actionconsulting

ADVISER SNAPSHOT

Adviser glass half-full. What's yours?

Adviser Snapshot 6: Straw poll on fees, advice propositions, costs, charges and the future

June 2014

Introduction

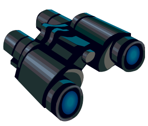
For Action Consulting's Adviser Snapshot 6 we conducted a straw poll on key topics that we have been talking to adviser firms about recently.

Overview

Adviser Snapshot 6 presents its most positive view of the adviser market yet:

- **Nearly 9 in 10 firms envisage a positive future over the next 3 years.**
- **Roughly 80% firms report costs growing no faster than revenue, many having already taken measures to contain costs.**
- **Two-thirds are confident they can replace trail commission with service fees.**
- **Most firms feel regulatory complexity is the main threat to viability, but are confident of meeting FCA requirements.**

Future prospects



Nearly 9 in 10 firms envisage a positive future over the next 3 years, with half of those planning to become a larger firm with more advisers and clients.

One reason firms have for wishing to expand is a concern about sustainability. Roughly 40% of the firms we contacted have seen costs increase significantly in the last year, and 1 in 5 say that costs are increasing faster than revenue. And nearly half see over dependence on a key individual as being a key threat to their business.

Re-engineering and the squeeze on costs

This figure may well have been higher but for the fact that over half the firms have already taken steps to reduce costs. The most popular move has been to make more effective use of IT, including better use of Skype and email to reduce the need for face-to-face meetings. Expense management is clearly now a very high priority for adviser firms.

Fees and charges

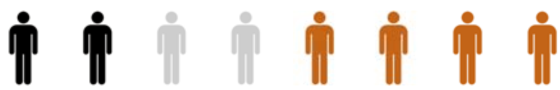
Two thirds of those polled continue charging for initial service as a percentage of funds under advice, either as the only option or as an option to a set fee, with a third saying that overall charges are lower than 12 months ago. Very few firms charge for on-going services by a set fee.

The trail to ongoing service fees

Equally, two thirds are confident that their firm can replace legacy income through restructured service agreements and/or alternative income sources. However this means that roughly a third of firms have some concerns about their ability to replace trail commission with ongoing service agreements and this figure is something that could increase over the next 12 months.

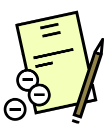
Segmentation

Around half of those polled had segmented their client banks pre-RDR, with half of those re-segmenting (or planning to) subsequently.



As a consequence, 4 in 10 have 'given up' clients as uneconomic. Despite this, almost half now have more clients than they did a year ago, with only 1 in 5 saying they had fewer clients.

Advice propositions



While most firms in this poll are independent and plan to remain so, there are some indications of a move to 'restricted' with more than 1 in 10 independent firms considering a switch in status.

However, while nearly 40% of firms have given up uneconomic clients, very few have introduced a more economic advice proposition, such as restricted, execution-only or protection-only.

Investment propositions

There has been some, limited, change in the investment propositions offered by the firms in our sample. The most significant net growth has been in the use of centralised investment propositions, followed by model portfolios. However over half of the firms continue to use primarily bespoke investment solutions.

Social media

Despite the need to become more financially efficient, social media still does not register highly on adviser firms' priorities. Two thirds of the firms in this poll do not and have no plans to use social media, with only a tiny minority seeing it as extremely important to their strategy for attracting and retaining clients.

Regulation

In light of the results of the 2nd cycle of the FCA's Thematic Review into disclosure, we wanted to see how confident adviser firms are of meeting FCA requirements. Almost two thirds have no concerns about meeting the requirements on demonstrating their independence, and 4 in 5 have no concerns on the clarity of their charges and the related services provided. Perhaps not surprisingly, 9 in 10 say that the cost and complexity of regulation is the main threat to the on-going viability of their business, with three quarters of firms seeing the approach of the FCA as broadly the same as that of the FSA.

Inferences

- **While most firms view the change from the FSA to the FCA neutrally, it will be interesting to see how this changes as they have more direct, firm-specific contact with the FCA. Clearly, with so many firms citing regulation as their prime concern regarding their future viability, there is a need for better understanding from the regulator of the impact their interventions have on firms, and in particular, a period of consolidation with little or no new regulation being introduced.**
- **It was encouraging to find that most firms we contacted expect still to be around in 3 years' time, either in much the same form as today or with more advisers and clients. Many have segmented and continue to review their client banks, reflecting their understanding of the importance of profitability at a client-by-client level, but have also increased the number of clients they have despite the impact of the RDR. Further, the majority also have no concerns on restructuring their revenue to compensate for future loss of trail commission, nor on meeting the FCA's disclosure requirements.**
- **Social Media still has little relevance for many advisory firms. Whilst many firms have used technology to reduce costs, it is important that they keep abreast of developments not just in SM but in all areas of technology. Without doubt the way consumers access products and, in time, advice, will follow the way they already access other products and services.**
- **While the findings from this research are not conclusive, taken in conjunction with other research it suggests that the adviser market has adapted well to the RDR world and is optimistic about the future. It does however still leave the question as to the impact the RDR is having on 'non-clients' and to what extent the non-HNW are being disenfranchised from advice.**

Next steps

If you would like to participate in future research and find out how the adviser market is evolving, simply email us at:

enquiries@actionconsulting.co.uk

and ask to be added to our research panel.

The Adviser Snapshot 6 research was carried out from 13th to 30th May 2014.

Action Consulting is a research-based consultancy that helps professional services businesses to improve the loyalty of their customers, the performance of their staff, and the effectiveness of their marketing and service propositions.

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