THE CONSUMER DUTY TOOLKIT

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ASSESSING VALUE

In this section of our Consumer Duty toolkit, we'll cover value for money. We know from the conversations we've had with advisers that it can be one of the hardest parts of Consumer Duty to get right.

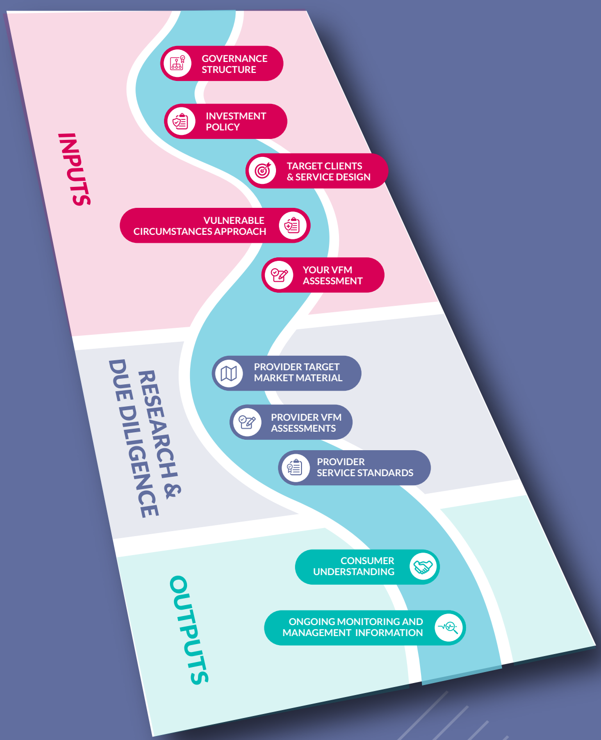
Advice firms have a dual role when assessing value, being directly responsible for their own advice fees but also needing to ensure the total charge clients pay represents good value for money. Manufacturers are also required to conduct their own value for money assessments. You can find our value for money assessments on our **website**.

This short guide will give you some pointers on how these assessments should be completed, both for your own advice feeds and the total charge the client is paying. We hope you find it useful. As always, **get in touch** if you have any comments or questions.

RESEARCH AND DUE DILIGENCE IN A POST-CONSUMER DUTY WORLD

Value for money assessments are a key component of Consumer Duty, forming one of the four main outcomes. However, they are only one part of the overall requirements, and as such need to be incorporated into the wider research and due diligence process.

There are distinct value for money assesments advice firms need to conduct.



1: Your own advice fees.

Do the fees you are charging your clients represent good value for money, relative to the services being delivered?

2: Total cost of investing.

Do the total charges the customer is paying (including your fee) represent good value for money?

For the first of these, the advice firm will be ultimately responsible, both for setting the level of fees and for ensuring they represent good value. As a result, this value for money assesment should form a central part of the firm's overall governance model, and also commercial planning. Value for money is primarily about ensuring customers receive the best possible outcome, but commercial reality also needs to apply to ensure the advice firm remains profitable.

The second assessment should form part of your research and due diligence process, recognising that whilst the advice firm is unlikely to have any direct responsibility for defining the level of fees the customer will pay, they will be responsible for making a suitable recommendation. Costs form part of this suitability assessment, and need to be incorporated accordingly. The materials published by any Manufacturers you work with will help, but it will be up to the advice firm to evidence they are making suitable recommendations.

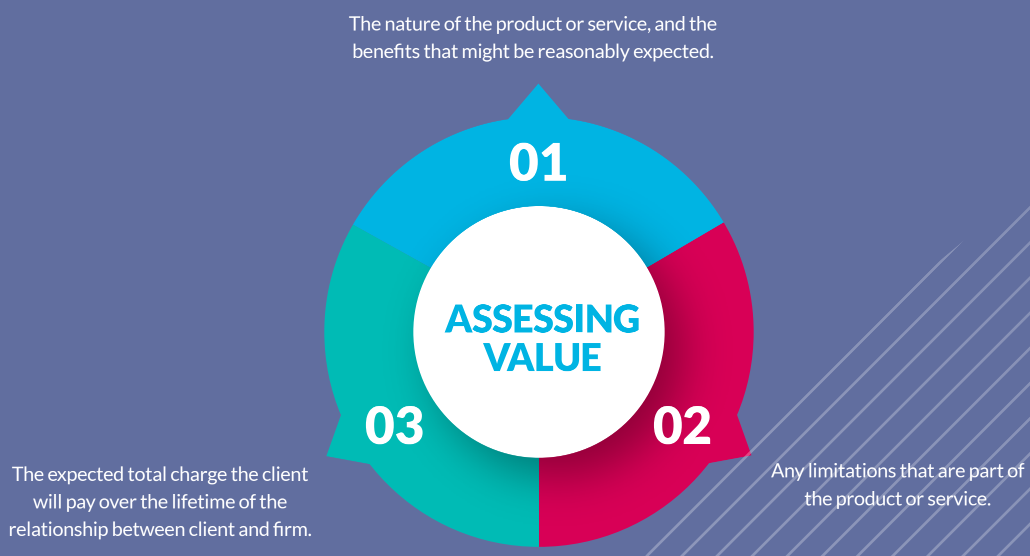
VALUE FOR MONEY FOR ADVICE FEES

Under Consumer Duty, all firms must ensure their charges respresent fair value. For advisers, this brings their own advice fees into focus. When deciding how to price their services, advisers must balance the need to ensure good outcomes for their clients with commercial reality. Fees need to reflect the costs incurred and should allow the firm to create a profit, but also need to be of fair value to the client.

Fair value is about more than just price. The Duty aims to tackle factors that can result in products or services which are unfair or poor value, such as unsuitable features that can lead to foreseeable harm or poor communications and consumer support. Cheapest isn't always the most suitable.

However, costs form an essential part of the overall value assessment and need to be assessed along with the benefits the service (or product) is intended to deliver. The FCA have suggested three key considerations that should form part of the overall value assessment.

Figure 1: Key considerations. Source FCA FG 22/5



The starting point should be defining your target clients, and the service you will provide to meet their needs. Without this point of reference, it is impossible to assess whether these services represent good value. You can see our suggested approach for target client assessment in the previous part of our Consumer Duty toolkit. This will then allow you to assess the first two of the FCA's key considerations, the nature of the product and service and any limitation that might exist.

Effective client segmentation will also help with the third of these key considerations, assessing the total charge the client should pay. It is especially important to consider any outliers. The price and value outcome rules do not require firms to charge all customers the same amount. However, where firms charge different prices to separate groups of consumers, they must consider whether the price charged for the product/service provides fair value for customers in each pricing group. For advice firms this might, for example, see price capping or fixed fees identified as the best way to ensure fair value for higher value clients.

Firms should also consider benchmarking their pricing against comparable products and services. The FCA publish an annual analysis of the intermediary sector, showing average fees charged by all firms, which should prove useful for this benchmarking task.

The final step is to ensure the ongoing monitoring and governance is robust. Client surveys might form part of this assessment, as well as management information to ensure the expected level of services (annual reviews, regular reporting, etc) have been delivered as expected.

Finally, as part of their final guidance document, the FCA have highlighted the following key questions for all firms to consider as part of the price and value outcome.

KEY QUESTIONS FOR ALL FIRMS TO CONSIDER

- Is the firm able to clearly demonstrate how any product or service they provide offers fair value?
- Can the firm demonstrate that the costs associated with the products and services that they offer are clear to the client?
- How does the firm monitor the impact of different pricing on different clients?
- In what ways does the firm review the price and value of the products and services that they provide?

Source: FCA FG 22/5 6.80

The template on page 6 will help you evaluate whether you have made all the necessary assessments and you can find Copia's own Value for Money assessments on our website.

VALUE FOR MONEY – TOTAL COST OF INVESTING

Where different firms are involved in the distribution chain for an investment product, they all have responsibility to consider fair value.

The Fund Manager/Investment Manager:
The firm must assess whether their charges levied are justified in the context of the overall value of the product.

The platform provider:
The firm must set fair value charges for using the platform.

The financial adviser:
The firm must consider if its advice charges provide fair value. In addition, they must ensure that they recommend a proposition that is fair value for the customer.

For advisers, this means they must obtain relevant information from Manufacturers to understand the value a product or service is intended to provide and to enable them to understand whether their distribution arrangements (including any remuneration they receive) would result in the product or service ceasing to provide fair value to retail customers.

This effectively means that advice firms need to "obtain and validate" with regards to the total cost of investing. Firms need to obtain all the relevant information as part of their research, due diligence and product selection processes, and validate that the costs associated with these products and services deliver good value.

This validation point, and the criteria for what does and doesn't represent good value, is an important element to fit into the firm's governance process. What is the house view on costs, and what is an acceptable total cost of ownership? You might find a RAG approach helpful here, for example anything below x bps total charge is fine, anything between x and y bps goes to file checking, anything above y bps would represent poor value. If this works for you, decide what figures you want to use within this framework and you can then use these criteria within both your research and due diligence process, and your ongoing monitoring.

As with advice fees, advice firms should compare and benchmark these product/platform costs with the wider market. There are a number of research tools that might help with this exercise, for example:

Analyser from the lang cat
FE fundinfo: Fund Research and Portfolio Analysis

These tools can also help with the final stage of ongoing monitoring. Whereas advice fees are perhaps a bit more challenging to measure, with a lot of the benefits of advice being intangible (peace of mind, financial well-being etc), the benefits for investment services and fund perfomance can be more easily quantified and measured. Again, firms should decide their own criteria for this, and monitor accordingly.

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VALUE FOR MONEY SEGMENTS WITH EXAMPLES

Price and Value Outcome

SEGMENT	SUB-SEGMENT	VULNERABILITY ASSESSMENT	ADVICE SERVICE	PLATFORM SERVICE	INVESTMENT SERVICE	DISTRIBUTION STRATEGY	FOCUS FOR ONGOING MONITORING	ADVICE SERVICE TARGET FEE RANGE	PLATFORM SERVICE TARGET FEE RANGE	INVESTMENT SERVICE TARGET FEE RANGE	TARGET TOTAL COST OF OWNERSHIP	MAXIMUM TOTAL COST OF OWNERSHIP	INVESTMENT OUTCOME	FOCUS FOR ONGOING MONITORING
Accumulators. Saving and investing towards retirement or another specific goal/lifetime event	**Employees**	High charges can erode returns. Younger cohorts can be vulnerable to high-risk products & scams.	Low touch, with annual review	Cost effective "no frills" solution needed	Low cost, intelligently managed and diversified investment solution	Secondary target for advice firm. Will only take on clients investing below £50k if part of wider family group	Ensure these customers are receiving value for money, and not paying for unnecessary services	Intial advice fees fixed, based on time & effort. 0.25% to 0.5% ongoing.	Below 0.3%	Below 0.5%	1%	1.20%	In line with agreed expected returns for the relevant investment solution over the agreed long-term investment horizon	Annual review to see if lower cost platform services are available
	Self-employed/ business owners		More frequent, due to fluctuating income and tax planning needs	Cost effective, but with full range of tax wrappers	Low cost, intelligently managed and diversified investment solution	Targeting professional connections networks to engage business owners	Ensure tax planning services are being delivered in a timely manner	Intial advice fees fixed, based on time & effort. 0.40% to 0.6% ongoing.	Below 0.3%	Below 0.5%	1.20%	1.50%	Performance in line with agreed expected returns for the relevant model portfolio over the agreed time horizon of 5-10 years	Annual review to see if lower cost platform services are available
Transition to retirement		Clients might prefer face to face contact as opposed to technology.	Holistic cashflow planning service, with annual review to ensure plan remains on track	Platform needs to offer full range of tax wrappers and income payment flexibility	Investment solution needs to balance sustainability of income with longer term growth. Could potentially combine investment and annuity into overall portfolio	Core clients – distribution will mainly be focussed on encouraging client referrals	Focus on long term value for money, linked to client age expectancy.	Intial advice fees fixed, based on time & effort. 0.50% to 0.8% ongoing.	Below 0.25%	Below 0.75%	1.60%	2%	Performance in line with agreed comparator for the relevant investment model over the agreed long-term investment horizon	Annual review to assess whether total cost is still sustainable for all clients. Consider capping costs for long term clients

HOW COPIA CAN HELP ADVISERS

Please get in touch with your usual Copia contact if you'd like to discuss further how Copia can help you and your firm.

copia-capital.co.uk/contact
020 4599 6475

UNDERSTANDING THE RISKS

- Investment model portfolios may not be suitable for everyone
- The value of funds can increase and decrease, past performance and historical data cannot guarantee future success
- Investors may get back less than they originally invested.

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