NATIONAL ADVICE FIRMS **28 FEB, 2024**

Editor: Why all advisers should care about SJP's advice review

SJP's £426m ongoing advice provision will have huge implications for the advice sector, but small financial planning firms may be better protected than the big outfits.

BY **JACK GILBERT**

There have been plenty of comments on our coverage of today's St James's Place (SJP) £426m ongoing advice refund announcement.

Some have been more insightful than others (I will not repeat the more left-field ones here), but the scale of opinions on social media and under Citywire New Model Adviser's comment line shows the significance of today's events. The consensus is that this is a very big deal, and not just for the UK's biggest advice group, which has £168.2bn of funds under management. This could affect every advice firm in the country.

For those who haven't read the news yet, SJP has set aside a provision of £426m to refund clients' annual advice fees where there is no evidence the client received an ongoing service. The provision was calculated following a skilled person review of a large sample size, and SJP is going back to between 2018 and 2023 to work out who is owed compensation and will send out cheques in the post or possibly do bank transfers.

The announcement was not a bolt from the blue. For many months, one no-win, no-fee law firm has been drumming up claims over this issue and just yesterday NMA reported that SJP had hired an extra 90 complaints staff to deal with this deluge.

The FCA is heavily involved. Earlier this month 20 of the biggest advice groups received a letter from the FCA asking for annual review data, with the regulator highlighting that a 'significant area of concern' post-consumer duty is clients paying an ongoing advice fee when they don't receive an annual review.

The FCA said it has had 'significant engagement with SJP ahead of today's announcement' and 'welcomes its plans to refund clients who may not have received the ongoing advice service for which they had paid'.

SJP's CEO Mark FitzPatrick, who has been in the job a whole 12 weeks, told analysts today: 'Suffice to say, I've spent a lot of time with the regulator.' However, he declined to say what was said in those conversations. If only we had a fly on the wall in Stratford or Cirencester.

What does this all mean? It's clear this story has a long way to run. When it comes to SJP's business model, a lot will depend on how its advisers respond and whether the news creates friction between its planners and SJP Plc.

Comments from its CEO today that some of its advisers will be on the hook for compensation are likely to go down badly in some quarters. Some advisers may try to jump ship to new networks or launch spinoff firms. The spotlight will be on the board and how much its executives get paid this year.

The advice group has weathered many storms in the past few years, most notably when The Sunday Times ran a campaign in 2019 around its complex charges, which were finally overhauled last year, and adviser perks such as cruise holidays, which would likely not have survived last year's share price crash had they not already been scrapped.

One thing its advisers don't want are negative headlines distracting them from their day job and client meetings, and there will be plenty of such headlines in the coming weeks.

It's not just SJP that will be watching today's news with interest. The fact the FCA has asked for annual review data from the 20 biggest advice groups means the large nationals, networks and consolidators will be waiting nervously for what happens next.

As many comments have highlighted, claims firms will be all over this and will target the biggest firms that may have the most exposure. During the payment protection insurance scandal, the biggest banks bore the brunt of client compensation.

Small financial planning firms should not ignore the FCA's review, but their businesses are vastly different from SJP's.

Many financial planners live off their existing client bank and don't try to win new business, which means, in theory, they can spend more time with their ongoing clients than with new prospects.

SJP, by comparison, weights its adviser fees to winning new business – 4.5% for new client investments versus 0.5% for ongoing advice – meaning its partners are heavily incentivised to get new clients in the door rather than service existing ones. That said, SJP has often pointed out there is room for partners to lower that initial charge should they want to.

Small financial planning outfits tend to have closer client relationships than consolidators, where clients are often passed between advisers following acquisitions, although there are exceptions.

Bigger firms tend to have larger back-office systems, which could save them in evidencing annual review meetings. In its analysts' call today, SJP referred a lot to Salesforce and how most of its issues were before this was introduced in 2021.

Record-keeping will, then, be key. Today seems like a good day to make sure your back office is in order.