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Adapting to uncertainty

Adviser Solutions





Introduction

Jackie Boylan, Head of Fidelity Adviser Solutions

"Welcome to the 2023 instalment of our IFA DNA research programme, our annual examination of the opportunities and challenges facing advice businesses today. It was first conducted in 2020.

Previously, our research has shown how advisers and planners were, on the whole, remarkably optimistic about the future despite much of it taking place during the Covid pandemic. It's fair to say, this year's survey paints a not so positive picture. It's clear firms and their advisers are having to adapt to ongoing uncertainty – a challenging low growth and recessionary environment where clients are adjusting to higher interest rates and a cost-of-living crisis. Indeed, approximately half of the advisers we interviewed said more clients than usual are concerned about their financial wellbeing, although I'm sure these clients are benefiting hugely from their advisers' expert guidance and reassurance.

The latest results show firms' growth plans are less bullish, job satisfaction is down while more advisers are looking to sell up or exit the industry. What's more, it's evident from our interviews that financial advisers are becoming increasingly frustrated by the impact of the growing compliance burden on their businesses.

It's far from being all doom and gloom though. Our research highlights the many reasons to be optimistic for the future of the advice sector. Almost half of firms are still planning to grow organically over the next five years with just over half of advisers expecting the demand for advice to grow over this period. This doesn't surprise me as I think the current economic backdrop means it's more important than ever for consumers to seek high-quality financial advice. By and large, advisers remain happy too. Although down from previous years, nearly three-quarters of advice practitioners say they are satisfied with their career choice.

I do hope you find the report full of useful information. It may not be all positive reading but I think the reasons for this are recognised and well understood. For us as a business, it's crucial to understand the challenges advice firms are facing at times like these and IFA DNA really helps us to recognise what's on advisers' minds at present. In fact, our website contains lots of other research on issues affecting the advice industry – including an IFA DNA special report on the impact of regulation and tax changes on the advice sector – and you, like us, may find these insights really helpful."

"...nobody knew that inflation was going to go that high that fast. So, cost of living – all of that stuff – that's biting everybody"

"Clients are talking about inflation, and how interest rates have gone up, and the markets have been depressed, and therefore the performance of their portfolios hasn't been that great"

"A lot of our clients are in the approaching retirement stage, where the increase that we've seen in mortgage costs has not been a particular concern for those clients. But we have seen a few clients increase drawdown amounts around cost-ofliving pressures, but it's not been pushed to a level where we've had serious concerns about sustainability for our clients"

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Methodology

Fidelity commissioned NextWealth to produce this report based on a representative sample of financial advisers from research conducted in May 2023:

- A digital survey of 200 UK financial advisers.
- In-depth qualitative interviews with 10 financial advisers.

The interviewees were chosen to represent a full range of age and experience from firms large and small.



NEXTWEALTH

Executive summary

Industry trends

Around half of firms (51%) expect the demand for advice to grow over the next five years, mainly driven by the increasing complexity of personal finance. This outlook is reflected in the number of firms expecting to grow organically with 48% planning to take on new clients over the next few years. However, 22% of advisers are looking to sell their businesses this year with regulatory change and uncertainty seen as one of the main business challenges.

51%

48%

22%

Expect the demand for advice to grow over the next 5 years

68%

See complexity of personal finance as one of the main factors driving the demand for advice

53%

Planning to grow by taking on new clients in the next 3-5 years

See regulatory change and uncertainty as one of the main business challenges for firms

Looking to sell their firm in the next 3-5 years



Either completely or somewhat satisfied with their career

Adviser trends

While nearly three-quarters of advisers (74%) remain completely or somewhat satisfied with their career choice, this is down from previous years. In terms of the career skills regarded as the most important, holistic factors come out on top rather than technical skills. When asked about the economic environment, many advisers (43%) say they expect to recommend more annuities as a result of the current backdrop.

State client relations are one of their most important skills

Expect to recommend annuities to more clients going forwards

65%



Client trends

49%

87%

Nearly half of respondents (49%) say more clients than usual are concerned about their financial wellbeing – an upward shift from previous years. Not unexpectedly, this is being driven by the cost-of-living crisis with 87% of advisers saying this is a common client concern.

State more clients than usual are concerned about their financial wellbeing

State the cost-of-living crisis is a common client concern

Industry trends

Plans for the future

Despite economic uncertainty, around half of respondents still say their firms are looking to grow organically over the next three to five years, either through taking on new clients (48%) or increasing assets from existing clients (48%). However, it is true to say growth plans have been curtailed to some degree when compared to the last two years. The rising cost of capital seems to be dampening appetite to acquire businesses while more advisers are looking to sell or exit the market.



Intentions for the future

6

Taking on fewer new clients than usual

The demand for advice

35%

After taking on more clients than usual immediately following the pandemic, firms have had a tougher year in terms of new client numbers. Only 8% of respondents state they have taken on more than usual as opposed to 35% who state they have taken on fewer clients than is typical in any given year. Feedback from the qualitative interviews suggests this is down to the uncertain economic climate.

"I'm getting very little new business enquiries – there's just too much uncertainty. Everyone's shellshocked"

Firms taking on new clients



However, optimism about the long-term demand for advice remains with around half of advisers (51%) expecting it to increase over the next five years. This figure is marginally down from previous years but has held up well considering the wider picture. The vast majority of new clients are expected to come from referrals (87%) – either from clients or other professional firms – rather than marketing (5%) or online directories (4%).

The demand for advice over the next five years



The factors driving the demand for advice

Advisers believe the main factors that will drive the demand for advice over the next few years will be the complexity of personal finance (68%) and a greater awareness of financial planning (48%). The scores of both these factors have more than doubled from last year. On the flipside, the increasing cost of living, regulation and the cost of advice are seen as the main factors that could harm demand.



Business challenges

According to advisers, by far the two biggest challenges they face at present are regulatory change and uncertainty and the increasing burden and cost of compliance. Perhaps this is unsurprising given the introduction of the Consumer Duty this year and that other regulatory initiatives are on the horizon. The impact of the Consumer Duty on firms was commonly mentioned in the qualitative interviews conducted as part of this research.





The impact of regulation and tax changes on advice firms

Read our IFA DNA special report on the impact of regulation and tax changes

Sole traders satisfied with their career 58%

Career satisfaction and skills

This year has seen a marked fall in career satisfaction compared to previous years. That said, nearly three-quarters of advisers (74%) remain completely or somewhat satisfied with their career choice. Advisers in larger firms tend to feel more satisfied than sole traders.

The fall in career satisfaction may well be related to the increasing pressure of regulation. A strong theme from this year's survey is a feeling of frustration – advisers feel misunderstood by a regulator, focused, in their view, on product rather than the true value of advice.

Career satisfaction



Skills important to an adviser or planner

In terms of the skills viewed as being the most important to the role of a financial adviser or planner, holistic factors eclipse technical knowledge. Client relations (65%) and ensuring the financial wellbeing of the client (59%) lead the way followed by technical expertise (50%). As one adviser commented in the qualitative interviews, having an analytical person talk to a client who just wants to have a chat does not always work.



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Client segmentation

Risk profile, frequency of reviews and the investing time horizon are the most widely used methods of segmenting clients. Life stage planning continues to rise in importance though. In previous research, the level of investible assets has been one of the main methods of segmentation but the latest figures show other approaches are now more widely used.

Methods of client segmentation



Some response categories did not appear in the 2022 research

"By and large, it's a question of how much can you afford to save? What level of risk are you willing to take? What do you want the journey to look like?"

Retirement advice

It will come as no surprise to practitioners that retirement income planning remains the most common area clients seek advice on. In terms of product recommendations for retired clients, drawdown is by far the most popular solution at the moment. However, higher interest rates may well see other options increasingly becoming part of the mix with 43% of advisers saying they expect to recommend more annuities because of the current economic environment. Smoothed and guaranteed funds are also more likely to be recommended going forwards.

Recommended solutions to retired clients



Changes to recommendations given the economic environment



1st Re

43%

Retirement income planning is the most common area clients seek advice on

Expect to recommend annuities to more clients going forwards

Advising on intergenerational wealth transfers

A theme in recent years has been an increase in the demand for advice on intergenerational wealth transfers. In last year's research, this was put down to clients thinking more about the future following the pandemic. The pension freedoms – allowing more flexibility to pass on pension pots to beneficiaries following death – may also be a factor.

This year though, there has been a slowdown in the growth of this type of advice. Only 1% of respondents reported a significant increase in demand, although 42% say there has been a slight increase.

Demand for advice on wealth transfers



70%

Despite the slight slowdown in the growth of this type of advice, 70% of advisers still view intergenerational wealth transfers as an important business opportunity. However, only one in ten advisers say their firm has a specific strategy in place to attract this type of business (50% say a strategy is under consideration). Firms estimate that only 23% of clients are currently advised as a family rather than as individuals so boosting this percentage may be a way to increase conversations on intergenerational wealth transfers.

Firms with a specific strategy in place for advising on wealth transfers



Regard intergenerational wealth transfers as an important business opportunity

23%

Proportion of clients advised as a family rather than as individuals

Client trends

Financial wellbeing

The deteriorating economic environment has impacted the sense of financial wellbeing felt by clients. Indeed, 49% of advisers say more clients than usual are concerned about their financial wellbeing. This compares to 35% in 2021 when the country was still grappling with the economic consequences of the pandemic. When asked what is concerning clients, inflation and the cost-of-living crisis is, rather unsurprisingly, the top answer given by advisers (87%). However, 74% also state market returns are another common concern.

The financial wellbeing of clients



Preview

The impact of regulation and tax changes on the advice sector

As highlighted earlier in this report, advice firms say regulatory change and uncertainty and the increasing burden and cost of compliance are by far the biggest business challenges they face. On top of this, the Government is continually tinkering with the tax system and creating further uncertainty in the process.

In a special IFA DNA supplementary report, we explore how advice firms are reacting to the ever-changing regulatory environment. We reveal, for example, that 22% of firms are exploring new fee models given the FCA's focus on fees. The report also asks advisers how Government tax policy – and specifically the changes announced in the Autumn Statement 2022 and Spring Budget 2023 – will affect the advice they give to their clients.



Summary

This year's IFA DNA research results undoubtedly show that advisers are less optimistic about the future of the advice industry than they have been. This is very understandable given the economic backdrop. In many ways though, the results show how resilient and inherently positive advice practitioners are – they may be less bullish than a year or two ago but generally they still see a very bright future for the independent advice industry. What's more, they recognise that the need for high-quality financial advice is as strong as ever. Over half of respondents to our survey believe demand will increase over the next five years.

We do need to recognise though that, while the need for advice is great, the cost has the potential to restrict growth in client numbers. Indeed, the <u>2023 Advice Gap Report</u> from the lang cat, featured on our website, estimates that 6.5 million UK consumers are willing to pay for advice but think it's too expensive. Encouragingly though, 88% of UK adults who have taken advice over the last two years say they believe it represented value for money. As highlighted within this report, advisers identify regulatory change and the increasing burden and cost of compliance as their two biggest challenges. These factors inevitably put pressure on fee levels and, based on the findings of our IFA DNA special report on the impact of regulation and tax changes, advice fees are more likely to rise than come down – only 2% of firms exploring different fee models say they are considering reducing their fees.

Read more research on how advice firms are adapting to change and other business challenges

fidelityadvisersolutions.co.uk/ifadna





