

IFA DNA Report

2022

Positioned for growth

Adviser Solutions



Fidelity
INTERNATIONAL

Introduction



Jackie Boylan, Head of Fidelity Adviser Solutions

“Welcome to the latest instalment of our IFA DNA research programme, an initiative that began in 2020 with the aim of getting greater insight into the opportunities and challenges facing advice businesses today. We believe it offers a comprehensive view of the mood of the industry. In particular, it examines firms’ plans for the future, the pressures affecting the sector and how advisers are responding to industry-wide themes and trends.

This is the first round of research we have conducted since the country returned to near normality following the Covid pandemic. Judging by the feedback from the qualitative interviews, it is clear that both advisers and business owners think the industry is in a promising position coming out of the crisis. Far from having to make concessions or repair any damage from the pandemic, businesses say they are very optimistic about the future.

Indeed, many firms see the pandemic as something of a catalyst as it gave them the nudge to introduce changes that they had been contemplating for years but hadn’t had the opportunity to implement. Firms mentioned, for example, how processes have been streamlined and new ways of working have been introduced. The result is many firms are now leaner and fitter and planning for the next phase of their growth. With further efficiencies being realised all the time – typically through the integration of technology – I’m sure firms will be well placed to take advantage of all the opportunities that arise in the future.

Another positive aspect coming out of Covid is that it has further strengthened the client focused ethos of advice firms. In interviews, we heard about the sense of pride that businesses and advisers feel about the work they do and the deep relationships they have with their clients. These strong connections will be important in the period ahead. As the report shows, many clients are feeling anxious about the cost-of-living crisis and their advisers’ expert guidance and reassurance will be required more than ever in these challenging times.

I trust you’ll find the report interesting and full of pertinent information. It touches on some of the big trends within the industry, such as sustainable investing and the use of financial planning tools. These are just two of the areas where we are very keen to support firms. We’ve spent a lot of time over the last year developing tools and content to help you make the most of these exciting opportunities.”

"During the pandemic, we decided to hit some projects we've been meaning to do for quite some time. We ironed out a lot of inconsistencies in the business and we came out of it in an exceptionally lean shape. And we're now having our best year by some margin. And that's all on the back of the work during the pandemic."

"It really forced us to tackle the issues that were going to make the biggest difference."

"Lockdown was the reason to rip off that band aid that says there's a traditional way of doing things, and you do things differently. And we've not rushed to go back to the way that things were done historically."

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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 2022:

- A digital survey of 204 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.



N E X T W E A L T H

Executive summary

Industry trends

Firms are generally very bullish about the future with 58% expecting the demand for advice to grow over the next five years. The majority of firms are looking to grow organically with 56% planning to take on new clients. A significant proportion (28%) are planning to grow through acquisition. On the other hand, nearly half of sole traders say they are planning to sell up in the near future.

58%

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

56%

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

28%

Firms planning to grow through acquiring other businesses

Sole traders looking to sell their firm in the next 3-5 years

45%

55%

Firms experiencing more demand for advice on intergenerational wealth transfers

Adviser trends

Following the pandemic, advisers have been keen to meet clients on a face-to-face basis again. However, only around 50% of meetings are held in this traditional way with online and phone meetings still common practice. In terms of business opportunities, most firms are seeing an increase in demand for advice on intergenerational wealth transfers.



1 in 2

Client meetings held face-to-face

Client trends

The economic backdrop is causing anxiety amongst clients, with the cost-of-living crisis identified as the most common client concern. This is further illustrated by the fact that 46% of advisers say more clients are concerned about their financial wellbeing than usual.

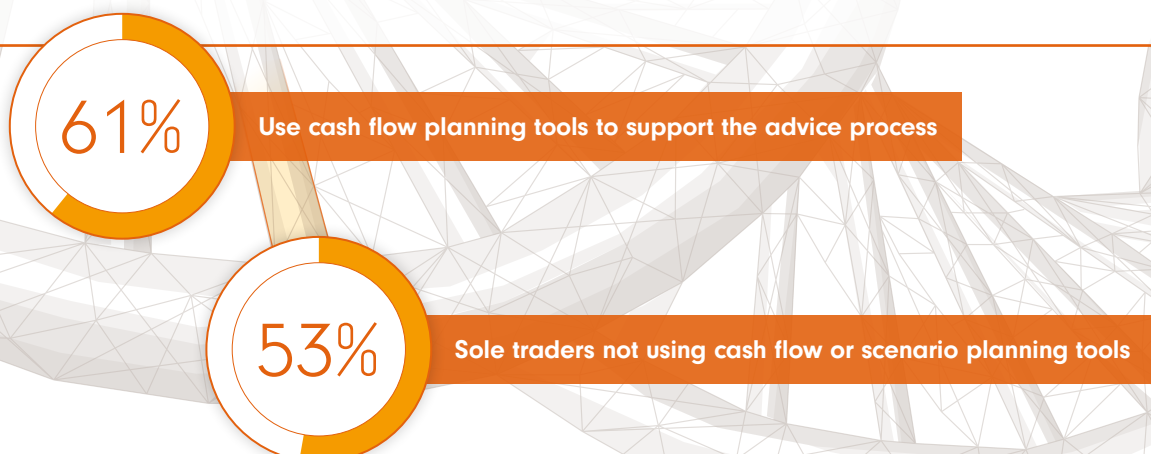


Sustainable investing

Interest in sustainable investing continues to grow with 15% of advisers stating they have been directly asked by clients to invest in this area. Another 34% say clients are somewhat interested and want to know more about the subject.

Financial planning tools

Over 60% of firms use cash flow modelling tools within their business while 25% use scenario planning tools. However, over half of sole traders do not use either of these financial planning tools.

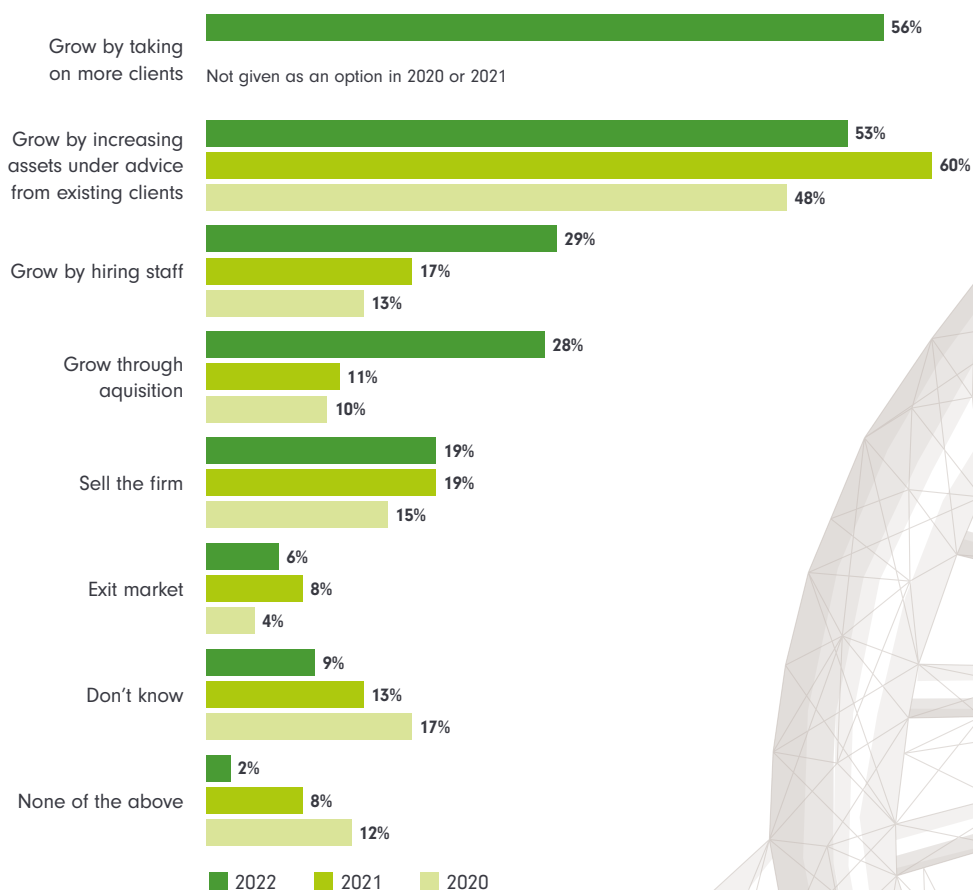


Industry trends

Plans for the future

The majority of advisers say their firms are looking to grow organically over the next three to five years, either through taking on new clients (56%) or increasing assets from existing clients (53%). Interestingly, there has been a significant increase in firms pursuing growth by acquisition – up from 11% in 2021 to 28% this year. Advisers looking to sell their business remain at 19%, but this figure increases to 45% for sole traders.

Intentions for the future



56%

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

"We do a lot of acquisitions. We consider whether the company is a good cultural fit and the quality of the business."

28%

Firms planning to grow through acquiring other businesses

16%

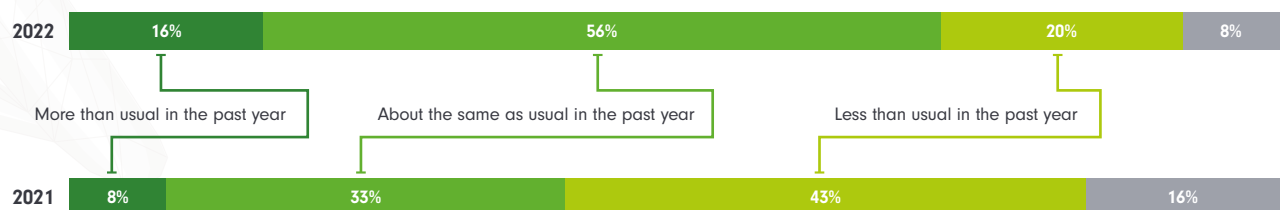
Firms taking on more new clients than usual in the past year

The demand for advice

Optimism about the future demand for advice is largely unchanged, with 58% anticipating an increase in demand over the next five years. This compares to 55% in both 2020 and 2021. Advisers believe the complexity of personal finance and an increasing awareness of financial planning will be the main drivers of this growth. The vast majority of new clients are expected to come from referrals rather than marketing.

In terms of taking on new clients over the last year, there is positive news. The number of firms taking on more new clients than usual doubled to 16% this year. While 20% of firms are taking on fewer clients, this figure is a significant improvement on last year when 43% of firms stated this was the case. This was primarily due to the challenges presented by the Covid-19 pandemic.

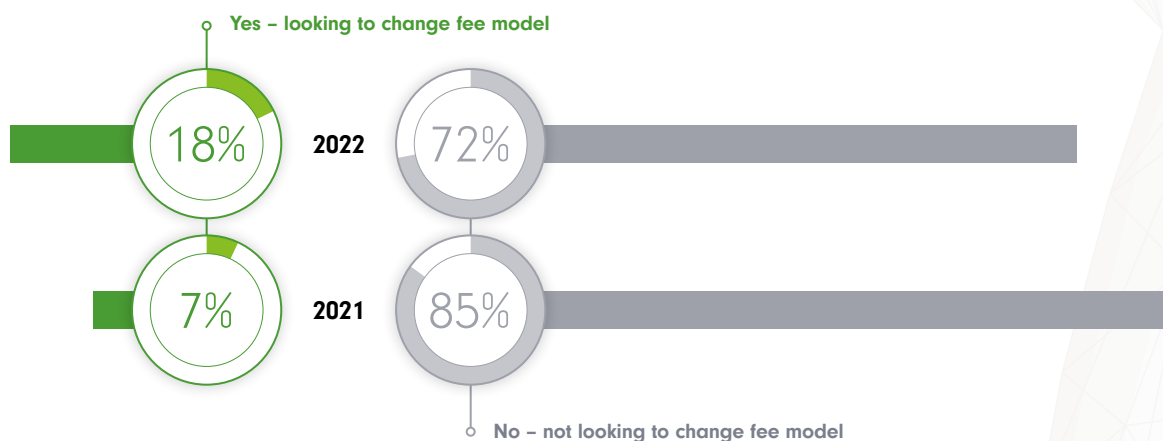
Firms taking on new clients



Fee models

The vast majority of firms (72%) remain happy with their current fee model and plan no change. However, more firms (18%) are considering a change compared to a year ago (7%). This figure increases to 35% for firms with 10 or more advisers. Of those planning to change their fee model, 17% are planning to increase fees for new clients while 56% are planning to increase fees for all clients.

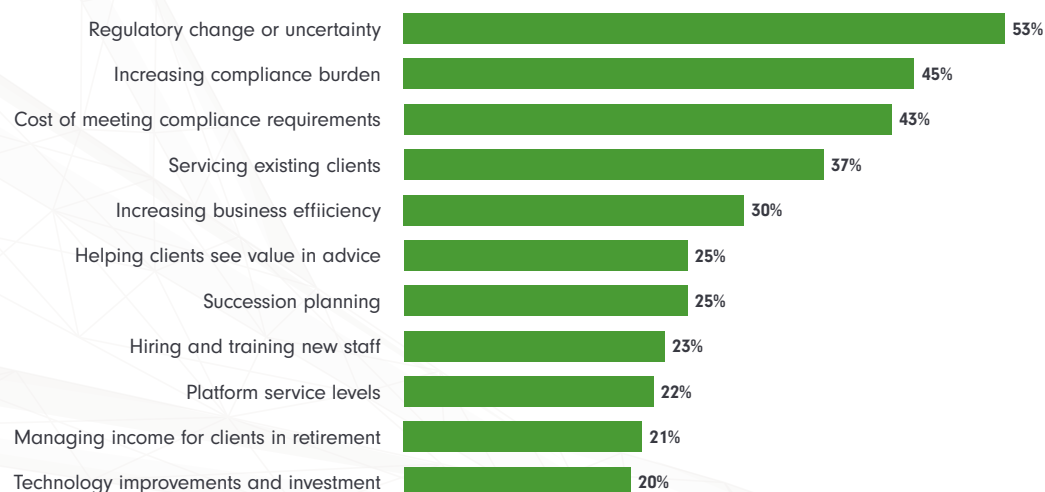
Changing the fee model



Business challenges

Advisers state that regulatory uncertainty and the increasing burden and cost of compliance are the biggest challenges they face. In particular, advisers are mindful of the time and resources that may be required to implement the forthcoming Consumer Duty for financial services.

Main business challenges



"We're in favour [of the Consumer Duty] in so much as it improves the industry but nervous about what the final rules will be and how you need to apply them."

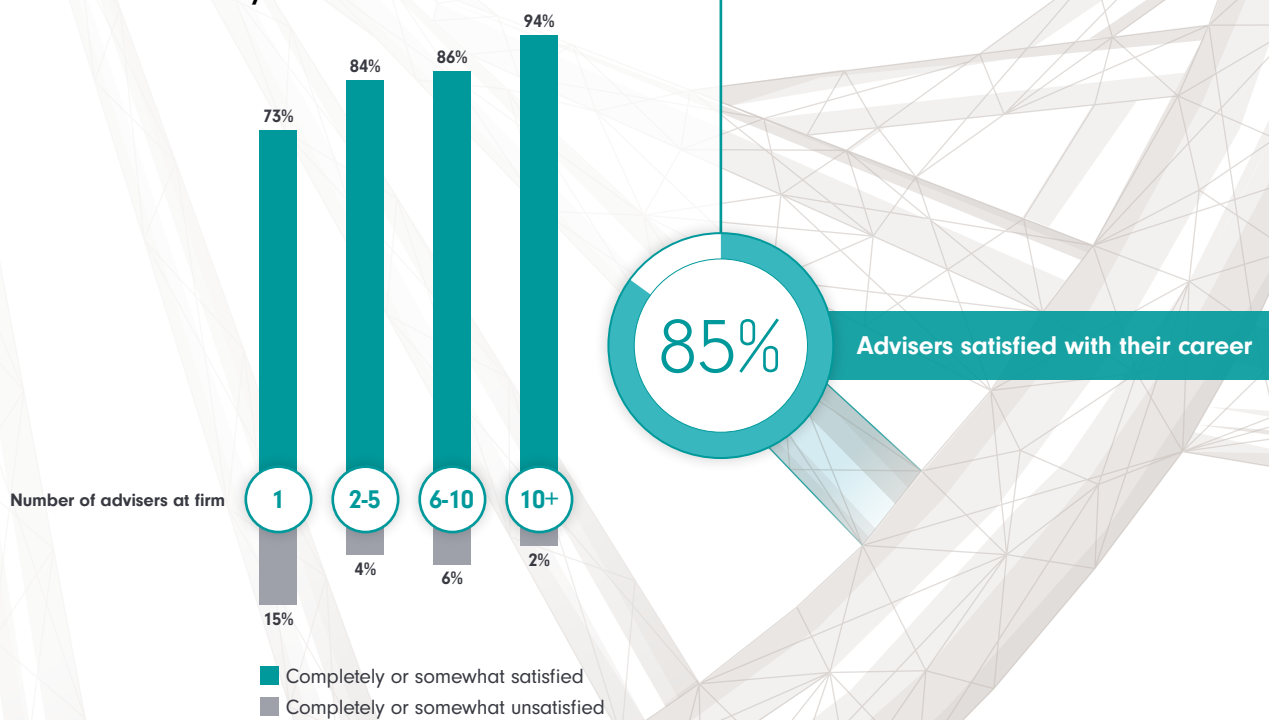
"The underlying themes of 'your duty to the consumer' are a no brainer, because you built your business that way."

Adviser trends

Career satisfaction

Broadly, adviser satisfaction has remained unchanged with 85% reporting they are completely or somewhat satisfied with their career (the figure was 86% in 2021). However, more advisers from smaller firms said they were unsatisfied, particularly compared to those at large firms with 10 or more advisers.

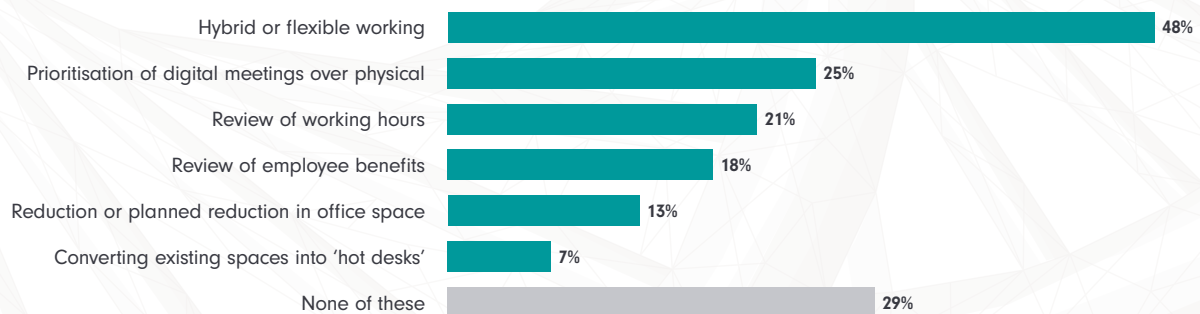
Career satisfaction by size of firm



Working practices

In terms of working practices, around half of firms have settled into a pattern of hybrid working following the working from home trend seen during the pandemic. A quarter of firms are continuing to prioritise online meetings rather than physical ones.

Methods of working to support staff



Over the course of the pandemic, the advice process was almost completely conducted online or over the phone due to the social distancing measures in place. Now these rules have been relaxed, face-to-face appointments have again become the most common way of meeting with clients. However, it is interesting to note only around 50% of meetings are conducted in this way – the figure was 99% in our pre-Covid survey in 2020. It appears from the in-depth qualitative interviews that firms are giving clients the choice and balancing factors such as location and the type of meeting.

Conducting the advice process



"It used to be the default. It was just assumed it was going to be an in-person meeting. Whereas now the assumption is it won't be in-person or you give the client the choice."



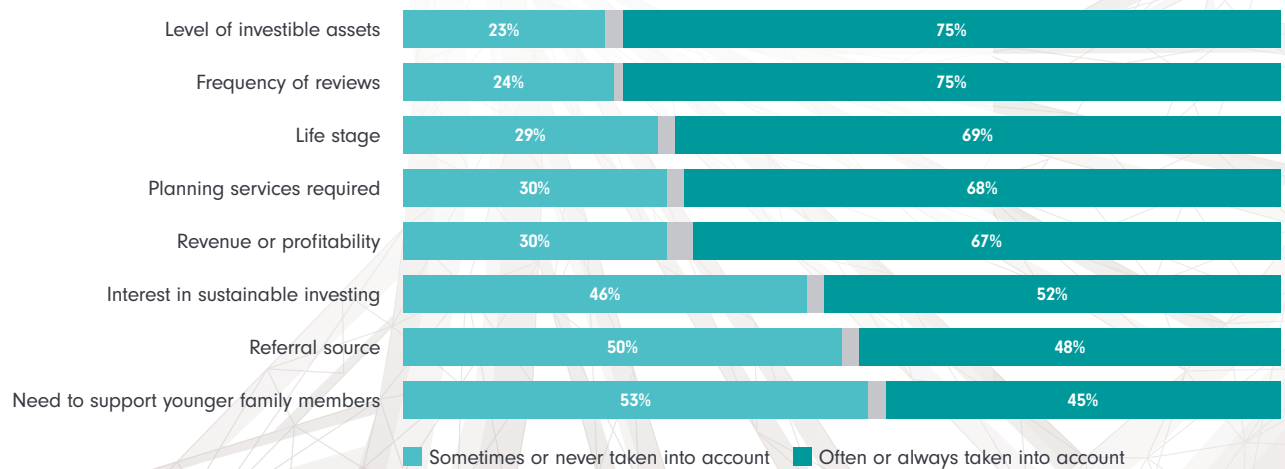
1 in 2

Client meetings held face-to-face

Client segmentation

The level of investible assets is the most widely used method of segmenting clients, along with frequency of reviews. Life stage planning is gaining traction though. It appears it is often easiest to define segments by their known characteristics and easily understood profile information, rather than information that is less structured and requires more input.

Methods of client segmentation

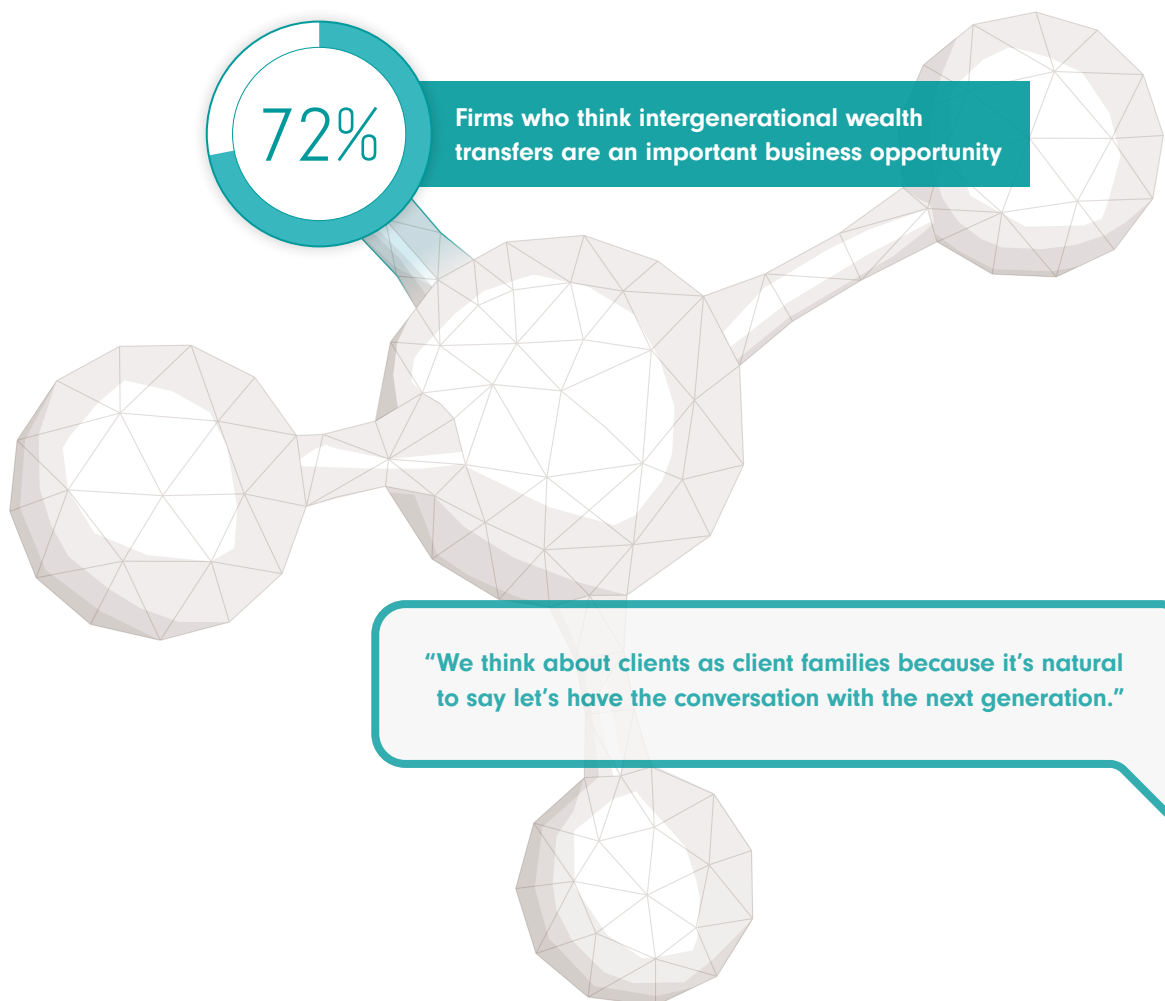
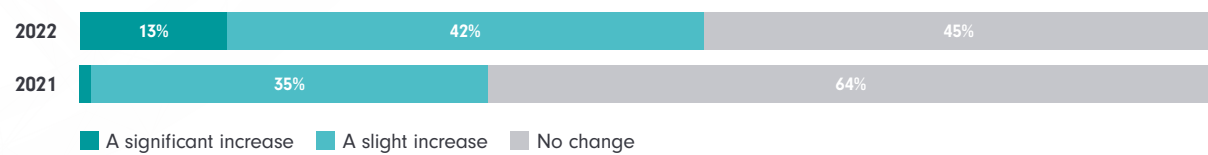


Advising on intergeneration wealth transfers

This area of financial planning is seen as a growth area for advice firms, particularly following the pandemic which has made many clients think more about the future. Indeed, 55% of firms experienced a rise in demand for this type of advice over the last year. Perhaps this is why nearly three quarters of advisers perceive this as an important business opportunity for their firm.

While this is seen as a growth area, engaging with younger clients is seen as a challenge by some advisers. In fact, 28% stated they would like additional training and support in this area.

Demand for advice on wealth transfers

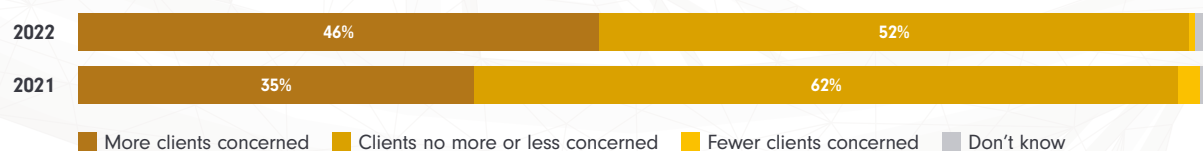


Client trends

Financial wellbeing

Last year, a significant proportion of advisers (35%) stated more of their clients were worried about their financial wellbeing than usual. This was attributed to the economic consequences of the pandemic. One year on, the picture has deteriorated further with 46% now stating this is the case. Clients tend to be most worried about the cost-of-living crisis and the possibility of market declines. According to the qualitative interviews with advisers, clients mainly want reassurance rather than having any deep sense of concern.

The financial wellbeing of clients



Common client concerns

The cost-of-living crisis

39%

"The biggest challenge is getting through this cost-of-living crisis. There's a lot more conversation with clients to reassure them about their investments."

A possible fall in the markets

36%



Friend, relative or nominated individual attends important meetings

82%

Vulnerable clients

The awareness of clients with vulnerabilities is increasing with 72% of advisers stating they have clients in this category. A friend or relative attending the meeting is the most widely followed practice for vulnerable clients (82%). Nearly a third of advisers say they schedule more frequent review meetings for this client type.

The qualitative interviews highlighted how advisers recognise that any client could have a vulnerability and the definitions of being vulnerable stretch far and wide and encompass a number of conditions and personal circumstances.

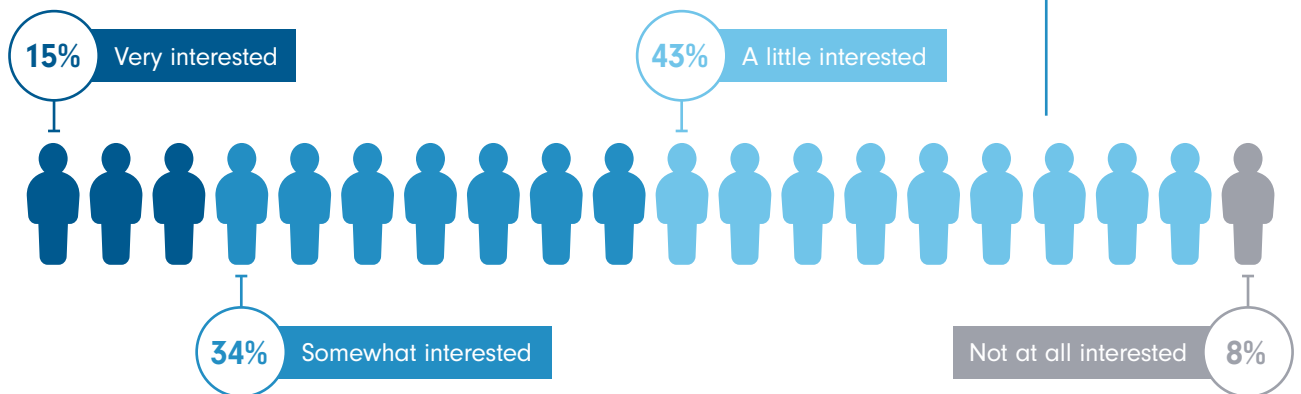
Advisers currently servicing vulnerable clients



Sustainable investing

One of the big investment trends over the last three years or so has been the growth in sustainable (responsible) investing. Many clients are now taking an active interest in how their money is invested and this is borne out in this latest round of research. Indeed, 15% of advisers state they have been directly asked by clients to invest sustainably while another 34% say clients are somewhat interested and would like to know more. Clients are typically most interested in environmentally-focused or sustainability-focused investments. Only 8% of advisers say clients are not at all interested in sustainable investing.

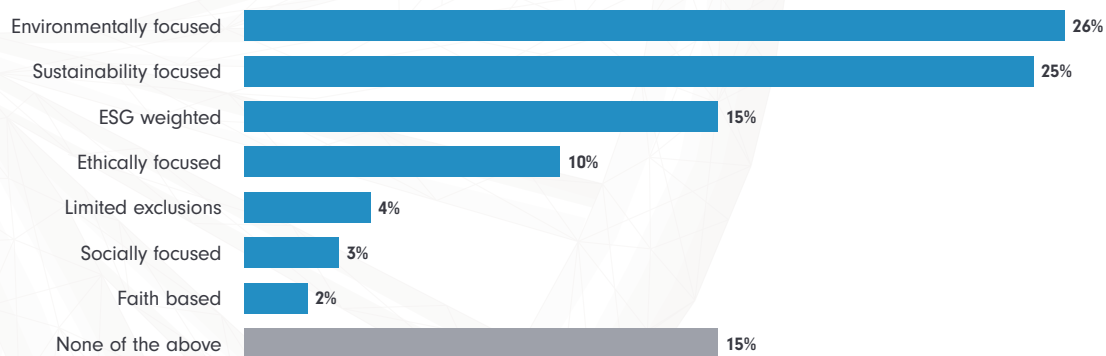
The extent to which clients are interested in sustainable investing



Firms with clients very or somewhat interested in sustainable investing

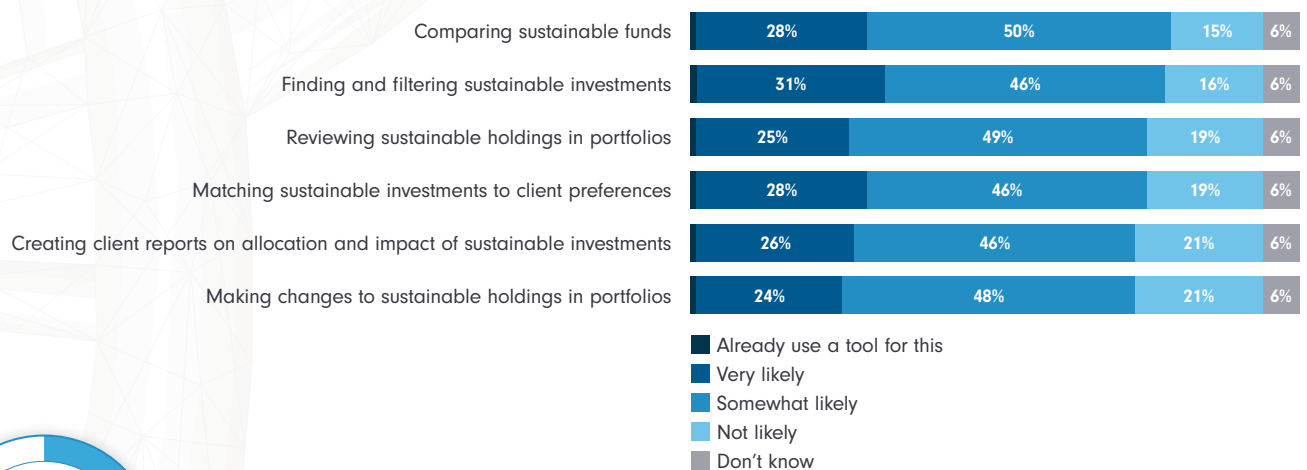
49%

Client interest in specific sustainable investing categories



Advisers are very open to using online tools to support the research and reporting on sustainable fund options. Across all the various activities, around a quarter say they are very likely to use these tools while around 50% say they are somewhat likely to use them. This includes reporting on sustainability, where 66% say they are not currently using any such tool.

Tool usage to support sustainable fund research and reporting



78%

Advisers using or likely to use tools to find and filter funds

Financial planning tools

Over 60% of firms are using cash flow modelling tools within their business. It is clear from the qualitative interviews that, for some firms, cash flow modelling is the centrepiece of their planning work. Interviewees refer to the benefit of cash flow modelling when reassuring clients about, for example, the cost-of-living crisis as they have already accounted for inflation within the models.

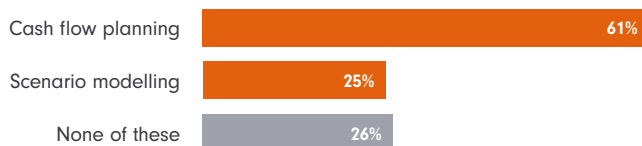
Scenario modelling tools are currently only used by 25% of firms, although this rises to 44% for firms with 10 or more advisers. Over half of sole traders do not use either of these financial planning tools.

For those firms that do use these tools, there is a mixed picture in terms of user satisfaction.

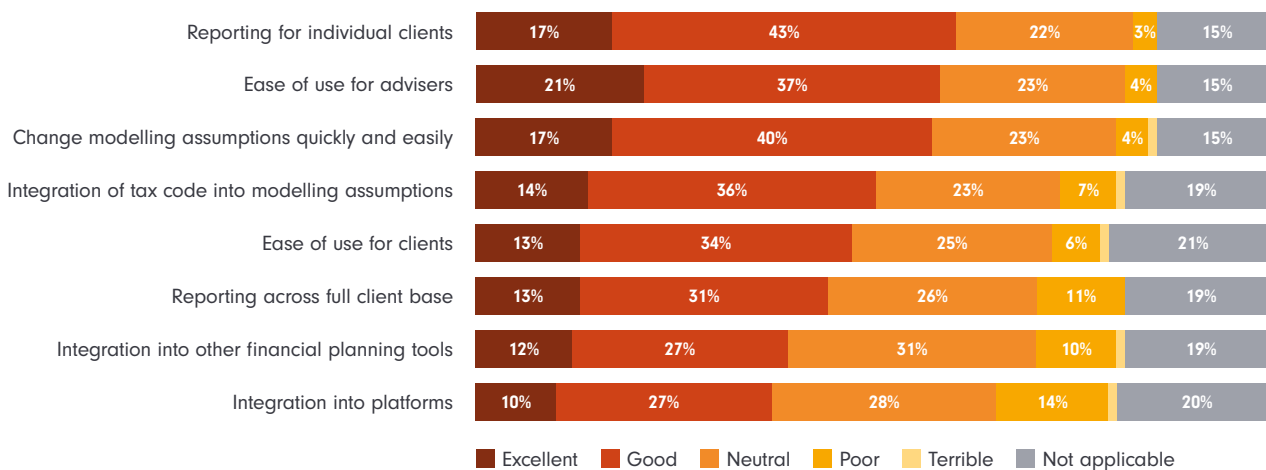


Sole traders not using cash flow or scenario planning tools

Advisers using financial planning tools



How existing financial planning tools are performing



Conclusion

It appears from the results of this year's survey that the independent financial advice sector has a bright future. After two difficult years when the industry had to adapt to the challenges thrown up by the Covid-19 pandemic, firms have put the crisis behind them and are positioning themselves for growth. Supported by the fact that over half of firms expect the demand for advice to rise over the next five years, 56% of firms are planning to take on new clients while 28% are planning to grow through acquisition. This second figure really demonstrates how bullish the industry is – only 11% of firms said they were looking to buy other businesses in our 2021 survey, when many told us their plans for growth had been put on hold.

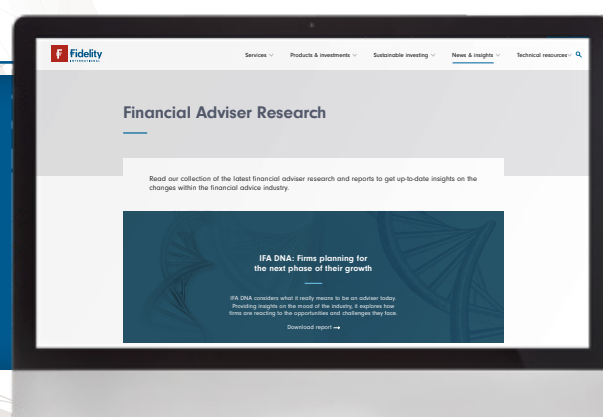
Of course, there are still challenges ahead for the sector. While 16% of firms reported taking on more clients than usual over the past year, 20% stated they had taken on fewer clients. The numbers are trending in the right direction though – just 8% took on more clients than usual in the year before with 43% taking on fewer clients. The economic environment and the cost-of-living crisis are also potential headwinds, although, as we've already flagged, clients will be able to draw upon the high-quality advice of their advisers over this testing period.

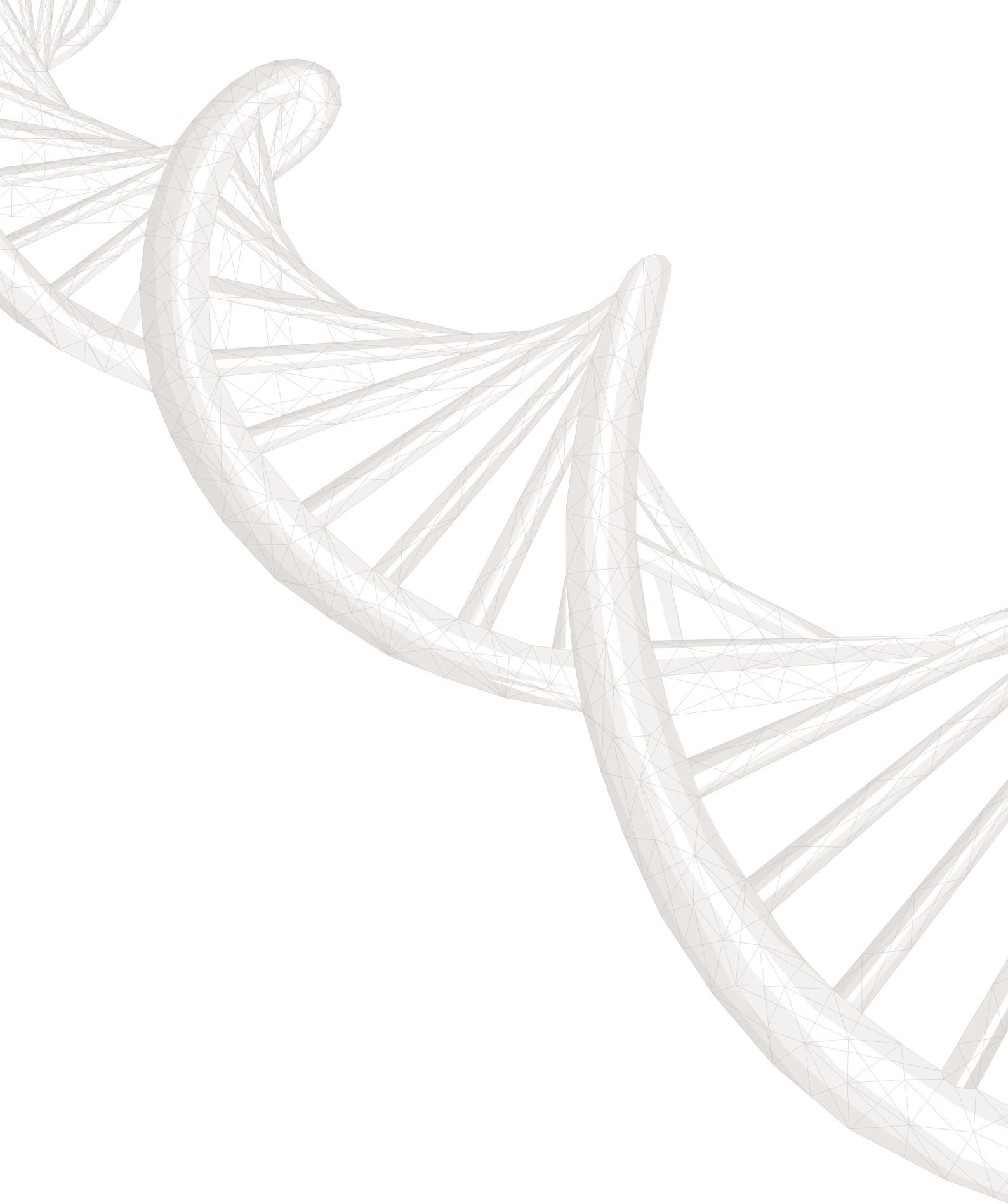
Firms say regulatory change and the increasing burden and cost of compliance remain their biggest challenges. In particular, many interviewees are conscious of the forthcoming Consumer Duty and the potential impact this could have on their businesses. We fully understand the increasing regulatory pressures on firms and so one way we endeavour to support advice businesses is through keeping them informed about regulatory change. Therefore, in order to help provide clarity, we are committed to a communications programme on the Consumer Duty when the final rules are announced later this year.

Another theme within the report is the desire for firms to work more efficiently through, for example, streamlining processes and the greater use of tools. We are very conscious that platforms have their part to play here. Therefore, this year, we've partnered with the Origo Integration Hub to offer Straight Through Processing for a range of our account opening and trading services, providing advisers with a more efficient experience. We've also partnered with Conquest, a Canadian fintech company, to exclusively offer its 'Conquest Planning' financial planning software to the UK IFA market. From fact find, through plan, report and present, the application simplifies the advice process and saves time and reduces costs. Finally, to help advisers find and filter sustainable fund options for their clients, we've launched our Sustainable Investment Finder. This user-friendly tool is currently being enhanced to enable users to browse for funds by selecting a range of additional preferences or management approaches.

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

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