for communications **specific to my finances**; 11% relating to **general content**. **On demand (24/7)** - 12% for communications **specific to my finances**; 8% relating to **general content**. **Annually** - 8% for communications **specific to my finances**; 9% 8% relating to **general content**.

In terms of areas where there were obvious NextGen preferences, those aged 18-34 seemed to favour interaction **specific to my finances** at a more regular rate of knots:

- On demand (24/7) - 12% for all respondents; up to 14% for 18-34
- Daily - 6% for all respondents; up to 13% for 18-34
- Weekly - 11% for all respondents; up to 15% for 18-34
- Monthly - 19% for all respondents; up to 22% for 18-34

Further examples of gaining an understanding of the different requirements of different types of financial services customers.

7.5 // APPEAL OF INVESTMENT PLATFORM TECHNOLOGY

Does the technology offered by different investment platforms make them any more or less attractive to you in deciding where to invest your money?



Source: Consumer survey findings

We also wanted to find out whether the technology offered by different investment platforms makes them any more or less attractive to customers in deciding where to invest their money.

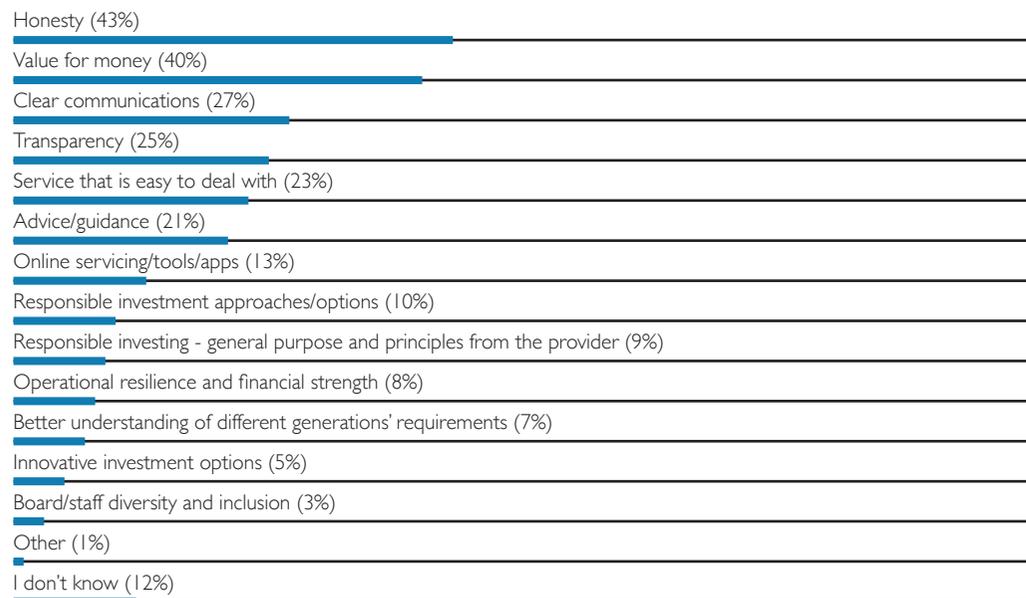
One-third (33%) of total consumer respondents to this question - 38% male vs 28% female and most attractive to those aged 18-34 (51%) - felt that, to some degree, the technology offered by different investment platforms **makes them more attractive**.

- **It makes it much more attractive** (9%)
- **It makes it slightly more attractive** (24%)

45% felt **it has no impact on their decision**, more so among those aged 55+ (57%).

7.6 // REQUIRED PROVIDER TRAITS AND QUALITIES

What traits/qualities do you value the most from financial services providers? Please select the top three options:



Source: Consumer survey findings

From a financial services provider perspective, we crucially wanted to ascertain what traits/qualities consumers value the most from providers.

It was very close between the top two – consumers want to see **honesty** (43%) and feel they are receiving **value for money** (40%).

Next preferences, and these three traits/qualities were closely bunched, were **clear communications** (27%), **transparency** (25%) and **service that is easy to deal with** (23%).

This set of required traits and qualities really sets a blueprint for providers in terms of how they might best attract, address and service customers in future.

It is also interesting to see that 21% of the total sample viewed **advice/guidance** as a valued trait.

And in terms of some provider traits and qualities where there were NextGen variances:

Responsible investment - approaches/options (10%), up to 13% for those aged between 18-34.

Online servicing/tools/apps 13%, but 17% for those aged between 18-34.

Better understanding of different generations' requirements. Whilst only 7% in total, up to 11% for those aged between 18-34.

WRAPPING UP

Much that is occurring at present will bring only piecemeal progress in addressing the potential of targeting opportunities to engage with and service NextGen customers and other diverse/new customer markets.

There is a generational dislocation caused by a changing regulatory background and many other developments (separation of mortgage advice from the mainstream, the advent of auto-enrolment for example) and the advice industry struggles with this, alongside the reduction in the production line of adviser capacity in the wake of the RDR.

Longer term, the research interviews have highlighted areas where the industry can make progress (and is doing so) but systemic change must be driven by government strategy and regulatory flexibility.

- The position and depth of financial education must be strengthened and formalised
- This should in turn lead to more enlightened and confident prospective clients
- It should also lead to a more attractive professional career option for financial advisers more akin to those of the legal and accounting professions
- The regulator, in the light of these developments might usefully consider whether its definitions of information, guidance, advice and other regulatory requirements might be alleviated in a way that allows the delivery of services to younger consumers with simple/basic needs more viable for advice firms and other providers.

It is all very well to make low-cost services 'available' but without appropriate 'nudges' people will not always take them up.

In their words – verbatim comments from adviser participants

“We need to lower the bar about who we talk to and what we talk about. This may require a closer look at regulation and associated costs because at the moment, providing advice as we define it to NextGen customers is unaffordable.” N

“The mortgage and related protection advice have to come back to the centre for NextGen. But then there is an awful lot for one adviser to handle. I can see potential for strategic relationships, advice as a product and facilitation. The adviser becomes a planner rather than an implementer. The adviser is more of a coach providing advice, comfort, clarity and challenge.” N

“Academies have potential as a concept, but it needs to be done at the industry rather than the firm level and it needs to be integrated with a comprehensive financial education strategy from the Government.” N

“People need advice. The aim is to try to match younger advisers to younger clients. Auto-enrolment has actually helped. There needs to be a clear way in which employers can help to pay the advice costs for their employees. Protection insurance and mortgage business are good possible ways in.” M

“We are very active in the workplace and feel this is very important to future business development, especially with NextGen customers. We seek to ensure the advice gap is reduced. As a provider-based adviser, we feel we complement what IFAs can do; they can't reach all parts of the market and we focus on those clients who have no existing adviser relationship. The fact is that the majority of younger clients do not have adviser relationships.” M

“As an industry we live in fear of the FCA coming knocking on our door. If the vast majority of firms are good, why does regulation not build positively on that? As an industry we need better communications, better collaboration. We are selling an invisible, intangible service and for potential customers who do not have experience, that is a real challenge for the future.” H

“There are not enough advisers (even at the upper level). The problem cannot be solved overnight but there are things we could be expediting. We could make it easier for mortgage and protection advisers to be a natural lead into initial engagement because the vast majority of new younger clients do not need full fat IFA services. It should also be much easier to integrate technology into the process not least to improve speed of response.” D

“Definitions of advice, guidance and so on need to be reviewed. All advice whether about debt, mortgage, protection or saving/investing needs to be under one umbrella.” D

APPENDIX I



ADVISER SURVEY QUESTIONS

Q1. Development/growth plans for the business – By how much is your firm seeking to grow client numbers over the next three to five years?

Q2. In terms of new business targeting for your firm, which age-group(s) of potential new clients are your main focus/do you see as main opportunity?

Q3. In terms of new business targeting for your firm, what type(s) of new client are you targeting?

Q4. What do you see as the main challenges of acquiring NextGen customers/new clients more broadly?

Q5. Do you think you will need to develop different levels/types of service/fee models to work with different client age-groups/segments and client types?

Q6. Which type(s) of technology partner/solution can help you create client servicing cost efficiencies within the firm?

Q7. What tactics is your firm using to acquire new clients?

Q8. How have recent regulatory requirements, including MiFIDII and Consumer Duty affected/impacted strategy for NextGen Client?

APPENDIX 2



CONSUMER SURVEY QUESTIONS

Q1. When considering your current status with your finances/money matters, which, if any, of the following factors give you cause for concern? Please select the top three options

Q2. If you are, or were to be, in a position to save money on a regular basis, which areas would you prioritise? Please select the top three options

Q3. If you are, or were to be, in a position to save/invest money on a regular basis, in what type of product would you put this money? Please select the top three options

Q4. Does the technology offered by different investment platforms make them any more or less attractive to you in deciding where to invest your money?

Q5. How important is responsible investing to you when choosing a financial product or provider?

Q6. Who, if anyone, would you trust to give you guidance or advice on your finances/money matters? Please select the top three options

Q7. How would you prefer to receive or engage with guidance or advice on your finances/money matters?

Q8. What methods of communication do you prefer to use when interacting with your financial providers?

Q9. How frequently do you want to interact with financial services providers?

Q10. What traits/qualities do you value the most from financial services providers? Please select the top three options



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