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The changing picture of financial advice

IFA DNA
report

June 2020



FundsNetwork



Fidelity[™]
INTERNATIONAL

Introduction

"This year we celebrate Fidelity FundsNetwork™'s 20th anniversary. During this time we've seen the advice industry undergo tremendous change – structural, regulatory and technological – with advisers rising to the challenge each time, demonstrating their resilience and adaptability.

As we have evolved over the past twenty years, so have advice businesses. This research explores both the forces responsible for these changes, and the impact they are having upon advisers; from the way in which they operate, to their engagement with clients, to their sense of purpose and career satisfaction.

This report marks the first in a series of insights into what it means to be an IFA today, and we will update these findings over the course of the year. As we wait to understand the long-term impact of the coronavirus pandemic upon the advice industry, we will also be looking at how advisers have responded so far, and how they are preparing for the future."

Jackie Boylan, Head of FundsNetwork

Cast your mind back to the year 2000. Some memorable events took place that year: the world avoided a Y2K meltdown; Ken Livingstone became mayor of London; Sven-Goran Eriksson agreed to manage the England team; Coldplay released their debut album, and Big Brother's first series launched a new era in reality television.

The year 2000 also saw the launch of Fidelity FundsNetwork, one of the pioneers in the investment platform market. Since then, the services offered by platforms have transformed the way financial advisers manage their businesses.

Swathes of regulatory change have been introduced since then, including the Retail Distribution Review (RDR) at the end of 2012, MiFID and MiFID II, and the pension freedoms changes of 2015. The 2008 economic crisis rocked clients' faith in financial markets, and in 2019, Google searches for 'climate change' outstripped those for 'Game of Thrones' for the first time in five years, reflecting a new wave of public interest in sustainability and environmental impact. Demographically, the baby boomer generation began reaching retirement age in 2011 and accounted for more than one fifth of the UK's population in 2019.

This report on the changing picture of financial advice is entitled 'IFA DNA'. The report considers:

- How advice firms have evolved and how the role and requirements of the financial adviser have changed, and what the future may hold.
- The size and composition of financial advice businesses and the changing profile of their clients.
- Areas in which owners of small businesses, who make up the majority of the frontline advice industry, can look to optimise their firms' efficiency to face the next 20 years with confidence.

The research was carried out before the Coronavirus outbreak reached the UK. The results remain relevant and offer a useful reminder of the long-term health and vibrancy of the financial advice sector. The Coronavirus pandemic has, in fact, confirmed the findings that financial advisers are adaptable and demand for advice is set for continued growth.

FundsNetwork will update findings from this survey over the course of the year to assess the impact on adviser sentiment.

fundsnetwork.co.uk/ifadna

Contents

Executive summary	4
Financial advice businesses	8
Clients	10
Role of the financial adviser	12
Tech infrastructure	16
Investment propositions	18
Conclusion	22

Methodology

Fidelity commissioned NextWealth to produce this report based on a representative sample of financial advisers using an online survey and in-depth qualitative interviews. The research was conducted in January 2020, prior to the Coronavirus outbreak in the UK.

- Online survey of 202 financial advisers conducted between 17 and 24 January 2020.
- In-depth qualitative interviews with ten financial advisers conducted in January 2020. The interviewees were chosen to represent a full range of experience in the industry, from new graduates and trainees up to industry veterans.



NEXTWEALTH

Changes over the last five years

45%

Have increased headcount

92%

Have increased assets under advice

75%

Three quarters of advisers report that client numbers are up

70%

Retirement planning is the most common financial goal

Financial advice businesses

Advice businesses have enjoyed strong growth in the past five years, measured by number of employees, assets under advice and number of clients served.

45% of firms increased headcount with most hiring paraplanners and about one third hiring financial advisers.

92% increased assets under advice by an average of 81%. Growth has been fuelled by organic growth of existing client assets, adding new active clients and through acquisition of other firms.

Clients

The profile of clients receiving advice has not changed for most firms. Of the 40% of financial advisers who say that the profile of their clients has changed, most say their clients now have more wealth.

70% of advisers say that retirement planning is the most common financial goal or challenge clients seek advice on. In-depth interviews revealed that pension freedoms have been a game-changer for advice firms – with clients now facing more choice and greater complexity, there is an increased need for advice.

Role of the financial adviser

Financial advisers spend only around one quarter (28%) of their working day meeting with clients, spending more time on admin and compliance than client meetings (a quarter of the working day is spent on admin and another 16% on compliance).

Time spent with clients increases only minimally (to 30%) for medium-sized firms (6-10 employees) compared to smaller (1-5 employees) firms, and actually falls to 26% for firms with 10 or more staff.

Compliance is the area taking up more time now compared with five years ago.



Time spent meeting with clients

Tech infrastructure

Three quarters of advisers say the technology infrastructure underpinning their business has improved. Firms with more than six employees are more likely to be positive about their firm's technological advancements, perhaps reflecting that some scale is helpful in introducing certain tech systems.

The most commonly used piece of adviser tech is practice management systems. Despite this, over a fifth of respondents (21%) never use a practice management system. A quarter use one all the time, and another quarter 'most of the time.' Sole traders are least likely to use a practice management system.



Investment propositions

Centralised investment propositions (CIPs) have been widely adopted in advice businesses and firms with a CIP in place report stronger growth in client numbers over the past five years.

68% of respondents currently work to a CIP, either self-directed or from their network or compliance provider, with a further 8% working toward introducing one. 80% of respondents whose firm has a CIP report an increase in client numbers over the past five years, versus 58% who don't have a CIP.

Overall, 70% of respondents are using multi-manager or multi asset funds but for only 37% of client assets. 'Build your own models' attract the second largest share of client assets followed by 'template model portfolios'. Firms without a CIP are more likely to use multi asset and multi-manager funds. Firms with a CIP are more likely to use model portfolios or outsource to a DFM.

Looking ahead five years

Financial advice businesses

Seven in ten respondents said that their firm will grow in the next five years. This growth will mainly be organic as most plan to take on new clients or add more planners to the team, but others plan to acquire other businesses.

82% of firms intend to expand the number of clients they serve with most planning to add clients to the business, rather than just replacing those that leave.

Growth in client numbers isn't the only thing driving these businesses. While nearly half (48%) of firms intend to grow by increasing the size of assets under management either from existing or new clients; 13% specifically plan to add headcount, and a tenth of firms expect growth to come from the acquisition of another business (or two) in the near future.

Firms that plan to add headcount will mostly be adding financial advisers, paraplanners and admin staff.

While these estimates for business growth were made at the height of a decade-long bull market, they are a reminder that, in the long-run, financial advice businesses will grow and thrive.

Intend to expand the number of clients

82%

Intend to grow by increasing the size of assets from either existing or new clients

48%

Plan to increase headcount

13%

Growth through acquisition

10%

Anticipating an increase in demand for advice

55%

Clients

Financial advisers are bullish about the future demand for advice with more than half anticipating increased demand over the next five years. Only 6% foresee a decline.

The primary driver of increased demand is expected to be demographic change, such as retiring baby boomers, an ageing society and intergenerational wealth transfers. Changing regulation will also be an important driver for people seeking advice, especially reforms relating to pension freedoms and taxation.

Role of the financial adviser

Financial advisers expect more of their time will be taken up by compliance and admin in the future.

Tech might play a role in driving efficiencies at financial advice firms. While at present advice is mainly delivered face-to-face, many advisers expect aspects of the process, such as the fact find, assessment of attitude to risk and cash flow planning, to be delivered online in the future. While some firms were already making an active decision to move more of their planning activity online, the lockdown scenario has caused a rapid acceleration of online planning, which may outlast the current crisis.



Tech infrastructure

One third of advisers put a greater level of integration at the top of their tech improvement wish list. This is followed by one quarter that want systems to be easier to use.

Expect to increase use
of outsourced DFMs

28%

25%

Expect to increase use of multi
asset or multi-manager funds

Investment propositions

Looking ahead, advisers intend to increase their use of outsourced discretionary fund management (DFM) and multi-manager funds. Advisers that already outsource to a DFM are most likely to say they will increase their use of DFMs. Single strategy funds are expected to experience the largest decrease in terms of usage.

Use of ESG at present is low. 20% of respondents have no client assets in ESG portfolios while 45% have less than 10%. This proportion is expected to grow with over a quarter foreseeing having between 20% and 50% in these strategies. However, only 6% of respondents expect to have more than 50% of their clients' assets in ESG portfolios.

Advisers point to a lack of consensus on the definition of ESG: only 3% say there is currently a strong and clear consensus.

The past and present of financial advice businesses

One of the biggest changes to advice businesses over the past five years is that most have grown in terms of employees, assets under advice and clients.

Growth in number of employees

Nearly half of financial advisers tell us their firm has added staff in the past five years while only 8% have decreased headcount. Of the firms that added employees, 57% hired paraplanners and 30% hired advisers.

The number of employees these firms have added varies widely. Among firms that added staff, most saw their teams nearly double, up 90%.

Larger firms (those with more than 10 employees) are more likely to have added staff with 83% increasing headcount. This compares to 45% for all firms. And larger firms grew more quickly too, with staff numbers up 101%.

Growth in assets

A scalable business maintains or improves their margin or profit while increasing turnover. It would be wrong to suggest that financial advice businesses are successful and growing if they are simply adding headcount. While assets under advice does not always determine turnover, it is a good approximation.

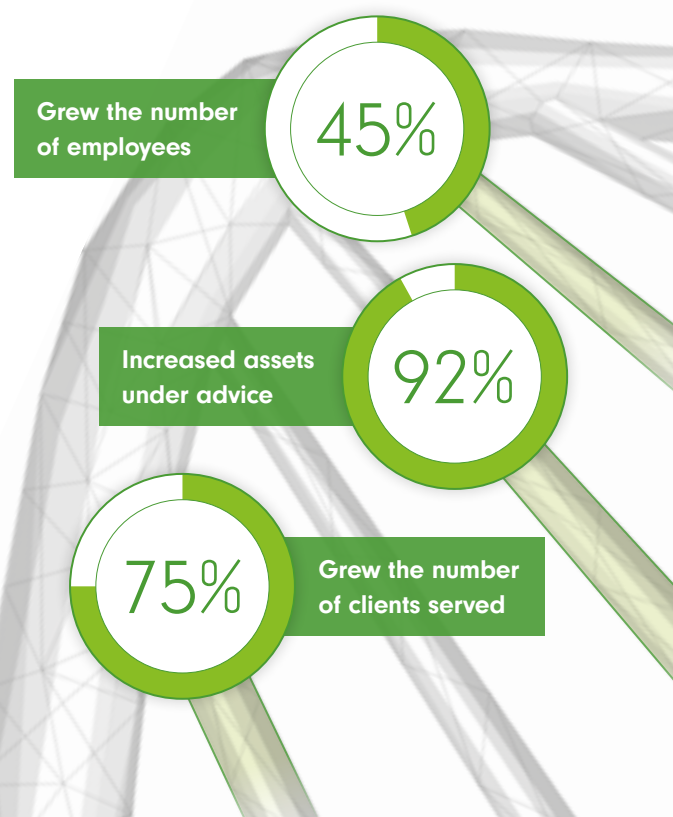
Overall, 92% of advice businesses have seen assets increase by some measure, with an average increase of 82%. This increase has been fuelled by organic growth of existing client assets, adding new active clients and through acquisition of other firms and their client rosters.

Assets under management fluctuates with markets and so the recent market declines will have had a direct impact on the growth of firms as measured by assets.

Growth in client numbers

Overall, three quarters of respondents saw client numbers increase over the past five years. 87% of advice firms with between six and 10 staff are working with more clients than five years ago.

A picture of a thriving profession



The future of financial advice businesses

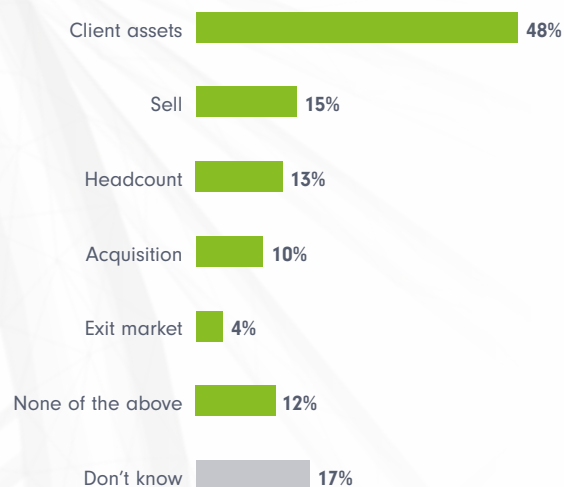
Seven in ten respondents say their firm plans to grow in the next five years. This growth will mainly be organic as most plan to take on new clients or add headcount, but others plan to acquire other businesses.

82% of firms intend to expand the number of clients they serve with most planning to add clients, rather than just replacing those that leave.

Growth in client numbers isn't the only thing driving these businesses: 13% plan to add headcount and a tenth of firms expect their growth to come from the acquisition of another business (or two) in the near future.

The Coronavirus pandemic may have dampened ambitions in the short run but our qualitative interviews with financial advisers in the second half of March suggest that longer-term plans for growth are still intact.

What is expected to drive growth?



Most new clients will come through referrals

Among those firms forecasting growth from the addition of new clients, referrals from existing clients and other advisers was the most common source, named by 53% of respondents.

Other sources of new business include:

- Increasing marketing activity through the use of local advertising and professional introducers.
- Staff development: bringing financial advisers through from within the firm.
- Making the advice process more efficient and increasing productivity through improvements to technology and the introduction of smarter systems.

"Recommendations from existing clients and connections"

"Through the continued strategy of referral marketing with clients, peers and professional connections"

"Increase productivity through technological improvements in the advice process"

Future mix of roles

While only 13% of firms plan to hire more staff, this number rises to 34% for larger firms with more than 10 current employees. Firms that plan to grow through recruitment are mostly looking to add financial advisers or planners (81%) or paraplanners (69%).

Growth through hiring staff, job roles of interest

With a shortage of qualified financial advisers to recruit into businesses, some firms are re-thinking the make-up of their workforce. Relationship management in particular is a growth area that was mentioned in our in-depth interviews.



Future of consolidation

A tenth of firms expect to acquire another advice business in the next five years. These tend to be larger firms, with ten or more employees and £250m or more in assets under advice. Of those firms with excess of £500m of AUA, 63% expect to grow through acquisition.

The target firms are small and medium-sized firms where the owner is looking to exit, or sole traders planning their own retirement. Firms that are looking to sell tend to have five or fewer advisers.

Clients

The client: past and present

Consumer research undertaken in 2018 by the FCA found that the types of people accessing regulated financial advice had not materially changed from the year before: more men accessed advice than women, and the propensity to take advice increases with age, wealth and education levels (FCA, 2019). Similarly, 58% of advisers in our survey reported no significant change to the type of clients they have served over the past five years.

" When I first started, you targeted clients with £100k. Now I'm more experienced, it has naturally shifted up a bit"

40%

Say their client profile has changed...

81%

More wealth

33%

Later life stage

28%

Older

Younger

11%

10%

More women

Among the 40% who say that the profile of their clients has changed in the past five years, most say their clients now have more wealth. This seems to reflect the situation described in our qualitative interviews: as advisers become older and more experienced, they tend to work with older, wealthier clients. In addition, firms' segmentation policies and reviews of client profitability may result in firms being less able or willing to take on less-wealthy clients.

70%

Retirement planning is the most common financial goal

70% of advisers say retirement planning is the most common financial goal or challenge their clients are seeking advice on. In-depth interviews revealed that pension freedoms have been a game-changer for advice firms. With clients now facing more choice and greater complexity, there is an increased need for advice.

55%

Expect demand to increase...

46%

Demographics

Regulation

30%

Technology

23%

Processes

12%

Competition

11%

The future demand for advice

Financial advisers are bullish about the future demand for advice. Just over half of respondents anticipate more people seeking advice over the next five years. Only 6% foresee a decline. We found no difference by age, suggesting young and old alike expect demand for advice to at least remain constant (if not increase).

The primary driver of the expected increase in demand is demographic change, such as retiring baby boomers, an ageing society and intergenerational wealth transfers. Changing regulation is the second most important driver for people seeking advice, such as the continuing effects of the pension freedoms and other changes to the pension and tax landscape.

Technology and processes together account for a 35% increase in client demand for advice. Any increased efficiencies within advice firms can translate to advisers being able to handle a greater number of active clients.

Just 6% expect to see a decrease in the number of individuals seeking financial advice. Most of these said that technology would drive down demand.

Financial advisers often say that complexity drives demand for financial advice. The Coronavirus pandemic will have a significant effect on the retirement portfolios of many consumers, leading them to question their plans for retirement. This could lead to a further surge in demand for advice.

The past and present role of a financial adviser

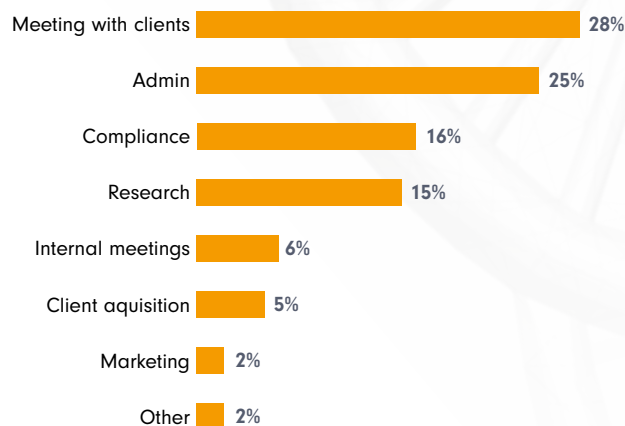
Financial advisers spend just over one quarter of their working day meeting with clients. They spend more time on admin and compliance combined than meeting with clients.

Time spent meeting with clients

28%

Average time taken on each activity

Time spent with clients increases only minimally for medium-sized firms (30%) compared to smaller firms, and actually falls for firms with 10 or more staff (to 26%).



"I used to aim for three meetings in a day. Now that's impossible because of reports and compliance. I need more hours! You have to be more dedicated to the people you see. Meetings can't last a predetermined amount of time; you need to be able to listen to people's stories and really understand their situation. So, it's more time with each client, plus more time for admin"

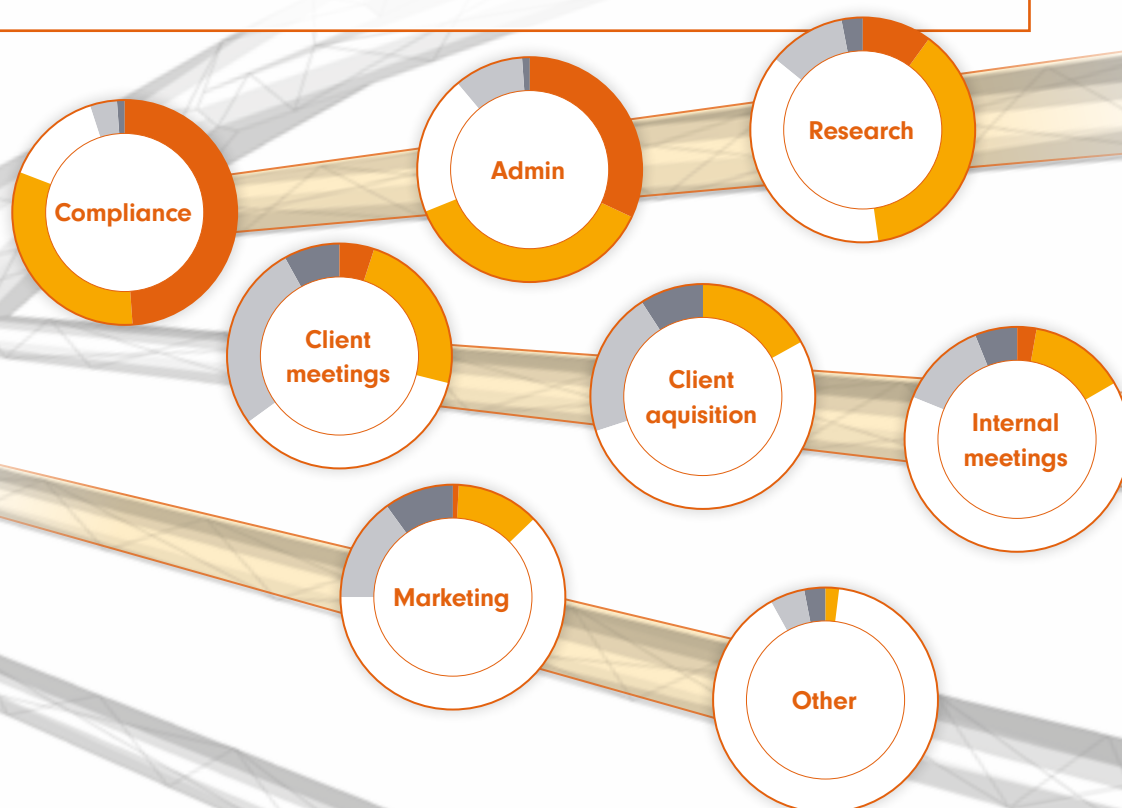
Change in time taken on each activity

When asked which tasks are consuming more of their time than five years ago, compliance tops the list. Nearly half (49%) report spending significantly more time, while a further third say they are spending a bit more time on compliance. Admin tasks follow closely behind with a third of advisers spending significantly more time and another 37% spending a bit more time on administration.

Change in time spent on activities in past 5 years

	Significantly less	A bit less	About the same	A bit more	Significantly more	Significantly more or a bit more
Compliance	1%	4%	14%	32%	49%	81%
Admin	1%	10%	20%	37%	32%	69%
Research	3%	11%	38%	38%	10%	48%
Client meetings	8%	27%	36%	24%	5%	29%
Client aquisition	9%	21%	53%	17%	1%	18%
Internal meetings	6%	13%	65%	14%	2%	16%
Marketing	10%	15%	62%	12%	1%	13%
Other	2%	5%	90%	2%	0%	2%

The data reveals a fascinating conundrum: about as many advisers are spending more time with clients as are spending less time with clients.



Future role of financial advisers

Future expectations are that compliance and admin tasks will continue to absorb more time. Overall, two thirds of respondents expect to be spending more time on compliance, and 47% anticipate spending more time on admin. 38% expect to spend more time with clients to some degree. The picture points to an ever-increasing necessity for advice firms to smooth out inefficiencies in their businesses. Technology could play a role.

Prior to the Coronavirus crisis, financial planning was mainly conducted face-to-face. At that time advisers expected the fact find, assessment of attitude to risk and cash flow planning to be delivered online in the future. Only a quarter expected goal setting to take place online, reinforcing the role of the financial planner in this critical step. Notably, financial advisers didn't expect a big role for the telephone in these activities.

The Coronavirus crisis has forced financial advisers to conduct most of their meetings online and by phone. This quote from an adviser from January shows how much things moved in the space of a few months. At that time, it was considered novel to use video conferencing for client meetings.

"Using video conferencing and so on has really changed things. I don't need to go to London when a client wants a meeting. I can take on clients anywhere in the UK"

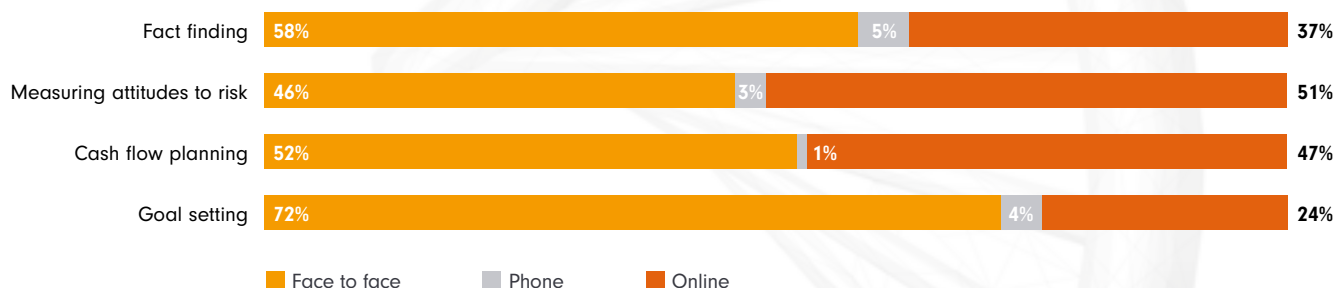
In the past 3-5 years



At present



In 5 years time



As businesses were forced to adapt to remote working within a few short days in March, financial advisers and their clients quickly adapted to conducting meetings by phone and through video calls. Time will tell whether video and phone will be adopted in the long-run as a way of conducting client meetings for the majority of advisers. Anecdotal evidence from phone interviews with advisers conducted in the last two weeks of March suggest that many advisers find it hard to develop a rapport with new clients by phone or video but that for on-going support, connecting remotely can save time and deliver a similar result.

Tech infrastructure: past and present

The technology infrastructure underpinning advice businesses has improved for over three quarters of respondents. Most benefit from at least a degree of integration between the various elements of their tech stack. Those with more than six staff are more likely to be positive about their firm's technological advancements, perhaps reflecting that some scale is helpful in introducing certain tech systems.

Degree of technology infrastructure integration

- Yes, to a great extent
- Yes, to some extent
- Hardly at all
- Not at all
- Don't know

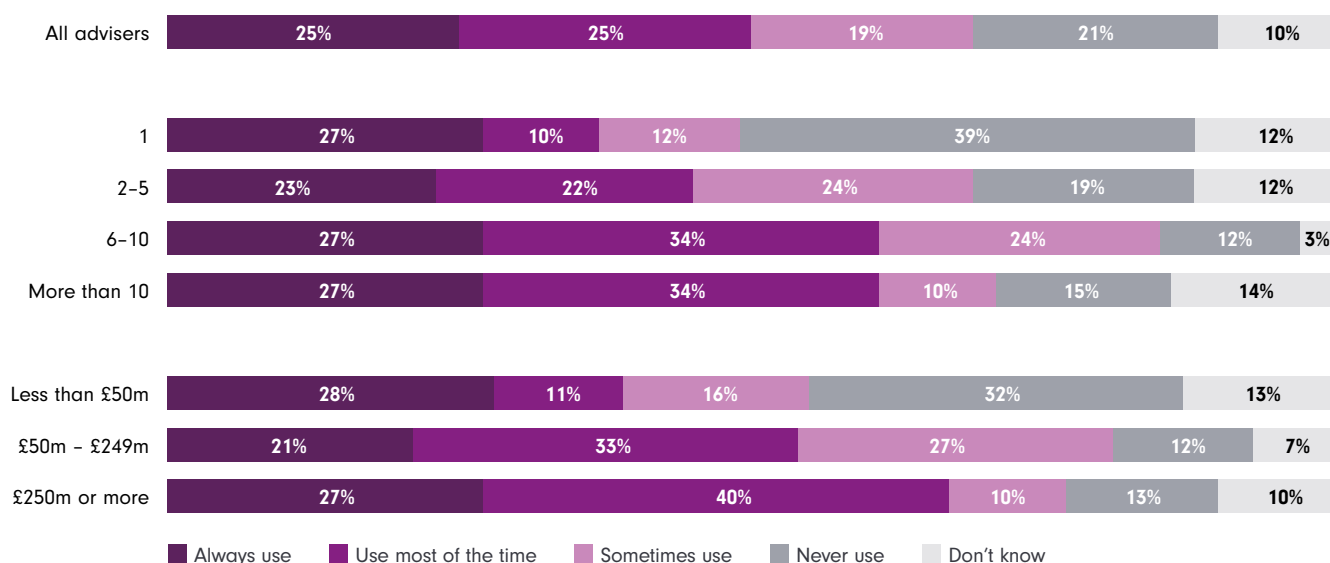
78%

Have integrated infrastructure

Technology infrastructure improvement over the past five years

5
Years

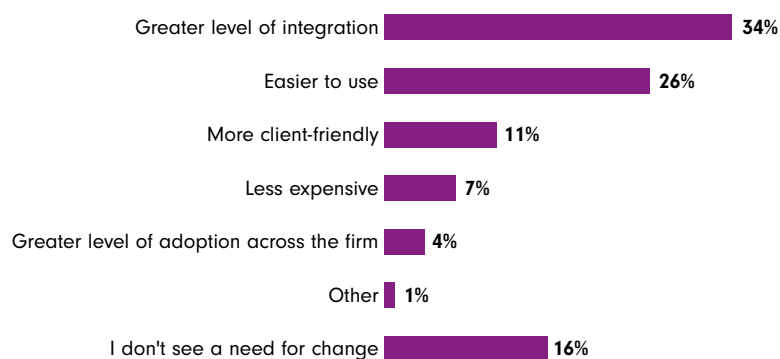
The most commonly used piece of adviser tech is practice management or back office systems. These are designed to be the backbone of an advice firm's infrastructure. However, there is a great deal of variance in the regularity of use across businesses.



- Just over a fifth of respondents (21%) never use a practice management system. A quarter use one all the time, and a further quarter 'most of the time'.
 - 39% of sole traders never use a practice management system, while the same is true of 15% of respondents at firms with more than 10 staff.
 - More than half of respondents (54%) who never use a practice management system also report a decrease in the number of clients in the past five years.
 - 47% of respondents who never use a practice management system describe feeling dissatisfied in their jobs, compared to 20% of respondents who always use a central system.
- We suspect that the lack of a practice management system is indicative of a wider pattern that a firm is not investing for the future, rather than a factor leading directly to business growth and job satisfaction.

The future of Tech infrastructure

A greater level of integration tops the wish list for the change that advisers would most like to see in the next five years, capturing 34% of responses. Qualitative interviews yielded a similar response.



"It's about connecting the dots. CRM, risk profiling systems and financial planning systems all talking to each other – that's what we need. Otherwise we're spending time re-entering information and ultimately that costs money"

Investment propositions: past and present

Centralised investment propositions were widely adopted by advice firms following the RDR introduced at the end of 2012. Our survey shows 69% of respondents currently work to a CIP, either self-directed or from their network or compliance provider, with a further 7% working toward introducing one.

Firms reporting an increase in client numbers over the past five years

80%

Firms with a centralised investment proposition

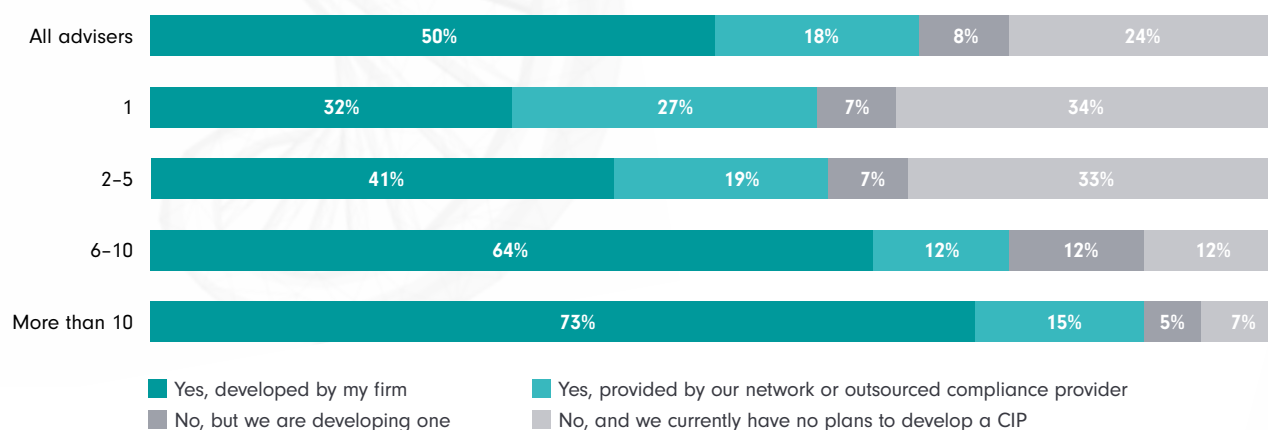
58%

Firms without a centralised investment proposition

An advantage of using a CIP is that they typically make the advice process more efficient, freeing up time for advisers to spend with clients (rather than researching and selecting individual funds, for instance). As such, 80% of firms with a CIP reported an increase in client numbers over the past five years, versus 58% who don't have a CIP.

CIPs are more likely in larger firms: 76% of firms who have 6-10 employees have a CIP, rising to 88% for those with more than 10 staff.

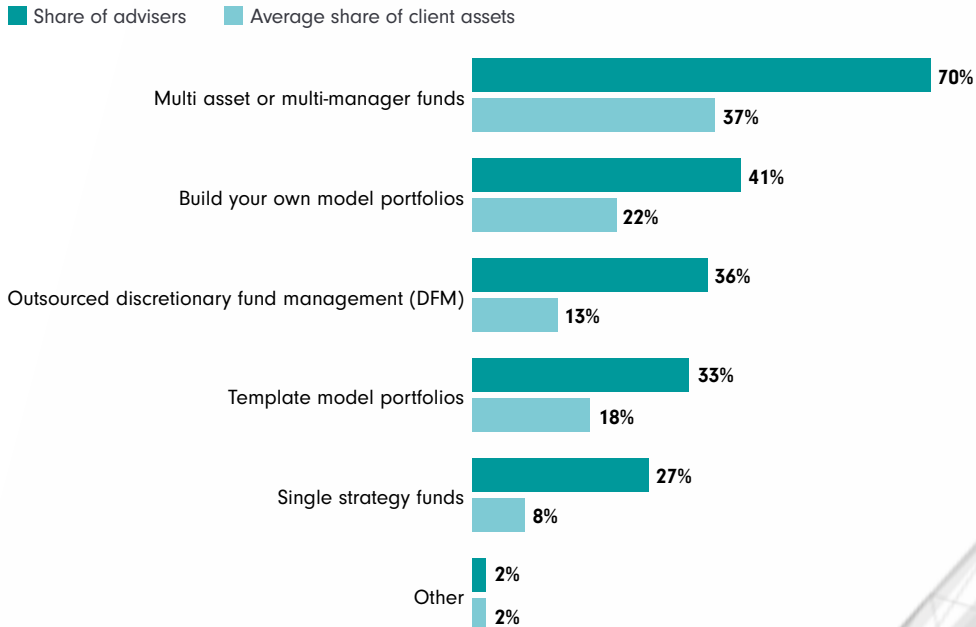
Existence of CIP by firm size



Investment Strategy

Overall, 70% of respondents state they use multi-manager or multi asset funds. These account for 37% of client assets. 'Build your own models' attract the second largest share of client assets at 22% followed by 'template model portfolios' at 18%.

Investment strategies used; average share of client assets

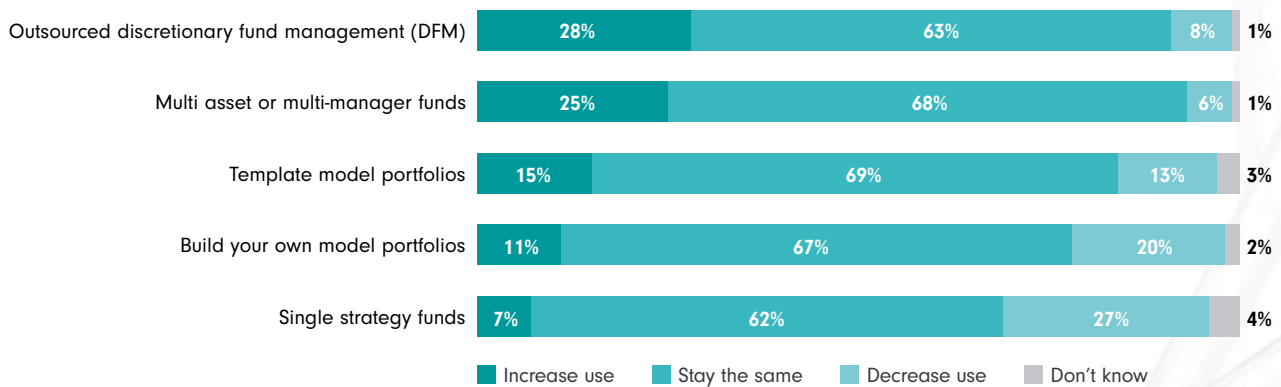


"We use an external consultant to construct portfolios and we run them in-house. The amount of client assets determines if they go into the models. If they only have £20k-£40k to invest, then we use multi asset, multi-manager and tracker funds"

The future...

Looking ahead, advisers intend to increase their use of multi-manager funds. Advisers that already outsource to a DFM are most likely to say they will increase their use of DFMs. Single strategy funds are expected to show the largest decrease: more than a quarter (27%) of advisers expect to reduce their usage.

Use of investment strategies



Our qualitative interviews with advisers in the last two weeks of March, amid significant market volatility, have indicated that a clearly articulated investment proposition has been critical. Advisers tell us that investors that are already comfortable with a firm's advice process and investment approach have been less likely to express concern about portfolio performance.



...have 10% or less of client assets in ESG portfolios

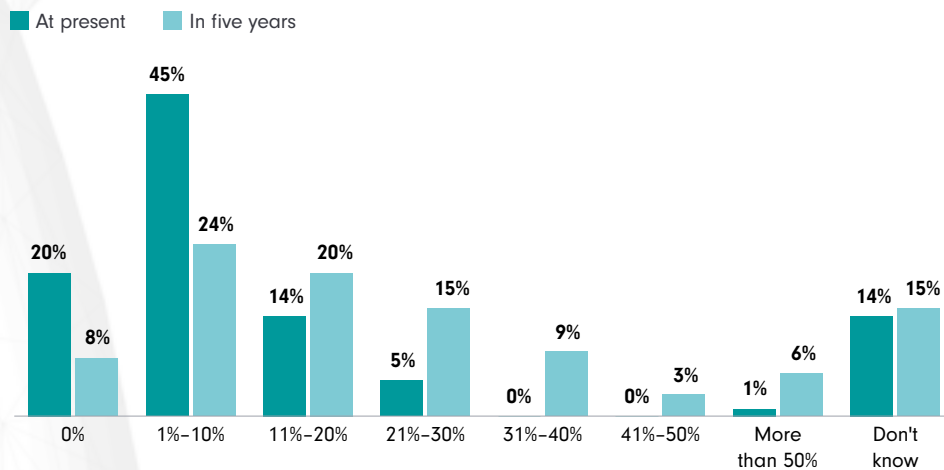


Over a quarter foresee 20% to 50% of their clients' assets in ESG portfolios in five years' time

ESG

Currently 65% of respondents have 10% or less of client assets in portfolios that support environment, social and governance issues. The proportion of assets in ESG funds is expected to grow, with over a quarter of respondents foreseeing having between 20% and 50% of their clients' assets in ESG portfolios in five years' time (only 6% of respondents expect to have more than 50%).

Clients assets in ESG portfolios



One issue that might be stalling the growth in ESG investing is the lack of industry consensus on what exactly constitutes an ESG, impact or SRI investment. Only 3% of advisers in our survey feel that a strong and clear consensus currently exists. The absence of a clear definition makes it difficult for advisers to compare ESG products and providers and to feel confident they will adhere to their clients' definition of an ESG investment.

Clear industry consensus on the definition of ESG portfolios?



Drivers of change

With so much change having taken place over the last five years, we wanted to find out which particular event, shift, innovation or evolution stood out above all others. We asked advisers: 'What has been the most important change to your financial advice or planning practice in the past five years?' and the same question looking forward five years. Respondents were not prompted with choices; these are open-ended answers.

Unsurprisingly, regulation and compliance were the most common responses from advisers (both as a source of past change and expected future change). This is consistent with our [Business Challenges Facing Financial Advisers](#) report published last year.

While the Coronavirus pandemic has thrown up short-term challenges, we suspect that looking over a longer time frame of five years, this result, that regulation and compliance are the biggest challenges, will remain the same. Throughout 2020, we will regularly take the pulse of advisers to assess the biggest challenges in light of the Coronavirus pandemic.

In January, one quarter of respondents specifically mentioned MiFID II, and a further 18% named the continuing impact of the Retail Distribution Review.

In addition to regulatory disruption, several other themes came through, including:

- The move to a holistic planning approach as opposed to an investment-led approach.
- Shifting to a paperless office.
- Branching out into other services (such as long-term care, wills, estate planning and Lasting Power of Attorneys).
- Introducing cash flow modelling.
- Structural changes to the business; mergers and acquisitions; changes to the business plan; hiring a managing director who focuses on running the business.

"Pension freedoms – without doubt, it's made pensions tremendously more appealing. Previously, you had a lot of clients in their mid-40s who thought "I've not got a pension so it's not worth me doing anything". They're the ones who should be doing more – those at the top of their earnings potential"

Looking to the future, 23% expect regulation and compliance to continue as the most disruptive force on their business. Other themes include:

- Increased interest in ethical investing.
- Continually improving processes and efficiency, and embracing technology.
- Better time management, and use of existing staff.
- More engaged and informed customers.

While we live in uncertain times in the face of the coronavirus pandemic, what remains clear is that demand for professional financial advice will continue unabated. Market declines may challenge business models and charging models, but demand for the financial advisers who help their clients define and achieve financial goals will persist.

"The profession has gone a long way to repairing the mistrust and it will continue to evolve. If we all look after each other it serves the whole profession and brings down the levies that we have to pay"

"I'd hope it's that people go on to their phones to look at investments as much as they interact and engage with online banking and other apps"

"I've got no control over it. Regulation takes as much as you put into it. People are more educated and more confused than ever. People are overwhelmed with options. That represents a high demand for advice. It's a perfect storm for financial planning firms that do the job correctly. It's an exciting time"

References

FCA, 2018. The changing shape of the consumer market for advice: Interim consumer research to inform the [Financial Advice Market Review \(FAMR\)](#).

