

Episode 13: Transcript & Shownotes

Title: From disclosure to understanding: Aligning client preferences with investment solutions

Summary: In this episode of Accord Talks, Elly and Lee explore the growing focus on consumer understanding under Consumer Duty and what it means for financial advisers in practice. They discuss the FCA's latest guidance on communications, sustainable investment labels, and the Climate Change Committee's latest carbon budget analysis. With insights from **Graeme Devlin** and **Sam Buckingham**, the episode looks at how firms can better understand clients, test communications and align investment solutions with real client needs.

Note: Guest contributions are transcribed from the recording. Host sections are based on the final script used for recording and may contain wording variations from the audio.

Transcript:

Elly: Hello, I'm Elly Dowding.

Lee: And I'm Lee Coates. Together we are In Accord and the Accord Initiative.

E: You're listening to Accord Talks, a podcast about sustainability and compliance and advice processes supporting the financial advice sector. We hope you're all well.

L: We've got a couple of really interesting guests lined up for today - looking forward to hearing from Graeme and Sam for some detailed and valued commentary covering consumer testing and client alignment... But, as usual, I think we've got a few regulatory and industry updates that we should cover first before we move into today's guest discussions.

E: Yeah, agree on both counts. OK, so let's start with something the FCA published recently that I think is actually really quite useful from an educational perspective for advisers. This is the FCA's recently published good and poor practice examples note on sustainable investment labels.

To give this a little context for our listeners, firms have been able to use sustainability labels under the FCA's Sustainability Disclosure Requirements regime since July 2024. These examples cover the labelling part of the regime - the labels seek to improve transparency and equip consumers with information to navigate the market.

L: Yes I like this new webpage explainer. Basically, it's a run through of good and poor practice disclosures that the FCA have seen when implementing the labels.

I'll happily add that it is very easy to read - and what's interesting about it is that it acts as a really practical explainer for advisers trying to understand how the labelling regime works in practice. This is great for due diligence and client preference understanding.

E: Exactly. So, the FCA has laid out the thinking behind the four labels and the types of characteristics you would expect to see in funds using them.

So if you're still trying to get your head around the regime - what each label is intended to represent, what is a sustainability objective, what are negative outcomes, KPIs and evidence based standards etc and how products might demonstrate all that in order to meet label criteria - this FCA release is a really helpful reference point.

L: One thing worth noting though is that the explainer focuses specifically on the labels themselves. So, it doesn't cover the separate requirements around naming and marketing rules or the disclosures required for unlabelled funds... and for advisers there are of course many many funds that they use that fall under the naming and marketing rules but don't appear within the FCA's labels framework - these may be funds that don't meet or easily fit the labels criteria or non UK domiciled sustainability related funds which are not yet in scope of the SDR.

E: Yes - and that's important to point out - it's really focused on the practical understanding of the labels themselves, rather than the wider disclosure regime. I think an interesting key takeaway for me on this is that whilst this is an explainer for product manufacturers, it is really useful right across the market - the whole manufacturing and distribution chain for good consumer outcomes.

L: Agree. Good points. For those of you who are keen - we will put the link to the page in the show notes.

E: OK, Next. Let's now step over to something from outside the advice sector but still very relevant to the broader sustainability landscape. The Climate Change Committee recently published supplementary analysis relating to the Seventh Carbon Budget.

For anyone unfamiliar with the Climate Change Committee - the CCC is the UK's independent statutory body established under the Climate Change Act 2008 - that advises the government on emissions targets and reports to Parliament on progress made in reducing greenhouse gas emissions and preparing for and adapting to the impacts of climate change. And the carbon budgets themselves are essentially legally binding limits on the total greenhouse gas emissions the UK can produce over a five-year period. They form the pathway the UK follows to reach net zero emissions by 2050.

L: The latest analysis builds on the CCC's recommendations and looks at the economic and sector-level implications of the seventh carbon budget, which covers the early 2040s. I think we should share some of the key messages for this supplementary analysis - do you want to read those out for us Elly?

E: Yep OK. So the top one: For every pound spent on Net Zero, the benefits outweigh this by 2.2 to 4.1 times!

Avoiding climate damages is the most significant benefit of the transition. This saving is estimated between £40 billion and £130 billion in 2050.

Energy losses are halved compared to today. Losses in a Net Zero system are valued at £30 billion per year, compared to £60 billion a year in today's energy system.

And the final key message they share: The transition is set to deliver far greater health and wellbeing co-benefits than costs. Cleaner air, warmer homes, more active travel and healthier diets strongly outweigh downsides like extra public transport time or potential congestion from increased EV use.

L: Those are some very hard to ignore statistics. The link is in the show notes for you all.

So, to sum up on this. The CCC continues to emphasise that while progress has been made, policy certainty and investment are still critical if the UK is going to stay on track.

And although advisers are obviously not directly responsible for climate policy, these reports matter because they shape the direction of travel for the real economy. This in turn influences investment markets, corporate strategy and long-term capital allocation.

E: OK, moving on. Next, we want to talk about something much closer to the advice process.

The FCA recently released “Consumer understanding: good practice and areas for improvement.” This sits squarely under Consumer Duty, and focuses on how firms communicate with clients.

L:

Yeah, such a well-timed and much-needed release from the FCA. I think the central message is pretty straightforward. Providing information is not enough. Firms need to consider whether their communications actually help consumers understand what they are being told and make effective decisions.

E: I think, like you said earlier, about SDR release being very easy to read, this consumer understanding page is the same. On the page, the regulator highlights a number of areas where firms are doing well - but also then where improvement is needed. We won't detail this for you now - we have added a link in our show notes.

L: These examples are so useful for advice firms and compliance firms. It is particularly good that the FCA have also inserted blue boxes into the page for specific feedback for smaller firms. This is really useful.

E: Yeah, reading this page, and the Consumer Duty more broadly, it is really interesting seeing the regulatory style shift. I think historically, we would have seen the focus on whether information had been provided. But now we are increasingly focusing on whether that information actually works for the client.

L: Oh that was a good segue! OK, so because this issue of how firms test and evidence consumer understanding is something that's becoming increasingly important across financial services, we thought we should bring in a subject expert.

E: Yes, agree. Our first guest today is Graeme Devlin. Graeme has spent his career working at the intersection of product governance, distribution and regulation within asset and wealth management. After leading global distribution governance at Aberdeen, he co-founded a boutique consultancy, where he served as Managing Partner, advising firms across the UK and Europe on product strategy, regulatory change and consumer outcomes. He is currently consulting, as well as providing board advisory to a marketing firm and distribution agency. A consistent theme throughout Graeme's work has been a focus on ensuring that the interests of end consumers are properly reflected throughout the investment journey, from product design through to the clarity of client communications. He is also an advisor to Miggins, a platform that uses AI to help firms test and improve consumer communications, providing both compliance insight and practical analysis of whether documents genuinely work for the end investor. So, I'm excited to hear from Graeme now.

Graeme Devlin: So, Elly, Lee, thank you very much for having me on.

One of the most interesting shifts happening in financial services at the moment is a move away from simply disclosing information to clients and towards actually testing whether clients properly understand it.

Historically, we've been very good at producing documentation, advice reports, suitability letters, product disclosures, client communications.

There's a huge amount of material created across advice process. Most of it's carefully written, reviewed by compliance teams, and it's technically accurate.

That doesn't necessarily mean clients actually understand it.

And that gap between what firms disclose and what clients actually comprehend is increasingly where regulators are focusing their attention.

So in the UK, Consumer Duty has really sharpened this conversation.

One of the four outcomes under the Duty is consumer understanding, and the FCA have been very clear that firms should not assume understanding simply because information is being provided.

Firms are expected to think about whether the communication generally enabled clients to make effective decisions.

For advice firms this is particularly pertinent because relationships rely heavily on clarity and trust.

Clients are making long term financial decisions about their pensions, investments, retirement planning, often involving complex products and strategies.

What we're frequently seeing when reviewing advice documentation is the reading age - the age level is significantly higher than the UK average reading age, for example, which is around 9 to 11 years old.

Suitability reports, risk explanations or product descriptions can easily end up written at a level that assumes a professional or industry audience rather than that retail client.

This creates quite a big challenge and clients may acknowledge documents saying suitability reports confirm they understand recommendations, but in reality may not fully grasp the implications of what they're actually agreeing to.

So the key question becomes how do firms actually test consumer understanding?

There are few approaches starting to emerge across the industry and certainly some that have been around for quite a long time.

First, there is direct client testing, so it might involve surveys, interviews, focus groups where a firm will ask a client whether communication makes sense. These can be really valuable but the challenges are quite resource intensive and difficult to run regularly.

The second approach is behavioural insights. So looking at how clients interact with communications, for example which sections they read, where confusion arises and whether key messages are actually retained.

With the third approach which is starting to grow more quickly is analytical and AI driven testing of the communications themselves. This is where technology can start to play quite an interesting role in the process.

AI models can now review client communications and test them against a range of factors, including factors that influence consumer understanding. That includes things like the reading age, the sentence complexity, the clarity of language, and whether key concepts are explained in a way that would be understandable for different types of investor.

At Miggins, this is our firm where I have been a trying to combat that challenge. We've been exploring the use of AI driven investor personas as well as regulatory compliance to simulate how different types of clients might interpret a document. Rather than assuming the document is clearer, firms can effectively test against the panel of simulated consumer profiles, for example, someone with lower financial literacy, someone approaching retirement or someone with limited investment experience.

The purpose isn't to replace client feedback, but to give firms a scalable way to stress test communications before they actually go out the door.

What tends to emerge from this kind of analysis is quite revealing. Documents that appear clear, internally, can often contain technical language, complex sentence structures, or implicit assumptions about knowledge that clients simply don't have.

So, yeah, AI consumer testing as well as the other consumer testing is starting to provide firms with a new lens to look at communications not just from compliance, but from the perspective of a clients to actually understand the message that the communications trying to deliver.

For advice firms specifically, I think there's three practical steps worth considering.

First, review your core client communications through the lens of understanding rather than just disclosure.

Ask whether the language genuinely works for the client audience.

Second. Where it is possible, test key communications before they are widely used. This might be through client feedback, structured review, increasingly through analytical tools.

And third, start thinking about how you evidence consumer understanding. Regulators are increasingly interested in whether firms can demonstrate that communications have been assessed and tested. Ultimately, it's not just regulatory compliance that matters now.

So clear communication improves trust, strengthens advice relationships, and helps clients make better financial decisions.

Consumer understanding for me is becoming a core part of delivering good outcomes, and testing that understanding is likely to become a much more common part of how firms design client communications in the future.

L: That's a really fascinating perspective. Thanks so much to Graeme for making the time to join us from his very busy schedule. One thing that really stands out to me is the idea that just because a document is compliant doesn't necessarily mean it's understandable. I

think it is that gap between disclosure and comprehension that the FCA seems to be focusing on now.

E: Agree. For me, another interesting point is the growing role of testing communications, whether that's through client feedback, behavioural insights or analytical tools. I think it raises a broader question for advice firms. If Consumer Duty expects firms to demonstrate consumer understanding, then how do you evidence that communications actually work for clients? Then, which of your clients, then have you segmented clients to sufficient granularity etc etc. I think this matters greatly to clients with sustainability and values-related preferences.

L: Yep completely agree. It is not just consumer understanding - I think with values related and sustainability client-related preferences and vulnerability as well, we also need to step back a bit further and look at advice firm process and adviser understanding as well. It's like the chain you mentioned earlier with product manufacturing, Elly. All of this is linked with lots of feedback.

OK, so this leads quite naturally into the next stage of the advice process. Because once you understand the client and communicate clearly with them, the next challenge becomes aligning the investment solution with that understanding. We have the perfect guest for you all for this topic.

E: Yes, we do. OK, so our second guest today is Sam Buckingham. Sam is the Founder of investment consultancy Buckingham Research and the soon-to-be-launched investment research and oversight platform Bridge. He previously built and managed multi-asset investment solutions at several leading UK wealth management firms, overseeing billions of pounds of client assets. Sam now focuses on helping financial advisers strengthen their Centralised Investment Propositions through institutional-grade investment research, due diligence and governance support. Let's hear from Sam.

Sam Buckingham: Hi both, thank you so much for having me on the podcast.

Delighted, you know, to be here and give my perspectives on the topic of, you know, understanding clients in relation to their investment preferences, really.

And so I think really, first of all, if you strip investment advice back to its foundations, clearly the starting point should always be understanding the client properly, and that isn't just, you know, their risk or from a questionnaire.

But it's actually, you know, how they think about money, how comfortable they are with volatility, what their long-term objectives might be, sustainability requirements, and even how they might behave when markets inevitably fall.

Because once you really start to understand that, you know, the next step becomes much clearer, which is where I sort of work with advisors. Which is finding the investment solutions that you know genuinely align with, you know, those client needs. And so, really, essentially, that alignment I've sort of touched on requires advisers to understand two things equally well.

I mean, first and foremost obviously as I've talked about, they need to understand their clients in depth.

But then secondly, you know, they also really need to understand the investment products and services that they're using for their clients as well.

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So if I use an example in if an adviser is recommending an MPS solution, they really should be, you know, understand things like, you know, the investment philosophy behind it, how risk is managed, and how portfolios tend to behave in different market environments.

And ultimately, you know what type of client that solution is actually designed for.

And it's really, you know, when those two things come together, which is obviously, you know, a deep understanding of the clients and a deep understanding of the investment solution, that's obviously when you get that sort of perfect real alignment and what you've what everyone's aiming for.

Now, having said that, you know that alignment doesn't always happen. And when it doesn't, you know, it can lead to clients, you know, perhaps not ending up in the most appropriate investment solution available.

But also, you know, a bit of a mismatch of expectations between, you know, what the client believes they're getting and how the investment actually behaves. And so for example, you know, a client may technically sit in a particular risk category, but their real-world behaviour might actually be very different.

You know, they might say they're comfortable with, you know, high risk but become very uncomfortable when markets fall 15 or 20% let's say.

Or perhaps, you know, a stable income might actually be most appropriate for their lifestyle, but they actually end up in portfolios designed, you know, more for sort of longer term capital growth.

So really, just saying, you know, even if the product looks suitable on paper, the experience of the client, you know, might not feel right and you get that mismatch. And clearly, you know, in those scenarios that can lead to not only disappointment from clients, but, you know, a bit of a breakdown of trust and that's clearly something which advisers want to want to avoid at all costs.

But I think, you know, that's on the client side, which I focus less on. What I focus more on is with the businesses and the firm level. And I think there's also an interesting should knock on effect this can have at the firm level, particularly when it comes to building a centralised investment proposition or CIP.

So really, you know, the firm that doesn't fully understand the characteristics of its client base, what can sometimes happen is it can lead to firms including, you know, a very wide range of products and providers, you know, within their CIP, essentially trying to sort of cover every possible scenario, but under, you know, Consumer Duty as we know, that approach is becoming increasingly difficult to justify.

Its firms now need to demonstrate why each investment solution has been selected, how it meets the needs of a defined client, group and how it is being monitored on an ongoing basis.

So really, effectively, you know, the more solutions you include, the more you know, governance and oversight work that's required.

But actually interestingly my view, the opposite can also be true in terms of, you know, sometimes when firms actually, you know, dig into their clients and analyse them in much

greater detail, they might actually realise that their client base does actually require a broader range of investment solutions than they initially thought.

And so in those cases, clearly, broadening the CIP can absolutely make sense.

But obviously the challenges I've alluded to already is doing that research required to properly assess, monitor multiple investment, you know, providers can be extremely time consuming.

And that's actually one of the reasons why we're launching Bridge.

Which is essentially, you know, it will help advisers and firms you know access, you know, deep research and insights on investment solutions like MPS providers so they can make better informed decisions about which ones belong in their CIP and the best suited for their clients.

But ultimately it all comes back to that starting point, which is, you know, the better advisors understand their clients, the easier it becomes to selecting the right investment solutions, builder focused, appropriate CIP and then deliver outcomes that genuinely match client expectations.

L: Excellent. Thanks so much to Sam for joining us. There's a really important point there about alignment. Understanding the client on one side, and understanding the investment solution on the other. To do this you need to know your client fully - non-financial objectives and all!

E: Yes absolutely agree - it is pivotal. When those two things come together properly, that's when advice can genuinely support good outcomes in a consumer duty world.

L: But we do need to talk about if there's a mismatch, that's where problems start to emerge. Whether that's a client being placed in an investment solution that doesn't match their behaviour, or firms struggling to justify the structure of their CIP.

E: And again, it comes back to client understanding. Its obviously not quite the same as a manufacturer and distributor chain in the eyes of the regulator because a CIP is a process to deliver products rather than actually being a product - but in order to have a process to deliver good outcomes, the design rests on understanding the end consumer and having a process that matches outcomes and does not shoehorn clients. If you truly understand the client - their objectives, behaviour, preferences and expectations, then designing the investment proposition becomes much clearer.

L: And actually, this conversation ties quite neatly into something we've been working on and talking about a lot recently - it's the Client Preference Ready badge of course!

E: Woohoo! Yes we have! Somewhat a favourite topic. The badge is now live for advice firm applicants.

L: Yes it is. And, one of the themes running through everything we've discussed today is the importance of structured client understanding. The CPR badge recognises advice firms that have embedded a consistent and neutral approach to understanding and recording client preferences and objectives as part of their advice process. Importantly, it's a process-based badge rather than an outcome-based one. This means it doesn't assess fund selection, ESG expertise or investment performance. Instead, it focuses on whether firms have a clear

and consistent approach to understanding what matters to their clients and recording those preferences properly. This is so relevant to all the discussions today

E: Yeah agree. It is all about strengthening how firms demonstrate client understanding, informed choice and suitability within their advice process. It also makes all the great work by firms visible to existing and prospective clients. I've really loved the badge conversations that we've had with advice firms so far.

L: Yes, to pick up on that first point you made there, Elly; we all read the financial press, most of us are acutely aware of digital advice and targeted support and LLMs etc - the need for fully advised models to differentiate and define their models and conduct fair value assessments etc. We truly think the CPR badge helps. OK, so there's certainly been a lot to unpack in today's episode - the question is - did we bring it all in accord?

E: Yeah, I think so. Considering we have covered a lot ranging from sustainable investment regulation to consumer understanding and advice process design, I love how the CPR badge neatly does bring it all together.

OK, so to close. As mentioned throughout the episode today, we've added all the links to the shownotes - and of course, links to our guests Graeme and Sam's work. A huge thanks again to both Graeme and Sam for sharing their insights.

L: Yeah, great. Okay, before we go, I really wanted to mention how delighted we are to be highly commended in the best specialist support service category for the Professional Adviser Awards in March. This means so much to both of us. Okay, if today's discussion has sparked questions about consumer duty, client understanding, or the client preference ready badge, please do get in touch with us.

E: And if there are any topics you'd like us to cover in future episodes, we'd love to hear from you. If you enjoyed this episode, don't forget to subscribe to Accord Talks. And of course a big thank you to our Accord Initiative partners who make the podcast possible.

L: Thanks for listening.

E: We've loved it. We hope you have too.

SHOW NOTES

FCA Sustainability Disclosure Requirements labels: good and poor practice - <https://www.fca.org.uk/publications/good-and-poor-practice/sustainable-investment-labels>

Climate Change Committee Supplementary analysis of the Seventh Carbon Budget - <https://www.theccc.org.uk/publication/supplementary-analysis-of-the-seventh-carbon-budget/>

FCA Consumer understanding: good practice and areas for improvement | FCA <https://www.fca.org.uk/publications/good-and-poor-practice/consumer-understanding-good-practice-areas-improvement>

Miggins - Putting the customer at the heart of financial communication - Comprehensive insight for clarity, compliance, and trust in UK financial services - <https://miggins.co/>

Buckingham Research Investment Insights for Financial Advisers and Asset Managers <https://buckingham-research.com/>

Client Preference Ready Badge - consumer page - <https://www.inaccord.co.uk/client-preference-ready/>

Client Preference Ready Badge - adviser page - <https://www.accordinitiative.com/public/page/Client+Preference+Ready+Badge/236>