

GIVING CREDENCE TO CASH:

WHY IT'S TIME FOR FINANCIAL ADVISERS TO CHALLENGE THEIR ASSUMPTIONS

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Why it's time for financial advisers to challenge their assumptions

£2.3TN

£2.3tn in business and household wealth is held in cash; £1.3tn of this is household wealth.



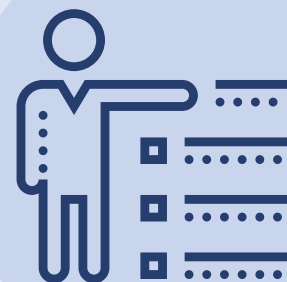
WHY IFAS SHOULD CARE ABOUT CASH?



1. Advised clients hold large sums of cash and the share of UHNW money in cash is growing
2. Retain clients who need a cash solution - keeping cash holdings under the purview of the adviser
3. Cash is an asset class and should be considered part of a holistic financial plan

WHY CASH MANAGEMENT?

1. Protect client wealth
2. Improve returns
3. Keep up with the competition
4. Pipeline generation
5. Less admin



FIVE OPTIONS FOR CASH



Banks are best for holdings of less than £85,000. We note that Revolut recently launched a savings marketplace.



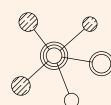
Money market and other cash-like funds saw assets under management double in the year to February 2020



Clients hold cash on investment **platforms** pending trades or withdrawals.



NS&I is a popular option with deposits backed by HM Treasury.



Cash management providers offer access to marketplace savings and are able to connect customers to multiple deposit-takers.

INTRODUCTION

NextWealth have taken a deep dive into the UK's cash management sector. In this report, kindly supported by Insignis Cash Solutions and NS&I we explore adviser approaches to working with client cash holdings, report the size of the market for cash management and profile specialist cash management providers as well as the cash servicing arms of other institutions.

We think advisers are not giving cash as an asset class the full attention it merits. We believe cash forms a core part of wealth, and that holistic financial plans cannot be described as such if clients maintain substantial cash holdings outside their scope. The head of a large adviser network, we spoke to believes that *"most advisers have no idea what their clients have in their bank accounts"*. That means missed opportunities for both the client and the adviser.

The cash management sector is expanding to meet growing demand. St. James's Place and Hargreaves Lansdown both offer cash management services to their clients and existing specialist providers in the UK are being joined by new players from overseas. More recently, providers are reporting a surge in enquiries since the Covid-19 pandemic and resulting market declines and volatility.

Hence there has never been a better time for financial advice firms to take another look at how they work with their clients' cash holdings and the service they offer to their existing and potential clients.

This report addresses the following questions on working with clients' cash:

1. Why should advisers care about cash?
2. When does it make sense for advisers to bring in specialist cash management providers?
3. How do the options for clients' cash holdings compare?
4. Which client segments are best suited to a cash management service?
5. How do specialist cash management providers compare?

Thank you again to Insignis Cash Solutions and NS&I for supporting this report.

CONTENTS

Introduction.....	p2
Three reasons adviser should care about cash.....	p3
Five reasons to use cash management services.....	p4
Five options for client cash holdings.....	p5
Client segments best suited to cash management.....	p6
Client take-up.....	p7
Other considerations.....	p8
Provider profile summary.....	p10
Conclusion.....	p13

03

THREE REASONS ADVISERS SHOULD CARE ABOUT CASH

1 MANY ADVISED CLIENTS HOLD LARGE SUMS OF CASH

Across the UK, cash deposits from households and businesses total more than £2.3 trillion, with households accounting for more than half of this (£1.3 trillion) (Cebr, 2019). Capgemini's World Wealth Report from 2019 found that cash replaced equities as the most held asset class in Q1 2019, representing 28% of high net worth individual (HNWI) financial wealth, while equities slipped to second position at nearly 26%.

The main drivers to hold large sums of cash are a desire for liquidity and protection of capital. The following are more specific reasons for large cash holdings:

- **Cash buffer:** Cash buffers are widely used. While we have not quantified use of cash buffers for clients accumulating wealth, research by NextWealth for Aegon earlier this year found that 84% of financial advisers use a cash buffer for clients in retirement and 69% of advisers allocate at least one year of income to cash.
- **Large known expenditure:** Investors will hold a cash reserve to pay a large tax bill, such as for the sale of a business, or for a downpayment or renovation of a house.
- **Sudden windfall:** Customers will often pause for breath after receiving a large lump-sum of cash, for example from the sale of a business or an inheritance.

One provider we spoke to said that *"for clients in decumulation or nearing that point, advisers don't have the luxury of not offering a cash solution."* NextWealth estimates that 60% of advised client assets are for clients seeking retirement advice, making a cash solution essential.

2 CUSTOMER RETENTION

The final bullet point above brings us to our second reason to care about cash: customer retention. Offering clients a well-optimised solution for cash holdings ensures that cash from a sudden windfall remains under the purview of the adviser – rather than a bank.

An executive from a financial advice business that uses Flagstone for cash management told us about a client for whom cash management was the ideal solution. The client never had much money with the firm until he sold his business for £10m.

"No one, the day after they sell their business, wants to invest all of the money. This is an extended conversation. With that particular client it took a few months for him to think about what he wanted to do with the money. I was able to help him get set up on Flagstone so he got better rates and protection. We then had an on-going conversation for what he wanted to do with that cash."

3 IT SHOULD FORM PART OF A HOLISTIC FINANCIAL PLAN

Taking cash seriously as an asset class means that financial advice firms are able to get a more holistic view of a client's wealth. Financial advisers will get a sense of cash holdings for a client in a fact find meeting but often do not advise that client on cash. Cash flow modelling is widely used by financial planners and as one provider pointed out: *"you can't predict the future without the full picture of a client's finances."* Cash is an asset class and as such should be considered as part of the overall financial plan.

FIVE REASONS TO USE CASH MANAGEMENT SERVICES

Many financial advisers have started making use of open banking to pull data from savings accounts into client portals. Going one step further, we think advisers should consider taking a more active role in managing this increasingly important asset class.

1 PROTECT CLIENT WEALTH

The FSCS offers protection up to £85k. Above that level, customers should consider their options. NS&I offers protection on all funds and cash management providers can recommend a portfolio of accounts to ensure clients are below the £85k limit.

2 IMPROVE RETURNS

While most of us would not consider trying to maximise returns from cash, cash management providers can help to find better rates, allowing customers to eke out higher returns. Depending on the duration of the deposit, providers told us they could deliver up to 1% more than a standard easy access account.

3 KEEP UP WITH THE JONESES... AND THE JAMES'S

St. James's Place and Hargreaves Lansdown have launched cash management options for **their** clients. St. James's Place has partnered with Flagstone while Hargreaves Lansdown launched Active Savings, offering access to a panel of banks and building societies.

4 PIPELINE GENERATION

It has been difficult with rates so low for advisers to make money helping clients manage their cash. Many cash management providers offer a fee sharing arrangement: three of the seven profiled in this report facilitate fee sharing. However the charges are small and so the fees earned are low.

One provider we spoke to said that 72% of financial advisers that use their platform don't charge clients a fee. These advisers use cash management as an added value service to clients. The provider described it as a *"pipeline generator for people who don't want to invest yet."* She added that *"it gives the adviser visibility of the cash so that he or she knows it has not been spent and the banks themselves are not trying to get their hands on it."*

5 LESS ADMIN

Financial advisers are busy professionals and are time poor. They also want to deliver a slick experience to their customers. Banks often require paper forms with oodles of ID checks to open an account. Cash management providers have made it easier to open accounts with multiple institutions. Most require one account to be set up and then the cash management provider handles account openings at the various banks on behalf of the client.

Andrew Elson of Berry & Oak told us: *"It can be a pain to set up at the start but then it's dead easy."* The firm uses Intelligent Office and links the cash management system to the back-office system and client portal so that the client can see all of their wealth in one place.

Mark Evans, Managing Director of Tavistock Private Client Wealth echoed these comments: *"We have started using Akoni. The beauty is that it has about 20 banks on it and the client can switch with no paperwork."*

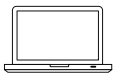
FIVE OPTIONS FOR CLIENT CASH HOLDINGS



Banks can collectively be used to hold significant levels of cash holdings but protection at each institution is only available to the FSCS limit of £85k. High street banks appear not to be interested in marketplace savings, but challenger banks are building distribution. Revolut recently launched a savings marketplace with cash management provider Flagstone. Others may follow.



Money market and other cash-like **funds** are another popular method to hold liquid assets. According to IA data, there has been a doubling of assets in money market funds to £42bn in February 2020. Investor returns have recently been lower than the combined platform and adviser charge.



Investment Platforms: Clients hold cash on platform pending trades or withdrawals. Many platforms are unable to levy a different adviser charge or platform fee on cash holdings making them uneconomical for holding cash.



NS&I is one of the largest savings organisations in the UK and is backed by HM Treasury, meaning all money invested is 100% secure. NS&I are best known for Premium Bonds and Savings Certificates, but also offer income and fixed term products as well as ISAs and other savings accounts



Cash management providers offer marketplace savings able to connect customers to multiple deposit-takers. This reduces client risk, keeping holdings below the FSCS limit, and increases returns. Advisers can also usually see the cash holdings and maturity dates.

CLIENT SEGMENTS BEST SUITED TO CASH MANAGEMENT

“Cash management is not for someone with £40k on deposit” one adviser told us. Octopus Cash’s average deposit size is £150k. We understand the average deposit size for Insignis Cash Solutions, Flagstone and Cascade is over £250k. Hargreaves Lansdown, by comparison, has an average deposit in their Active Cash service of about £3.5k.

A spokesperson for NS&I told us that it has nearly 10,000 customers with over £1m invested, and about 67,000 customers with over £250k invested. This further strengthens the argument that a lot of FAs have clients who are customers of NS&I

The benefits of diversification, and the security that brings, makes cash management more relevant for people with more than £85k in cash, and typically more than £150k. St James’s Place originally offered cash management for clients with a minimum of £250k on deposit. But the firm recognises that there are benefits to clients and the firm of offering a cash management solution more broadly. Last year they rolled out a new service with a minimum of only £50k.

Berry & Oak use three solutions to help clients manage cash: NS&I, Cater Allen and Insignis Cash Solutions.

- The firm has long used NS&I. Andrew Elson describes the online services for financial advice firms introduced recently as a *“game changer”*. It allows advisers to see what clients hold with NS&I. Berry & Oak are able to link cash products into the Intelligent Office client portal through Insignis Cash Solutions, so clients can see all of their holdings in one place.
- Cater Allen is used for clients when they go into decumulation and are drawing an income from a pension. Berry & Oak usually do one annual pension withdrawal for clients and that money is put into a Cater Allen bank account with a standing order to deliver a monthly sum. Speaking about why his firm uses Cater Allen, Andrew said: *“we’re able to log in as an adviser and see what money is there and if it needs topping up.”*
- Berry & Oak recently started using Insignis Cash Solutions for bigger cases. *“Insignis get better rates by shopping around and can keep clients under the FSCS limits, so we typically use it for clients with £200,000 plus to place in cash. The client only completes one application form, which reduces a lot of admin hassle opening different accounts.”*

CLIENT TAKE-UP

As stated in our first section on reasons advisers should care about cash, there is a lot of money in cash in the UK. NS&I is a popular option, with approximately 25m customers. Hargreaves Lansdown, a relatively new entrant has 46k client accounts for its Active Saver proposition. Danny Cox, Head of Communications at Hargreaves Lansdown said *“we’re not seeing people taking money out of Vantage to put it in savings. They still see Vantage as a trading account. They are not moving from trading to savings.”*

St. James’s Place have over £1bn on deposit through their proposition with Flagstone. Paul Emery, Head of Client Banking at St. James’s Place is pleased with the take up so far.

“Many people hold too much cash in terms of getting a good return on assets over their lifetime. Our SJP Partners do a good job of advising clients on the right amount of investments to hold over their lifetime.” Paul adds that St. James’s Place has recently analysed the demographics of clients using the Flagstone product: *“Some clients just want to have a particularly high cash buffer and will never be persuaded to part with that. Flagstone is a better option for them.”*

As a measure of success of the proposition at St. James's Place, we note that Flagstone was mentioned in the chief executive's report in the most recent annual report.

We understand that there has been a surge in enquiries to cash management providers since the market declines and volatility as a result of the Covid-19 pandemic. Octopus told us demand for their 35-day notice account has been particularly strong. Akonihub told us that the ability to open deposit accounts remotely was particularly appealing in light of the Covid-19 crisis.

Advisers are telling us that a cash management solution has become more urgent as a result of the market volatility.

CONSIDERATIONS

Financial advisers thinking of working with cash management providers need to take into consideration a number of factors. There are merits in all approaches.

PANEL APPROACH VERSUS WHOLE OF MARKET

Among the providers we considered in our analysis, most (Akonihub, Flagstone, Hargreaves Lansdown, Insignis Cash Solutions and Octopus Cash) take a panel approach. Cascade and Deposit Sense cover the whole of the market.

Hargreaves Lansdown took a panel approach in part to control the customer experience. The firm wants to deliver the same customer experience to customers of the D2C platform and the cash management solution, which requires *"a lot of sticking together of systems from banks and our systems"* said Danny Cox, Head of Communications.

In a conversation with Caroline Flagg, Head of Octopus Cash at Octopus Investments, she defended the firm's panel approach: *"We are constantly growing the banks we partner with but if we had fifty banks on our panel most wouldn't see money from us week to week. The banks are our customers too. We need to balance the flows."* She added that with an average case size of £150k, clients are not at a level where they can't get full FSCS protection with Octopus' partners.

Insignis Cash Solutions operates a panel with 30 banks and the company believes it has the right balance. *"We have a large and diversified panel of banks and we firmly believe that only with such a large bank panel can we offer the necessary depth of product with ease of execution for the clients"* says Giles Hutson of Insignis Cash Solutions.

Cascade say they track every bank and building society. They can do this because the compliance process and AML check sits with the bank. *"The bank does not have to sign off Cascade for it to be included in the service. Cascade does the admin for the client,"* explained Dr Emma Black, Managing Director of Cascade.

Deposit Sense say they review the interest rates on UK based savings accounts a number of times a day. A spokesperson from Deposit Sense told us *"financial advisers prefer a whole of market approach as they do not want their clients to find their own solutions with better results than they can produce."*

USING CASH MANAGEMENT SERVICES IN TAX WRAPPERS

There are challenges in using cash management services in a tax wrapper. Providers and advisers told us this was not a big issue because of the large average sums. That said, Paul Emery, Head of Client Banking at St James's Place told us that Flagstone's ability to offer a SIPP service was a key decision-making factor for them. Some NS&I products can be held within a trust, SIPP or SSAS. We understand that Akonihub is tax wrapper agnostic.

"Akoni has an expanded offering and caters for individuals, sole traders and businesses and trusts. In addition we place wrapped businesses such as SIPP, SSAS and ISAs as well as help support clients at retirement with linking the platform to their drawdown plans." David Magee, Akonihub Head of Proposition.

Offering an ISA is not easy for client money reasons. We were told that firms can get into difficulties in determining who the ISA manager is and also the rules around how quickly an ISA needs to be transferred making offering an ISA quite complicated. An additional hurdle for a SIPP is that banks can consider pension money institutional money, making it impossible to get retail rates.

We understand that Hargreaves Lansdown will launch a cash ISA in 2020. They may launch with a single provider.

REVENUE MODEL

Cash management providers typically either take a fee from the bank or a fee on the cash. The table below summarises revenue models.

Firms that charge a fee often offer the option to share the fee with the adviser. They will often allow the adviser to waive the fee, giving a slightly higher rate to the client. In our conversations with advisers, the fee earned on cash is not the driver for offering the service and most opt to waive the fee.

Insignis Cash Solutions offers both options. *"We work with more than 500 Financial Advice companies and we need to be flexible to accommodate the multiple fee models within our Adviser Partners"* says Giles Hutson of Insignis Cash Solutions.

VISIBILITY AND CONTROL

Providers give access to view holdings to the adviser and most will integrate with back office systems and client portals allowing the client a full picture of their holdings.

Mark Evans, Managing Director of Tavistock Private Client said *"The adviser can tell the client the rates available and the client can choose where they want the money to go."*

There is some debate about who should be able to manage the cash on the client's behalf. One adviser told us that he was frustrated by the Flagstone proposition as the client had to select the deposit accounts. The adviser could not take away the administration for the client. Flagstone tell us that *"with Power of Attorney, financial advisers can manage their clients cash deposits on the platform."*

Paul Emery of St. James's Place told us that as soon as an institution starts making decisions on where to put cash on behalf of clients that becomes institutional money rather than retail. Retail savers get better rates than institutions.

Paul adds that changes to a client's holdings via Flagstone can be done online in a straightforward way, making it as easy as possible for the client. But he is adamant: *"it is the client's decision."*

Financial advisers using cash management solutions for a handful of clients may deal with this question differently. With over £1bn in their cash solution this is a bigger consideration for St. James's Place.

Advisers who are concerned about the level of admin will want to check with cash management providers the ability to view holdings and maturity dates, produce client reports, feed data into a client portal or back office system, open accounts with banks, etc. Most firms allow the client to choose the bank and account online. Some allow the adviser to make the selection. Integrations can be another important part of due diligence Integrating with a back office system was mentioned by a number of advisers. Another consideration is being able to switch platforms: Mark Evans told us: *"If we switch platforms, we can switch the Akoni accounts as well. It's just a data feed into the platform."*

CASH MANAGEMENT PROVIDER PROFILE SUMMARY

	Akonihub	Cascade Cash Management	Flagstone	Insignis Cash Solutions	NS&I	Octopus Cash	Deposit Sense Ltd
Assets under management/cash under influence	£465m	£560m	Not disclosed	£2bn +	£160bn+	£302m	£513,000,000
Assets as at date				31st March 2020	1st April 2020	9th April 2020	April 2020
Ownership		Privately held. Largest shareholder is key founder.	Privately held. Among shareholders are Money Super Market Group, Kindred Capital and Omers Venture Capital	Insignis Asset Management is 100% privately owned and is operated by 2 of the 3 the majority shareholders of the business. The 3 major shareholders are: Adrian Beecroft Giles Hutson Paul Richards	NS&I is the state owned savings provider. It is officially an 'Executive Agency of the Chancellor of the Exchequer', and reports into HM Treasury	Octopus Cash is owned and run by Octopus Co-Lend (Company number: 08913299 FCA firm reference number: 722801)	42% Paul Alkins, 38% Mercia Investment Group, 20% others
Number of financial adviser accounts/users (please specify whether this is firms or advisers or other)		137 firms, 1500 advisers	Not disclosed	c. 550 firms	Cannot track this currently, but we have over 900,000 customers with over £50,000 invested with us. A lot of these customers will have FA relationships	800 Advisers (Currently active)	196 Firms with 1033 Users
Number of end client accounts		1,088	Not disclosed	c. 6000	NS&I has c25m customers in total	2,745	1714 end users have had their cash analysed and solutions provided. 88 have an active log in.
Sample Strategic Partnerships	Large national IFA and several smaller IFA firms		St. James's Place, Tilney, Revolut, The Quilter Group	PIMFA,	PFS, CISI, SOLLA, SimplyBiz, FT Adviser, Money Marketing, Professional Paraplanner.		SIFA

Charging/ Fees

What is your charging model?	16bps billed semi-annually	0.30% plus VAT per annum with 50% paid to Financial Adviser	Fee based up to %0.25 per annum to end customers.	sliding scale correlated to funds under direction	NS&I does not offer 'adviser charging'. This is because we view charging to be a form of commission from the product provider to the advice firm, and following the FCA's Retail Distribution Review in 2012, financial advice firms should be receiving their income from client fees and not product providers.	Octopus receive fees in respect of its provision of the Octopus Cash Service from the Third Party Deposit Takers. Our partner banks generally provide lower interest rate on the Octopus Cash platform, compared to the rate one they would offer if clients were to open accounts directly with them. Octopus Cash profits from this margin.	System subscription fee to the financial adviser starting at £30.00 per month
Is fee sharing allowed?	Yes	Yes		Yes	N/A	No	Financial Advisers charge their own fees.

Operations

Do you operate with a panel or whole of market?	Panel	All of market	Panel	Panel	N/A	Panel	All of market
If you offer to a panel - how many banks?	9	All of market	40+	30	N/A		
Are you the trustee of the client money or is money held in client name?	Held in clients name	Held in clients name		depends on the bank	N/A	Trustee	Held in clients name
Can IFA manage money on client's behalf?	Yes	No	No	Yes	No - They can access comprehensive information, but not transact (yet)	Yes	Yes

Integrations

Do you integrate with investment platforms?	Yes	Yes	Not disclosed	Yes	No	No	No
If yes, please detail which?				not disclosed	Not yet, but it is an ambition for the future. Last year we launched our online service for FA firms, providing info access on all their clients' NS&I holdings. The next logical step is looking at transactional access through platforms and/or cash management systems, as well as integration with back office systems	Not currently, but it's in the roadmap over the next 6 months.	
Do you integrate with back office systems?	Yes	Yes		Yes	No	No	No
If yes, please detail which?				various e.g. Intelliflo	See above	Not currently, but it's in the roadmap over the next 6 months.	
Do you offer open API's?	Yes	Yes		Yes	Yes	No	Yes



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We present the top interest rates on a daily basis across all savings providers.



A Managed Account

A dedicated relationship manager oversees your account saving you time and hassle.



Cash Moved Securely

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One-time Sign up Process

Makes hundreds of savings accounts available. A variety of term options are available to keep your funds as liquid as you need them.



Hard Working Cash

Knowing that your cash is consistently working as hard as other assets means that you're free to focus on what's important.



FSCS Protection

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Security for any financial plan

- ▶ 100% secure – backed by HM Treasury
- ▶ Our range of products can form the foundation of a balanced portfolio
- ▶ Unique tax-free opportunities, including Premium Bonds
- ▶ Some products can be held in a trust, SIPP or SSAS



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CONCLUSION

Cash is a core and growing part of advised client wealth and any financial adviser worth his or her salt will be sure it forms part of a holistic financial plan.

To date, financial advisers may have felt their attention is better concentrated elsewhere in the portfolio. With rates so low, it has been difficult to see how advisers could make money helping their clients manage cash holdings. Additionally, managing cash through banks has been a laborious and time-consuming process.

However, as we have seen in this report, kindly supported by Insignis Cash Solutions and NS&I, client demand for cash solutions is changing and so is the market for cash management.

Offering cash management solutions can bring real benefits for financial advice firms and their clients. Clients can achieve greater protection for the large sums that they have amassed or acquired through inheritance, business sales or other windfalls as well as improved returns. Advice firms can expand their services and client pipelines and strengthen their propositions against the competition who have cottoned on to the opportunities in cash management in recent years.

Thank you to the representatives of financial advice and wealth management businesses that participated in interviews with us for this research. Most wanted to remain anonymous, but we are able to thank Andrew Elson, Mark Evans and Paul Emery by name. Thank you to the network bosses, platform executives and DFMs who spoke to us about some of the challenges of holding cash in portfolios and on platform. We also want to once again thank our sponsors of the report, Insignis Cash Solutions and NS&I.

ABOUT NEXTWEALTH

NextWealth is a research, data and consulting business helping firms to adapt and thrive amid disruption. Our customers are platforms, asset managers, technology companies and financial-advice businesses.

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