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Not to be used with clients.

M&G wealth

# THE FINANCIAL PROFESSIONAL'S GUIDE TO CLIENT SEGMENTATION UNDER CONSUMER DUTY

Delivering better value and building prospects for growth

A guide from M&G Wealth Platform

# Why read this guide?

Client segmentation has long had its fans and detractors. Today, the need to evidence how your firm delivers on its Consumer Duty obligations is a big reason to give segmentation another look, whether or not your firm already segments its clients.

Segmentation helps you support your business objectives while meeting clients' needs. And yet in practice it can be tricky to implement and deliver.

Use this guide to meet these objectives head on. You'll find a best practice approach to evidencing how you understand and meet your clients' needs, actionable tips from advisers who have done it themselves, supported by independent research and interviews conducted by the independent research consultancy NextWealth.

This guide is for information only and does not constitute advice.

This guide is for:

1. Firms already segmenting their client bank, looking to review their current segmentation processes post implementation of the Consumer Duty.
2. Firms looking for a blueprint to develop an effective segmentation process.
3. Firms who don't intend to develop a segmentation framework but want to gain an insight into how segmentation might offer clients something different whilst tying in with the current proposition.
4. Organisations who are supporting financial advice firms, such as compliance consultancies, paraplanning firms and admin support businesses.
5. Tech and data providers who may offer, or have in development, tools and workflows for financial advisers to help manage their client banks.

## Methodology

This guide has been produced by independent research specialist NextWealth with input from:

- interviews with 12 financial advice professionals
- an interview with Carla Langley, an independent compliance consultant
- a telephone conversation with a representative at the FCA
- an online survey of 200 financial advice professionals, conducted in November 2023.

# 1. What is client segmentation?

**In this chapter, we:**

- **define client segmentation**
- **explore trends in client segmentation strategies.**

Before Consumer Duty, segmentation largely involved dividing clients into different groups based on a set of criteria (typically assets) and providing a service that is aligned to their needs.

Today, the emphasis is on establishing:

- common characteristics among clients
- how those characteristics may impact clients' experience of the service your firm delivers, and
- the outcomes they may receive along their advice journey.

## Let's break down that definition

### Characteristics

The PROD rules that were already in place concentrated on the idea of fulfilling the needs of identified target markets.

The Consumer Duty subtly but significantly shifted the focus for client segmentation to a deeper understanding of how certain client characteristics may impact their experience.

Clients are unique in the mix of their individual circumstances and objectives, however there will be commonalities. **Chapter 6** of this guide shows you how to find those commonalities.

### Journey

Do all your clients need the same level of ongoing advice from you throughout their advice journey? More on this in **Chapter 5** ('How to segment your clients').

What a client needs from you may change over time. Segmentation must allow for flexibility to ensure that clients receive a suitable service and avoid foreseeable harm.

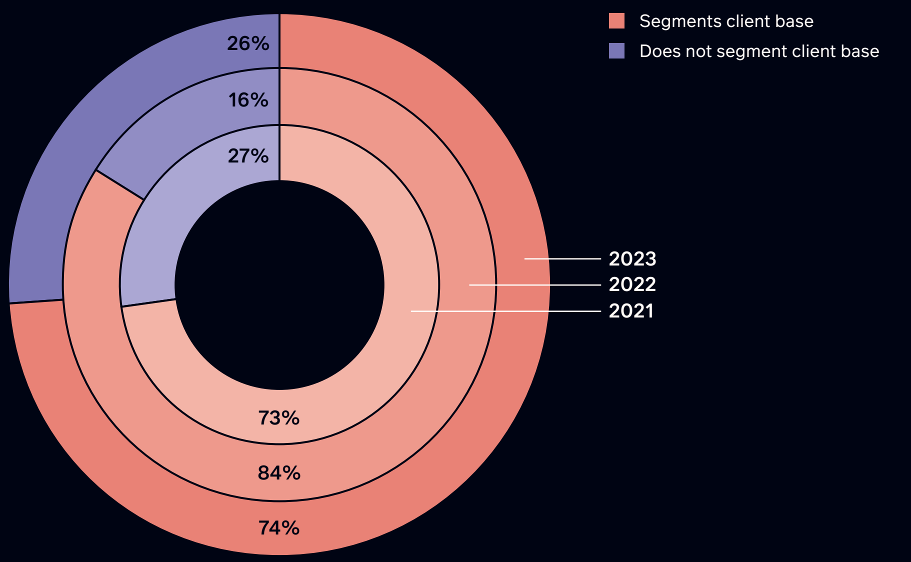
### Outcomes

The focus now is much more on outcomes and your ability to show an appreciation that different types of clients may experience different outcomes.

## Take-up of client segmentation by advice firms

Of the 200 financial advice professionals surveyed for this guide, 74% are segmenting their client base. That means just over a quarter aren't (see figure 1), up 10% from last year.

**Figure 1: Adoption of segmentation**




Source: NextWealth, n=200 (all respondents).

> **The problem with the word segmentation is people think it means "have we segmented our client bank into certain propositions?" When advisers say, "no, we don't segment", what they're really saying is "we have one main proposition". For most firms, one or two propositions will do the job for most clients. But that doesn't mean your clients are in the same segments. They're two different things.**
>
> **Carla Langley**
> **Independent compliance consultant**

## What segmentation is and what it isn’t

From our interviews with advice firms, we believe this often comes down to differences in interpretation of what segmentation is, and what it isn’t, as set out in figure 2 below.

**Figure 2: What segmentation is and isn’t**

| | |
|---|---|
| ✓ Assessing what value your firm is delivering to certain types of clients | ✗ Having as many propositions as client types |
| ✓ Evaluating whether what you are delivering works better (or worse) for certain types of clients | ✗ Taking an ‘off-the-shelf’ approach or trying to shoehorn clients into a template, ignoring the individuality in your client bank |
| ✓ Documenting the above to evidence the process for these conclusions | |

Implementing “what segmentation is” requires having a good picture of your client bank. This allows you to define ‘types’ of clients and consider what the impact of their lifestyle and personal experiences means for the service and outcomes they receive (covered in Chapter 4).

It can take some time and resource, so in Chapter 3 we’ll outline the payoffs for you, your business and your clients.

**Chapter takeaways**

- **Client segmentation can mean multiple propositions. But, one or two will suit most firms.**
- **A client segmentation framework helps evidence what is important for each group to receive good value from your service.**

# 2. How segmentation can be useful under Consumer Duty

**In this chapter, we:**

- **show how a robust segmentation exercise could help towards satisfying all four of the Consumer Duty outcomes.**

## The requirement for evidence

The process of gauging the characteristics of your clients will help your firm evidence the reasons for the fees you charge and the value you deliver. Or you might identify where you might be currently over- or under-delivering for certain clients.

| Products and services | Price and value | Client understanding | Client support |
|---|---|---|---|
| The Consumer Duty builds on PROD to ensure service delivered meets the needs, characteristics and objectives of a target group of clients. Segmentation provides the detailed data to segment clients into profiles, categorised by common characteristics. | Segmentation can inform Fair Value Assessments and show how reasonable the relationship is between the price paid and the benefits clients receive. | Supporting clients to make informed decisions by presenting information that clients need, when they need it, and in a way they can understand. | Delivering a level of support that meets client needs throughout their relationship with your firm. |
| **Example:** Gauging knowledge and experience with investing can help identify whether products are suitable or too complex for specific clients. | **Example:** Considering preference for virtual or in-person meetings can help determine an ongoing service that delivers value for money. | **Example:** Consider the relevancy of newsletter content for particular client groups. | **Example:** Identifying groups whose need for a full advice service may change at certain periods in their lives. |

# 3. Approaches to client segmentation

**In this chapter, we:**

- **reveal four key benefits to revisiting your client segmentation process**
- **explore the benefits and additional segmentation criteria to consider**
- **present the top three reasons why advisers are segmenting.**

## Basis for segmenting clients

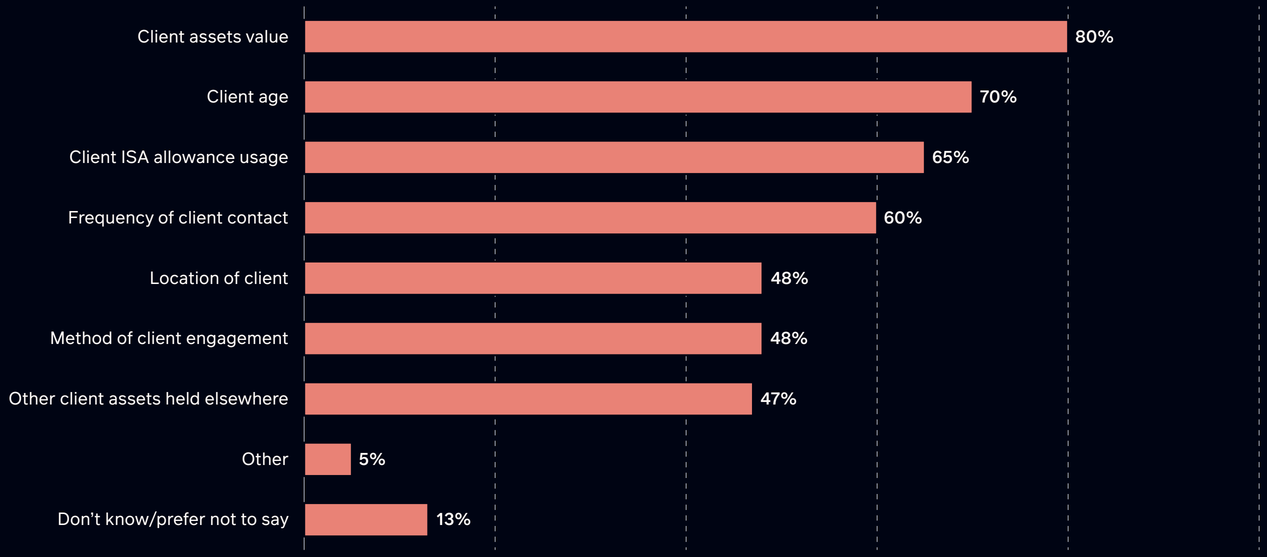
Previously, firms primarily used level of investible assets as the main criteria for client segmentation. It's an easy data point for bracketing and linking to service proposition(s). Now firms are using additional criteria in recognition that segmentation and proposition are two different things, and that it is important to understand how different types of clients will experience those propositions.

NextWealth's Financial Advice Business Benchmarks data shows that client asset value is the most available data point firms collect and use to analyse their client base (figure 3 overleaf).

In conversations for this guide, advisers report kicking off the segmentation process, using level of assets as the most 'complete' source of client profile information that facilitates getting clients into the segmentation funnel.

> **In typical segmentation, clients can be put into default solutions, which either represent high charges or low-quality investment solutions. But we distinguish our clients based on our charging model to allow us to encompass our operating costs plus profit margin for servicing clients. We found that there was a relationship between increasing complexity and client assets, so we assessed who's involved within the firm to best meet clients' needs.**
>
> **Compliance Director,**
> **45 financial planner firm**

**Figure 3: Categories of data collected for use within firms**



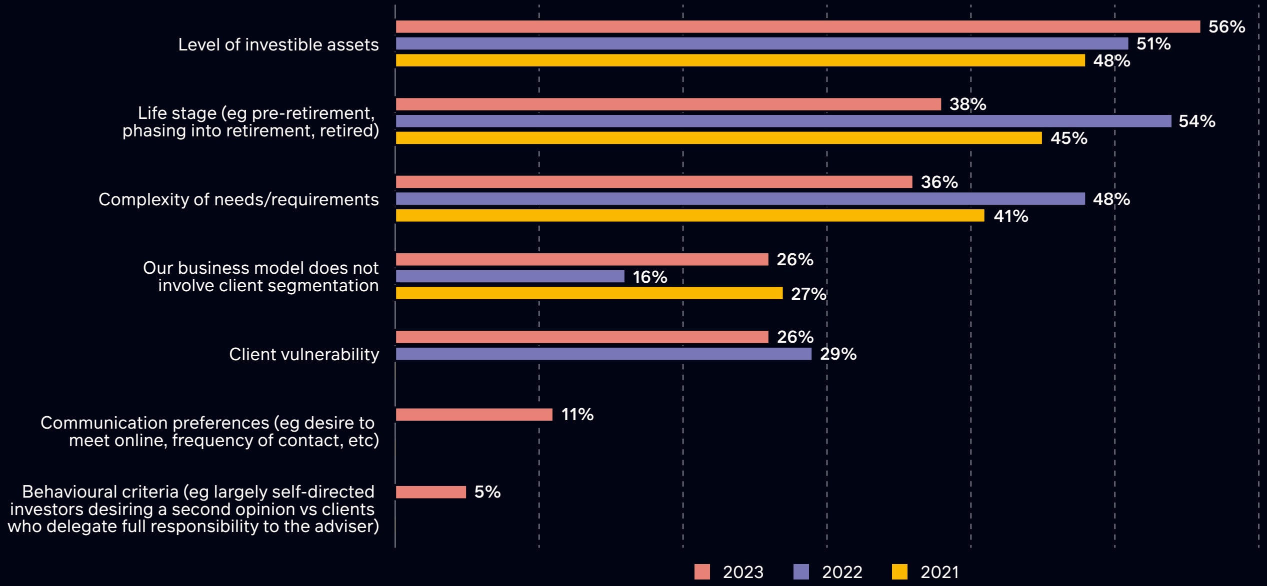

Source: NextWealth Financial Advice Business Benchmarks 2023 Report.

Advisers tell us that once clients have been categorised by asset value, the service delivered can be adapted in consideration of more specific client characteristics and needs such as:

- changes in life stage
- likelihood or evidence of developing vulnerabilities
- need for more or less contact
- level of desire to have input on rebalancing decisions.

Figure 4 shows that in addition to investible assets, life-stage and complexity of needs are the two most-used factors when segmenting clients. Communications preferences and behavioural criteria are new options this year, with 20% of firms using these factors to profile clients.

**Figure 4: Basis for segmenting clients**




Source: NextWealth, n=200 (all respondents).

> **It's not necessarily that what firms are doing is wrong, but that they can't evidence why it's right. And that's where segmentation comes in.**
>
> **Carla Langley**
> **Independent compliance consultant**

## Reasons for segmenting clients

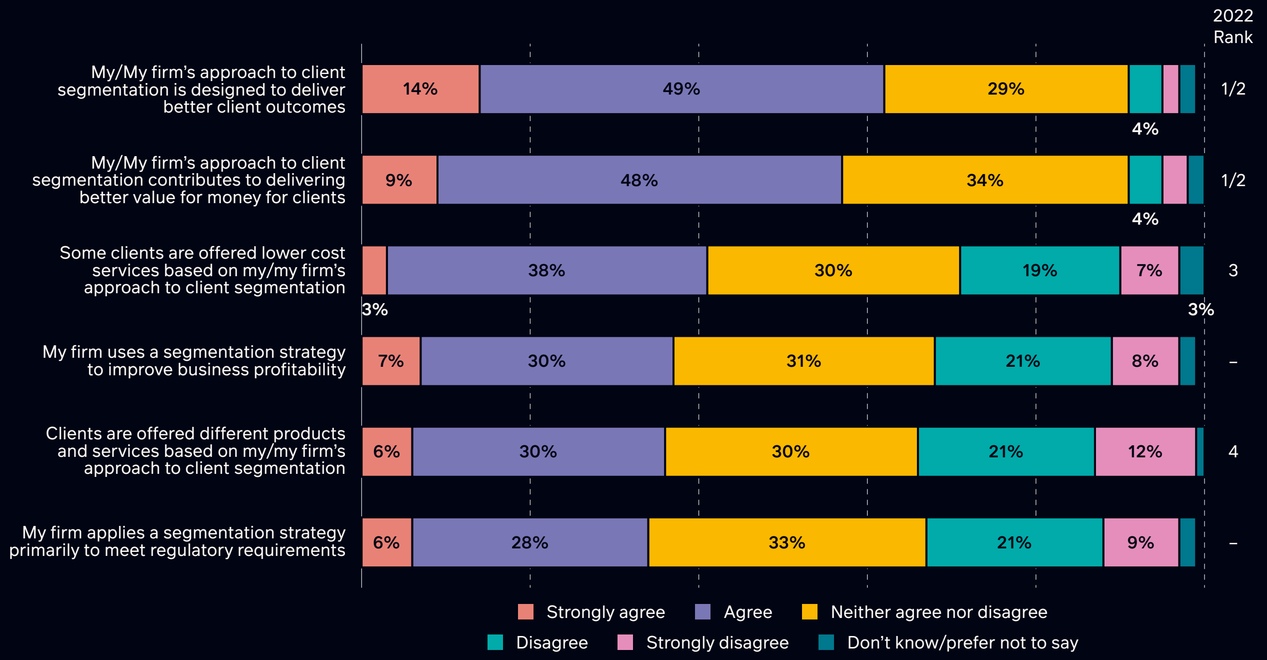
Figure 5 illustrates advisers' reasons for client segmentation.

The top three reasons are:

1. Providing better outcomes.
2. Delivering better value for money for clients.
3. Delivering against client needs above firm requirements.

One-third of financial advice professionals agree that their firm applies a segmentation strategy primarily to meet regulatory requirements.

**Figure 5: Reasons for segmenting your client base**




Source: NextWealth, n=200 (all respondents).

# Benefits of segmenting clients

## Five benefits for firms conducting segmentation under the Consumer Duty

### Purpose (what's your why?)

Segmentation is about understanding clients on a deeper level and instilling confidence in the suitability and value of your service. Segmentation provides a reason to step back and explore why you do what you do and your firm's view on what is most important for your clients.

### Marketing

Identifying ideal clients based on current specialisms/niches within the firm can help hone marketing activities.

A characteristics-focussed segmentation framed around delivering value against needs can also support referrals.

### Proposition design

Segmentation can benefit firms' proposition design because client needs can be mapped back against the service provided.

Many advice firms can find themselves with a mix of propositions that have been driven variously by client expectations, different advisers' styles of working or an old delivery model that no longer fits the bill. A robust understanding of who the firm serves well can also help identify and filter out clients that don't meet the firm's proposition.

### Operational structure

Firms can allocate resources more effectively and profitably, for example by determining which clients with simpler needs can be looked after by more junior advisers, with more experienced staff focussing on complex clients.

### Compliance

One-third of advisers agree their firm segments clients to meet regulatory requirements.

Segmentation provides a framework through which to understand client needs at particular points in the advice journey. For example, offering specialist add-on services for more complex clients at a fixed fee.

**Chapter takeaways**

- **Segmenting your clients means you can determine realistic operational and propositional parameters in meeting client needs. This ensures you are not over or under-delivering on value.**

# 4. How to segment your clients

**In this chapter, we:**

- **provide a simple eight-step process to create your segmentation strategy**
- **present a checklist for building a segmentation framework.**

## Step 1

### Clarify your firm's client segmentation goal

What does your firm want to achieve with client segmentation?

- Define an ideal target clients profile?
- Allocate resources more effectively?
- Design service levels according to clients' preferences and needs?

This assessment can also help in crystallising the firm's broader propositional strategy.

## Step 2

### Define client characteristics and explain why they matter

Think about the common characteristics of people that you work with and decide which are most relevant for profiling your clients into segments. These characteristics will be based on the needs your clients have in engaging with the services you offer, not how they fit with the proposition (that comes later). A full list of characteristics to consider is in **Chapter 5**. Some suggested characteristics include:

- age, location, preference for meeting online or in person
- advice solutions they may require (such as intergenerational wealth planning)
- the depth of need for ongoing financial advice versus one-off advice solutions.

Record why the chosen characteristics matter by thinking about how they might impact the outcome and value specific types of clients receive, eg frequency of communication for financially savvy vs less financially literate clients.

## Step 3

### Segment clients with similar characteristics

1. Review the common characteristics between your clients. Which have the most influence on types of client behaviours and outcomes?
2. Identify what client profiles make up your client bank.
3. Identify any trends in the service these groups receive, eg frequency and reasons for communication.

## Step 4

### Review the feasibility of the ongoing servicing model

Having identified your client segments, you now need to check the feasibility of providing the necessary level of service to these types of clients, by evaluating:

- Are these clients aligned to the firm's ability to provide a high-quality service?
- What adviser skills do the people you want to work with require to meet their needs?
- Does your firm have enough advisers with the skills to deal with clients with more complex needs (eg a high proportion of clients seeking tax advice or clients indicated as having specific vulnerabilities)?
- Will the firm have to put plans in place to upskill advisers and planners in order to meet nuanced client needs?

## Step 5

### Ensure the right tools and services are in place at appropriate points in the client journey as needs evolve

Some suggested shifts in client journeys that may impact considerations include:

- Inheritance or selling a business might mean these clients would derive particular benefit from cashflow modelling and tax and estate planning.
- Shifts in complexity should balance against risk profile and potential for harm so services can accurately reflect client needs.

This advice firm operates a target market matrix, which encompasses product complexity and risk ratings:

> **If clients hit the £1 million threshold, it would definitely be reviewed. We'd ask, is the service changing? Are we recommending more complex investments and tax planning? We have a target market matrix of the different products that we typically recommend, which have a complexity rating, and a risk assessment of how they could potentially cause harm.**
>
> **Head of Proposition,**
> **21 adviser firm**

## Step 6

### Assess your firm's data analysis capabilities

First consider whether your segmentation can be accomplished with current data held on clients:

1. Does collected client data provide an overview of and ability to monitor individual client needs, preferences, outcomes and value delivered?
2. How well is client need, preference, investment solution and service (including fee) data integrated?

Then consider these steps to help develop your integration and analysis capabilities:

3. Set up your data capture (fact-find) and CRM system by identifying what types of reports and fields within them you may need. The aim is to be able to identify shifts within client segments as characteristics and needs evolve.
4. Undertake the fuller fact-find on client preferences to add detail to client needs and segment profiles. Who will be involved? What method will you use, eg in-person at meetings or a client survey? How will this data be analysed and input into the CRM system?
5. Ensure integrated data can support segmentation analysis. Advisers highlight the importance of client lifecycle data being recorded consistently in the back office and building in time to receive provider valuation data.

Continually review the necessary data capture and analysis capabilities to keep information up to date and accessible and meet your segmentation objectives.

## Step 7

### Review the client segmentation model to ensure the firm continues to offer a suitable service to clients

Regularly assessing the planning needs of clients will capture changes in client needs as they occur and enable timely tailoring of services.

It is important at this stage to build in metrics into the segmentation review process that can help reveal shifts in client behaviours and the underlying needs that drive them, for example

- Have clients accumulated more or less wealth than expected and require a reassessment of services delivered to them and their assigned segment?
- Have clients told us about a new set of needs or specific vulnerabilities?
- Are the clients getting the returns they expect/need?
- Are clients making more withdrawals than we'd expect?
- Is the fee paid by clients still proportional to their needs?

**We're reviewing [our segmentation model] every six months, looking at whether the segmentation documentation accurately reflects client journeys. It's an important working document.**

**Executive Director,
three adviser firm**

## Step 8

### Identify prospective clients

Assess whether there are other target clients that you don't currently serve that represent a natural opportunity to target in the future. Questions to consider:

- Which types of clients align with the firm's propositional strategy?
- Are segmentation reviews showing some clients beginning to develop needs that represent a new type of segment which you could serve, but currently do not have a formalised strategy for?
- If you pursued these segments, how would it affect the overall client proposition? What impact would it have on resourcing and value delivered to your overall client bank?

## Building a client segmentation framework

In the checklist on page 18 we've highlighted the points we think advice firms need to address around their client segmentation activity. We have split these points into four categories, which follow the order of building out your segmentation model.

Breaking up the process in this way can help you think about how your firm may want to assign responsibilities and make the process more manageable, depending on the structure of your firm.

> **After certain touch points clients get an email with feedback functionalities. That feeds into the Consumer Duty outcomes around customer understanding and providing fair value.**
>
> **Head of Proposition, 21 adviser firm**

**Chapter takeaways**

- **The eight-step process lets you create as well as review your (existing) segmentation strategy.**
- **Use the Steps to regularly check if your documentation still reflects client's journeys.**

## Checklist for building a client segmentation framework

| Prepare your approach | |
|---|---|
| What are the intended outcomes of your client segmentation? Identifying target clients, allocating resources or designing service levels? What is the firm's priority? | |
| Who will be involved in this scoping-out stage? | |
| What does meeting the intended outcomes of client segmentation give the firm: A clearer view of the type service you're trying to provide? Ability to implement more efficient processes? More value delivered (to who and how)? | |

| Implement client segments | |
|---|---|
| Have you identified from your client data, common characteristics in how they engage with the services you offer? | |
| Why do these characteristics matter in terms of the outcome and value this type of client receives? | |
| What are the common characteristics between your clients, and which have most influence on types of client behaviours and outcomes? | |
| Pull out profile segments as result of Steps 2 and 3. | |
| What proportion of the client bank does each profile represent? Are there are any trends in the service these groups receive? | |

| Refine the proposition | |
|---|---|
| Can your on-going service model feasibly provide the necessary level of service to your identified client profile groups? | |
| Is more training or staff resource needed to meet (nuanced) client needs? | |
| Does your firm have the right tools in place to deal with changes in client needs during their financial planning journey, eg introducing tax, estate planning and cash flow modelling for inheritors? | |
| How consistently does the fee structure reflect value throughout the client journey? When in the client journey and how will your firm adapt the fee mechanism, if necessary, to meet client needs and safeguard the value clients receive? | |
| Have you got enough detailed data on clients to tell you about their characteristics, eg intergenerational planning needs, need for active management, willingness to engage with the advice process? | |
| Is more data (eg beyond AUM and life stage) on clients needed? How will you capture this? | |

| Review the segmentation | |
|---|---|
| How often will you re-assess the segmentation? What metrics and data points will you use to assess whether client needs have changed and whether solutions are still suitable? | |
| Are new segments beginning to emerge? Is there a new type of segment which you could serve, but currently do not have a formalised strategy for? | |
| How would targeting a new segment(s) impact on resourcing and the value delivered to the rest of the client bank? | |

# 5. Putting a segmentation framework to work

**In this chapter, we:**

- **provide examples for client characteristics**
- **examine what an applied client segmentation framework might look like.**

**Example: After reviewing the underlying data held to assess our current and target clients, we have segmented these clients into profiles, categorised by common characteristics, described in Step 1. We have described how our clients fit into profile groups outlined in Step 2.**

| | Step 1: Defining characteristics | Step 2: Segmenting clients |
|---|---|---|
| **Client characteristics** | **Why has it been considered?** | **Identified characteristics**<br>**What does this mean in terms of value, products or services received?**<br>**Example segment: Young accumulators** |
| Asset level | Asset level can help us understand how influential cost is on the recommended solution and advice delivery method | £100,000 accumulated wealth + income with at least £20,000 of excess income each year<br>Affordability to pay for advice is not a concern for these clients |
| Age range | | |
| Life stage | | |
| Advice and planning needs | | |

| Client characteristics | Step 1: Defining characteristics<br>Why has it been considered? | Step 2: Segmenting clients<br>Identified characteristics<br>What does this mean in terms of value, products or services received?<br>Example segment: Young accumulators |
|---|---|---|
| Factors impacting the advice journey | | |
| Wrapper requirements | | |
| Investment knowledge and comfort level | | |
| Willingness for risk | | |
| Willingness to engage with advice process (eg responding to rebalancing requests). | | |
| Need for active management | | |
| Need for on-going advice | | |
| Need for online access | | |
| Level of susceptibility to financial crime | | |
| Approach to receiving advice | | |
| Tools and services offered | | |
| Typical communication method | | |

# 6. Actionable tips from firms that are segmenting clients through the Consumer Duty lens

### Don't over-engineer your segmentation

Acknowledge possible overlap between the characteristics in client segments, and that clients are likely to phase in and out of their 'assigned' segment.

### Clarify objectives and challenges

What is your purpose for client segmentation?

What benefits do you expect it to provide to your firm and clients?

Identify current challenges to achieving your objectives, such as a skills gap.

### Benchmark your current status to evidence future value-add from the client segmentation exercise

Highlight current key performance metrics such as client profitability, customer satisfaction and referral rate, and time spent on client servicing.

Then set a timeframe to look at the value that has been added following the segmentation process against those same metrics.

### Consider outsourcing expertise

Working with external partners (investment company, data strategists or compliance consultants) can add an unbiased perspective in assessing whether infrastructure and process changes are needed to make the collection and use of data more effective.

### Develop feedback loops with clients

Client feedback should be central to the firm's communications strategy.

Satisfaction surveys are one way to enable clients to provide up-to-date needs information and the firm to keep client needs under review.

It's important to develop a loop analysis of the impact of measures taken, and if satisfaction is improving or decreasing. This can also encourage broader engagement with both the firm and advice process.

# How M&G Wealth Platform can help

Whether you're a client segmentation fan or not, the need to evidence how your advice firm delivers on its Consumer Duty obligations is a big reason to give segmentation (or your existing framework) another look.

Segmentation helps you support your business objectives while delivering the value and experience that truly matches your clients' individual needs. And yet, in practice, segmentation can be tricky to implement and deliver.

With this guide we hope to help you meet your business objectives head-on, with:

1. a best practice approach to evidencing how you understand and meet your clients' needs
2. actionable tips from advisers who have done it themselves
3. supporting independent research and interviews conducted by NextWealth.

Intelligent segmentation may be part of processes to help ensure you stay compliant. But, more than that, it offers an opportunity to optimise competitive strengths, keep clients engaged, justify fees and offer a clear and differentiated proposition in a crowded marketplace.

At M&G Wealth Platform, we're committed to helping you serve your clients how you want to and keep up with regulatory changes.

To explore further how we can support you, please visit the Consumer Duty hub or email us at platformsupport@mandg.com

## About NextWealth

NextWealth is a specialist research and consultancy business dedicated to helping firms adapt to what's next in wealth.

We have a genuine passion for wealth management and want to make the industry work better for financial advisers and consumers. We do this through unrivalled research, insight, consultancy and thought leadership to help our clients thrive by turning ideas into action and change.

We are experts on the financial advice market, specially focusing on investment propositions and adviser tech.

We publish syndicated research reports and industry metrics, perform bespoke services and host public events and private roundtables. To sign up to our research panel, email **enquiries@nextwealth.co.uk**

The NextWealth Directory lists and reviews all of the tech providers supporting financial advice businesses. It is free to use and has over 1,700 reviews from people working in financial planning firms. From back office systems to cashflow modelling – we publish ratings and reviews. Read a review. Leave a review: **nextwealth.co.uk/directory**

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