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Quilter begins ongoing advice review after FCA's 20-firm data request

The review was disclosed in its 2023 accounts, which revealed better-than-expected profit figures.

BY JACK GILBERT

Quilter has begun a review of its advisers' ongoing client service following the FCA's probe into the biggest advice firms, although its CEO Steven Levin said it is not a 'systemic issue' for the business.

In its 2023 financial results, published this morning, Quilter disclosed that it has started an internal ongoing advice review within its network after the FCA requested annual review data from the 20 biggest advice firms, including Quilter, in February.

'We have got policies and procedures in place for advisers, and we expect them to follow them to meet their ongoing service obligations,' Levin told Citywire New Model Adviser.

'We haven't seen any increase in our complaints relating to ongoing service; they remain at a low and consistent level for the last four years. But the FCA has written to 20 firms asking for data on this, which is consistent with our focus on delivering good customer outcomes.'

Levin added that the review, instigated by Quilter, would be led by the business, although it may involve external people on an advisory basis. The business said in its financial results that this review 'may lead to remedial costs but it is too early to quantify'.

Levin added that, from Quilter's complaints data and compliance teams, he did not think this 'was a systemic issue'.

Last week St James's Place disclosed a £426m provision to compensate clients where there was a lack of evidence for annual servicing following a section 166 back-book review.

Paying dividends

Despite the review announcement, Quilter's financial results reported figures that surpassed analysts' forecasts. The firm's share price was up 2.9% at the market open after its full-year 2023 dividend was raised 16% to 5.2p per share (see Citywire's Elite Companies commentary below for more detail).

Adjusted profit before tax was up 25% year-on-year at £167m on the back of a multi-year, cost-cutting programme.

This was on revenues of £625m, up from £606m in 2022, helped by Quilter's adviser platform retaining a portion of client interest on cash balances from the second half of last year, amounting to £10m of revenue in 2023.

The platform, which last year overtook Abrdn to become the biggest UK adviser platform, saw a net inflow of £1.9bn, compared to £2.3bn in the previous year.

The business finished the year with total assets under management of £106.7bn, up 7% over the year.

Quilter's Citywire Elite Companies rating

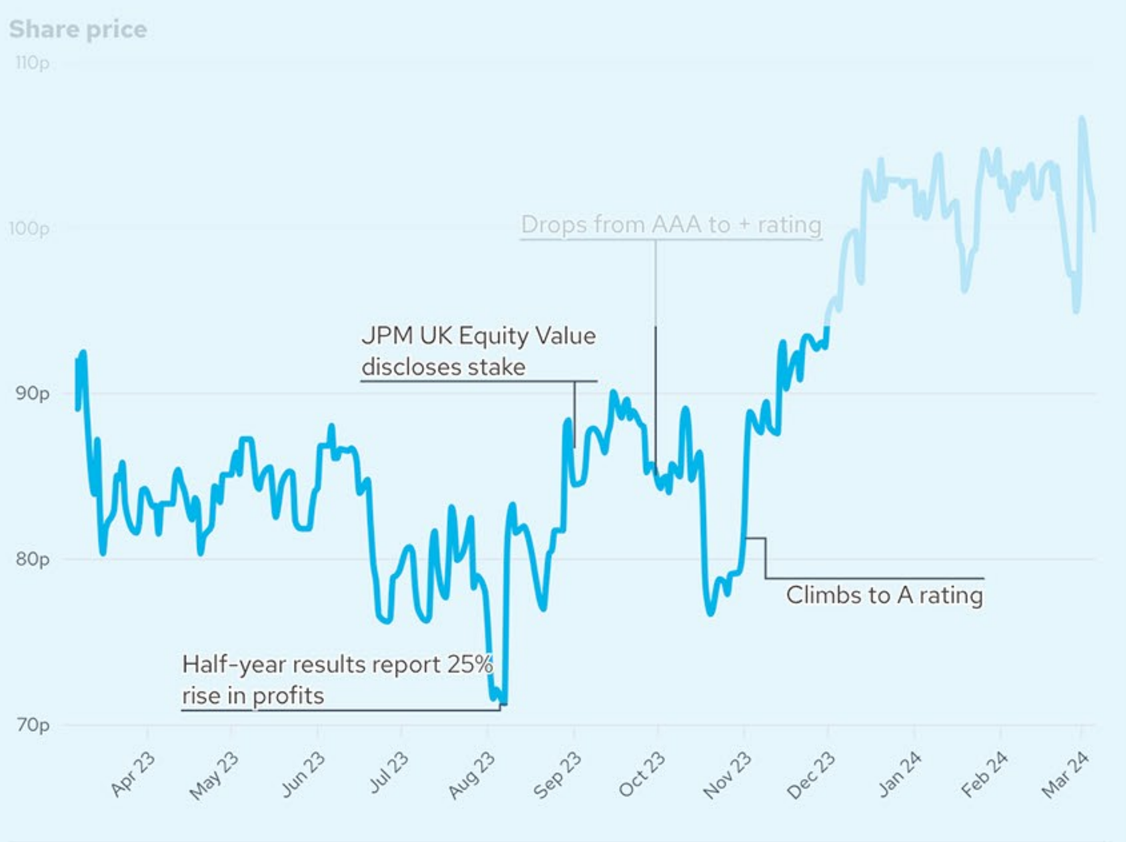
By Dan Grote

Quilter's A rating from Citywire Elite Companies is down to its backing by four top-performing fund managers, led by South African investor Andrė Steyn, who holds a 2.9% stake in his Steyn Capital Equity Prescient fund.

Each of the four has a value investment bias, which is no surprise given Quilter shares' lowly rating. Priced at just 2.2 times forecast sales for the next 12 months ahead of today's results, it lags rivals including Transact owner Integrafin (six times) and AJ Bell (five times). Even shares in St James's Place trade at a higher rating, on 3.6 times forecast sales, despite last week's share price crash.

But the top value managers backing Quilter are hoping for the company's tentative signs of a turnaround shown in today's results to gather strength. Two of them – JPM UK Equity Value fund managers Thomas Buckingham and Ian Butler – bought into the shares in August last year, the month of the shares' nadir.

Quilter shares have been recovering since last summer
JPM's Buckingham and Butler bought close to the bottom



Source: FactSet

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Since half-year results that month, the shares have risen 46% as brokers have hiked their earnings forecasts on signs that the business' performance has been improving.

Today's results surpass those expectations. Earnings per share of 9.4p are well above the 7.7p analysts had been pencilling in and ahead of last year's 7.9p.

That was driven by a 25% jump in adjusted profit before tax to £167m, 25% above last year's £134m, as revenues rose 3%. As with August's half-year results, this has been driven by two main factors: higher returns from the company's corporate cash balances – a result of higher interest rates – and cost-cutting. Operating expenses have fallen to £458m, down from 2022's £472m, leading to operating margins climbing to 27%, up from 22%.

But it's not all good news. Those higher profits have failed to arrest the slide in Quilter's 'revenue margin', representing the fee earned on every pound it manages or administers on the platform. A dip to 0.47%, down from 0.48% in 2022, continues a steady decline since the business was floated in 2018, when it stood at 0.55%. A fall in average assets under management and administration during the year (£102.1bn versus £102.8bn) was the culprit, along with planned pricing cuts.

Turning around this fall in assets will be crucial to improving the business' performance. Average assets have now fallen for the past two years, though the fact they ended 2023 up 7% on December 2022's level gives some comfort. Quilter's high proportion of fixed costs means its cost-cutting drive can only go so far. But it also means that a large chunk of any additional revenue should drop straight through to profits. So securing asset – and revenue – growth is the name of the game.

Advice and DFM changes

In recent years the group has been losing a lot of advisers from its network, with many moving to rival consolidators. Levin said today its adviser numbers 'had broadly stabilised versus the reductions seen in recent years', with its in-house planner numbers falling from 1,442 in 2022 and 1,419 at the end of last year.

He added that the business is seeing a slowdown in consolidation activity from its rivals, which was also evidenced in our private-equity database of 36 firms, published yesterday.

The business also announced today plans to overhaul its discretionary fund management arm, Quilter Cheviot, which will be merged with its Quilter-branded high-net-worth advice business and operate as one FCA-regulated entity under the Quilter Cheviot brand.

The business wants to add more than 300 investment managers and financial planners to this restructured division over time and may consider 'modest bolt-on acquisitions to bolster our advice business or add teams of investment managers to accelerate our growth plans'.

Quilter is also rolling out Quilter Partners, which takes a stake in larger advice firms that are 'fully aligned with our investment solutions and platform'. The business has been working with seven potential Quilter partner firms on this launch.