

ADVISER SNAPSHOT

New Model Army?

Adviser Snapshot 3: Research into advisor firms' business models and governance

June 2013

Introduction

Adviser Snapshot researches the adviser firm market to assess how firms are reacting to the implementation of the RDR and the FCA. This third report looks at the business models firms are developing and their governance practice.

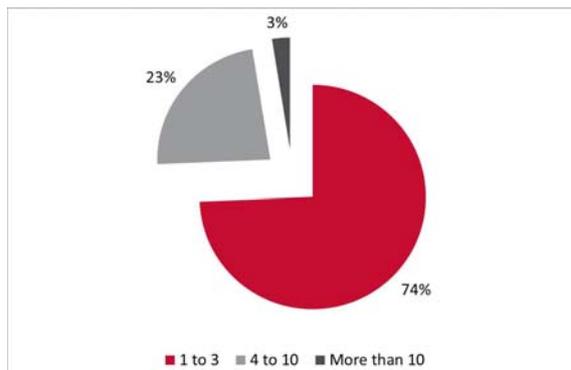
Full analysis of the results is provided to advisers taking part in the research.

Overview

- 60% of firms see themselves broadly offering the same service in 3 years.
- Over 75% of firms have no plans to develop additional services.
- Over 90% of firms rely primarily on referrals from existing clients and from professional connections for new clients
- Nearly 50% firms feel that they do not maximise existing relationships.
- 80% are confident that their firm is meeting TCF outcomes, yet less than two-thirds are confident that their firm maintains appropriate records.

The survey sample

Respondents by number of advisers



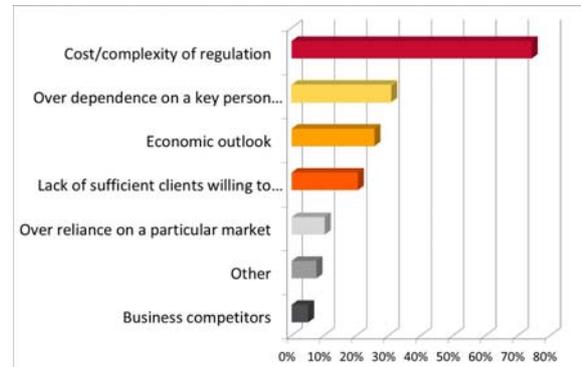
The vast majority (97%) of respondents are directly authorised, 74% are firms with 3 or fewer advisers, and 97% are independent.

The survey very much tests how smaller, mainly directly authorised firms are reacting.

Competitive Strategy

Threats to adviser firms' future success

The largest threat to their success, as seen by firms, is the cost and complexity of regulation.

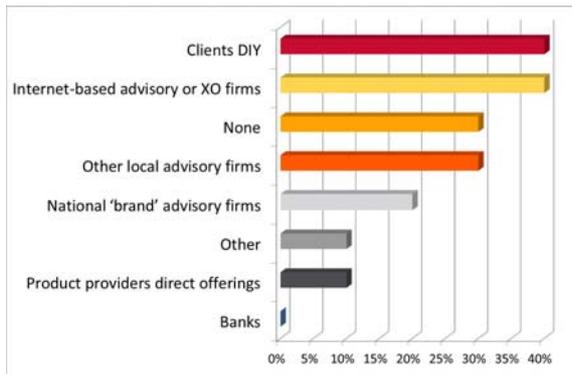


Beyond that, 40% of small firms (with 1 - 3 advisers) felt that over-dependence on a key person was the next biggest threat. Larger firms were more concerned about the economic outlook.

Major sources of competition

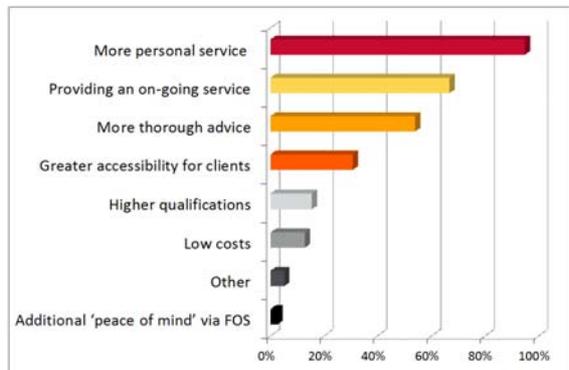
The most common sources of competition cited were clients making their own provision (44% respondents) and competition from other firms setting up internet offerings on either an advised or execution-only basis (31%).

While smaller firms were more likely to fear banks, and direct offerings by product providers, 30% of larger firms did not feel there were any credible sources of competition for their services.



Sources of competitive advantage

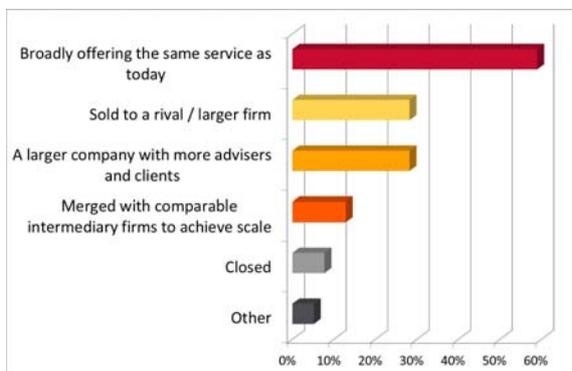
The FCA will in future be asking firms to be able to explain their perceived source of competitive advantage. Over 90% cited 'More personal service' as their main advantage, and this was followed by 'Providing an ongoing service' and 'More thorough/comprehensive advice'.



While 'Client DIY' is seen as one of the major sources of competition in the future, very few firms felt that the protection of the FOS was a source of advantage to them.

Aspirations for the future

A high percentage of small firms – 70% – felt that in 3 years' time they would be broadly offering the same service as they are now, while none of the larger firms agreed. Larger firms typically saw themselves growing both in terms of adviser numbers and clients.

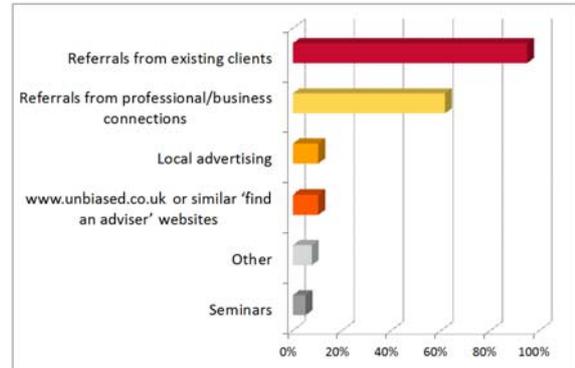


Over 40% of all firms felt that in 3 years they would either have closed down, have merged, or been acquired.

Marketing strategy

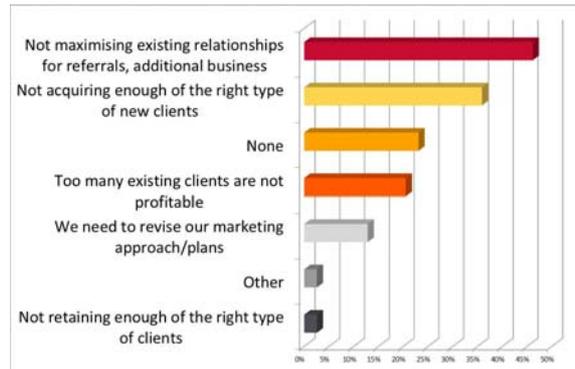
Sources of organic growth

The overwhelming majority of firms rely on referrals from existing clients, primarily, and from professional connections, for new clients, with few other strategies for organic growth being employed.



This is true even among firms that aspire in the future to have more clients with more advisers.

Concerns on client acquisition & retention



Nearly half (48%) of all firms are concerned that they are not maximising their existing client relationships while 36% fear they are not acquiring enough of the right kind of clients.

One in five believes that they have too many clients who are not profitable.

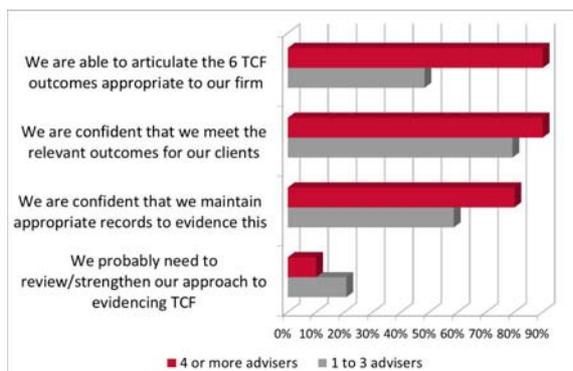
Additional services

Over 70% of firms do not intend to develop any additional services to complement their face-to-face full advice proposition.

Governance

Treating Customers Fairly

While 80% of smaller firms are confident that their firm is meeting the relevant TCF outcomes, less than 50% feel able to articulate what those outcomes are, and over 40% of smaller firms do not feel confident that they maintain appropriate documentation and/or evidence on TCF.



Resourcing and management oversight

As may be expected, smaller firms have fewer specialist roles and more people doing what the FCA may come to regard as incompatible jobs – such as both providing and overseeing advice.

Smaller firms also claim to be less able to articulate their responses to key elements of the FCA’s business model condition, such as the risks they face from the external market, and indeed their own future strategy.

Inferences

- **60% of firms see themselves broadly offering the same service in 3 years; over 75% of firms have no plans to develop additional services**

An encouraging sign for the future of advice or too many ‘heads in the sand’? Along with the fact that 1 in 5 say they see no competition to their services, this may imply that many have yet to fully appreciate the implications of, and threats to their business models posed by, a combination of regulation, technology and competition.

- **Over 90% of firms rely on referrals from existing clients and professional and business connections for new clients; yet nearly 50% of firms feel that they do not maximise existing relationships**

New client acquisition is a key element in the viability of most firms’ business models, yet few have clear marketing strategies for this with less than a quarter stating that they have someone in their firm with a specific marketing responsibility

- **Only 15% see higher qualifications giving them a competitive advantage yet almost 40% have or are seeking chartered status**

While most in the industry see higher qualifications as beneficial to customers, few advisory firms see this as important in ‘beating’ their perceived competition of client ‘DIY’ and internet based services to attract new clients

- **Most firms are confident that they can articulate different aspects of their own firm’s business model to meet the FCA’s new threshold condition requirements**

However, smaller firms in particular noted a lack of confidence in areas such as the impact of the external macroeconomic and business environment, their growth strategy (and any risks arising from it), and the expectations of stakeholders such as shareholders and regulators.

- **80% are confident that their firm is meeting TCF outcomes, yet 40% say they cannot articulate the 6 outcomes. Less than two-thirds are confident that their firm maintains appropriate records.**

This reinforces our concern that while most firms believe they are treating customers fairly they are not sufficiently aware of the TCF requirements, and importantly are not paying sufficient attention to *demonstrating* this. Given that the FCA has emphasised that TCF remains core to how they expect firms to treat their customers, this would seem to be an area to which firms need to pay considerably more attention.

Next steps

Future surveys in the series will consist of:

- Tracker surveys, looking at how the adviser market is evolving as firms adapt to the new regulatory environment.
- More in-depth surveys on specific topics.

If you would like to participate in future research and find out what other adviser firms are doing, simply email us at:

enquiries@actionconsulting.co.uk

and ask to be included in our adviser panel.

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Action Consulting (UK) Limited
48a High Street, Henlow, Bedfordshire SG16 6AA

www.actionconsulting.co.uk

T +44 (0)1462 813020

F +44 (0)1462 813021

actionconsulting