

This document is for investment professionals only
and should not be relied upon by private investors

Business challenges facing financial advisers

Introduction

In some ways it has never been a better time to be a financial adviser. Demand for professional financial advice is high and on the rise. However, financial advisers are also under immense strain and face significant business challenges.

At Fidelity FundsNetwork™, we are committed to helping independent financial advisers run efficient and profitable businesses. We want to understand the challenges to help us better support advisers and their businesses. We therefore commissioned NextWealth to research the biggest business challenges advisers are facing. We want to shape and mould our platform to meet the changing needs of financial advisers, and understanding their business challenges is critical to that goal.

This report presents the results of the survey along with our thoughts on how we can help advisers address these challenges. We hope the report is useful and welcome your comments and feedback.



N E X T W E A L T H

TOP

4

Business challenges facing financial advisers



80%

Compliance burden and regulatory change

80% of advisers say the compliance burden and regulatory change are among their top three business challenges. 50% say it's their #1 business challenge. The top complaints from advisers are that regulation and compliance cost advisers and their clients' time and money; that the rules are constantly changing and that they erode consumer engagement.



32%

Back office administration and business efficiency

Back office administration and business efficiency are a top business challenge for one third (32%) of advisers. Back office administration and a lack of business efficiency is driving up the cost of advice for clients. Advisers think technology can help but many don't know what technology to use and are often frustrated with what's been implemented in the past.



29%

Business management

Business management issues such as training new staff and succession planning are a key challenge for over one quarter of financial advisers. Business management challenges vary based on the size and maturity of the business. Small firms struggle more with succession planning and large firms struggle more with hiring, training and technology investment.



25%

Stock markets and geopolitical risk

Among the 75% of advisers who say that a business challenge is keeping them up at night, one quarter are worried about stock markets and geopolitical risk. Advisers worry that stock market declines will erode portfolio values and geopolitical concerns will drive up servicing costs (due to increased number of enquiries).

Top business challenges

Perhaps unsurprisingly, the top business challenge facing advisers is the compliance burden, selected by half (49%) of advisers. The chart below shows the top challenges. The top three all relate to regulation and compliance.

Advisers were asked to name their top three business challenges. While nearly half chose 'compliance burden', when we combine results for the top three business challenges, we find that 80% of advisers name compliance and regulation among their top three business challenges.

80% of advisers name compliance and regulation among their top business challenges

After compliance and regulation other significant challenges, also commonly faced by established businesses, include servicing existing clients, increasing efficiency and hiring new staff.

Cyber security was named by only 6% of financial advisers as a top business challenge. It was selected least often among the list of options we offered advisers. We believe not enough attention is being paid to the risks to financial advice businesses from cyber security.

Which of the following best describes the top three business challenges advisers are facing?



Base: All respondents (n=206)

206 respondents

64% from firms with five or more registered individuals
or £100m or more of assets under administration

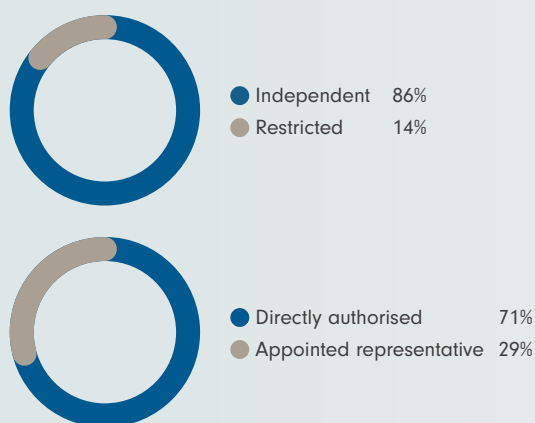
Methodology

We commissioned NextWealth to conduct primary research on the business challenges of financial advisers. NextWealth surveyed a representative sample of financial advisers using an online survey, computer assisted telephone interviews (CATI) and in-depth qualitative interviews at the end of 2018.

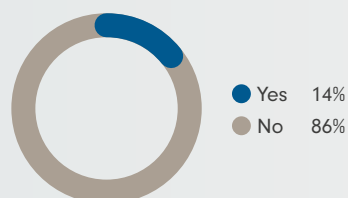
We used this blend of methodologies to deliver a robust sample with greater depth of insight than is typically achieved through online surveys alone and to allow us to reach a good representation of responses from advisers at larger firms.

The survey results are based on responses from 206 financial advisers.

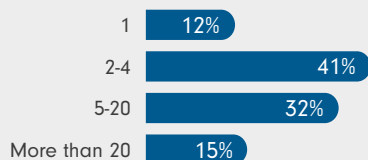
Status of firm



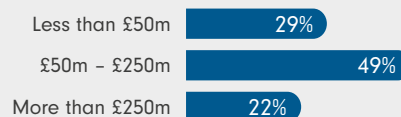
Discretionary permissions



Number of registered individuals in firm



Firm's assets under administration



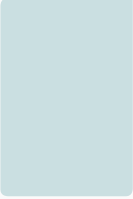
1 Compliance burden and regulatory change

It is well known that the compliance burden is a key challenge for advisers. We wanted to gain a better understanding of what it is specifically about regulatory change and the compliance burden that makes it such a big challenge. We asked advisers why they said that regulatory change and the compliance burden are among their top business challenges.



80%

80% of advisers say the compliance burden and regulatory change are among their top business challenges

- 
- **Time and money:** The time needed to comply takes away time that could be spent with clients. This also results in higher charges to the end client.
 - **Moving goalposts:** Constantly changing rules and the challenge of keeping up with those changes.
 - **Client engagement:** The volume of disclosure is a real bug bear for advisers, who are worried that clients pay less attention to important information as they try to wade through the mountain of paper.

"The time it takes to meet necessary requirements. It takes up the majority of our time so client costs go up as a result."

"There is now so much that has to be done it is taking more and more time away from servicing clients."

"Constantly moving goalposts which provide a challenge to time and resources of a small IFA practice."

"It is costing us. The main thing is our letters for simple advice are taking longer and longer to do. It is a waste of time. They are 25 pages long now, it's getting silly."

2 Back office administration and business efficiency

As the cost of delivering advice increases, it becomes critical for advisers to increase business efficiency. Financial advisers are particularly concerned about back office efficiency, as they try to maximise time spent with clients and minimise time on paperwork.



32%

Back office administration and business efficiency are a top business challenge for one third (32%) of advisers

Back office administration can be a real headache for many financial advisers and it is closely related to the challenge of the compliance burden. We asked advisers what it is specifically about business efficiency and back office administration that makes it among their top business challenges.

- **Less time to spend with clients:** It takes time away from advising clients.
- **More administration:** A lot of the administration work is linked to the compliance burden.
- **Back office systems:** Many advisers complain about back-office system upgrades and the integration between systems. Rekeying data is a particular irritation to advisers, as it increases the risk of errors, therefore increasing business risk.
- **Mounting costs:** Advisers also say that the cost of servicing clients continues to increase, forcing them to look for ways to increase efficiency. Several are adopting technology solutions, in particular outsourced back office solutions.

"Our big frustration is the amount of paperwork generated by compliance and the time it takes to deal with it."

"It's because our back-office software isn't very advanced, we're constantly having to do things manually. The most important being these new charges, you have to be clear of exact levels of charges when a client changes fund. You have to be precise but it's not precise because the figures on their portfolios change from the point of advice to the point of implementation."

3 Business management

Financial advisers are often running small to medium sized businesses, in addition to offering financial planning services to clients. It is therefore unsurprising that challenges typical to business owners and managers come up high on the list. Business management challenges vary based on the size and maturity of the business. Small firms struggle more with succession planning and large firms struggle more with hiring, training and technology investment.



Business management issues such as training new staff and succession planning are a key challenge for over one quarter of financial advisers

- **Hiring and training new staff:** In the past, advisers have often lamented how difficult it is to hire and train new advisers. Advisers now say it is as hard to find good operations staff as it is to find good financial advisers. Financial advice firms also suffer from 'management stretch,' with leaders in the business stretched across compliance, technology and HR, while many still advise clients.
- **Succession planning:** This is a challenge for sole traders in particular. One quarter (24%) of sole traders name succession planning as a top three business challenge compared to 8% for advisers at firms with five or more registered individuals.
- **Keeping on top of everything:** Depending on the size of firm and the structure and support available, the specific business management challenges vary. Some advisers say that keeping on top of HR, finances and client needs is a challenge, while others lament the need for oversight of processes and policies.

"Finding the right people is difficult."

"Tax – business and personal – it's just difficult to keep on top of it all."

"I work on my own. I am finding it hard to pass information on. It will be hard to find an ongoing service for clients if I decide to retire."

4 Stock markets and geopolitical risk

In addition to asking advisers about the business challenges they face, we asked what specific business worries keep them up at night. Only one quarter (25%) of advisers are sleeping soundly at night with no business worries. Among the remaining three quarters, one quarter said that stock markets or geopolitical risk are keeping them up at night.



25%

Among the 75% of advisers who say that a business challenge is keeping them up at night, one quarter are worried about stock markets and geopolitical risk

Advisers are worried about stock market performance and geopolitical risks (Brexit, Trump, trade wars) and the impact these will have on investor behaviour and sentiment. The concerns fall into the following categories:

- **Managing client expectations:** Clients have become accustomed to stable and growing markets. Advisers worry about how to manage client expectations in bumpier times with potential market losses.
- **Delivering income to retirees:** Advisers worry that the assumptions on which they have based their recommendations to clients may prove wrong. They feel a burden of responsibility for the advice they give clients and some worry about clients running out of money in retirement.
- **Cost of dealing with more inbound queries:** The cost of advice is already going up, but volatile stock markets and geopolitical upset leads to client enquiries, increasing the costs of servicing existing clients.

"The markets are always going up and down. It means we get phone calls from clients. The ongoing costs are very high."

"I worry that clients do not appreciate how stable markets have been over the past 10 years and, with volatility returning to the markets, that they have short-term memories and start to panic about risk and investment growth."

And finally...

Cyber security

Cyber security is not on the radar of enough financial advisers as a key business challenge. According to the National Cyber Security Centre (NCSC), between October 2016 and the end of 2017 there were 34 significant cyber attacks and 762 less serious attacks.¹ The NCSC expects the number of attacks to increase and has identified financial services specifically as a targeted sector.

1. Source: <https://www.ncsc.gov.uk/cyberthreat>

Only 6% of advisers say that cyber security is one of their top three business challenges

Among the small minority of financial advisers who say that cyber security is among their key business challenges, most are worried about attacks on their own systems or want to mitigate client concerns about the security of systems.



6%

"Protecting data is becoming more complex as attack sophistication increases."

"Concerns over data hacking from clients are real, and spam emailing can lead to increased fear for clients."

"Providers should confirm to clients how secure their systems are."

Conclusion – what can advisers do?

Financial advisers expect their business challenges to continue to change and evolve with changing regulation, changing investor attitudes and market uncertainty and volatility. In more challenging market conditions, and as investor attitudes evolve, advisers will need to focus on helping their clients navigate these choppy waters.

So how can advisers tackle these challenges and devote more time to client-focused activity? By improving compliance and business management through technology and automation, advisers will have more time to add value by helping clients meet their financial goals.

- **Enhanced reporting:** Advisers should take advantage of enhancements to reporting tools made by platforms and fintech providers. This new breed of enhanced reporting, developed in the wake of MiFID II, should make accurate and compliant reporting less manual and improve efficiency. Enhanced reports will help to ease some of the compliance burden.
- **Demand better data integration:** Back office providers and platforms are improving data integration. However, for new types of integration, the business case is driven by adviser demand. Advisers should challenge platforms to build better bridges with back office systems to minimise the dreaded rekeying of information.
- **Embed automation and technology within the firm:** Improving business efficiency requires everyone on the team to embrace the benefits of technology. Prising staff away from spreadsheets and manual processes will reap rewards longer term and minimise human error. Many tech providers offer online training courses to get staff up to speed.
- **Don't be afraid of giving clients direct access:** Digital tools and apps are a way of life for most of us. Whether it is allowing your clients to top up an ISA directly or to authorise a rebalance, clients could be given access to their accounts and help to manage their affairs digitally. We think advisers should be able to control the level of access clients have, but should encourage clients to engage. For simple tasks, direct digital access could free up a lot of adviser and administration support time.
- **Hope for the best but prepare for the worst when it comes to cyber security:** Financial services firms are prime targets for cyber attackers and financial advisers need to be prepared for the worst. Financial advisers need to ensure they train their staff, keep systems up-to-date and conduct thorough due diligence on technology partners. It is critical that financial advisers never take trading instructions by email and that all staff are trained on the risks of cyber security. We also recommend firms have a plan, including roles and responsibilities, in the event of an attack.

Finding out more

We are in the final stages of completing our successful technology upgrade. So far, the feedback from the majority of advisers who use our upgraded platform has been overwhelmingly positive.

We are committed to a multi-year programme of investment and developing the platform, to meet the evolving needs of advisers and their clients, and have a number of enhancements planned in 2019. These include further improvements to usability and consistency of our transaction journeys across our product range, enhancements to client and income reporting, and additional functionality for firms with discretionary permissions.

Over the last decade, Fidelity's UK platform has grown to be one of the largest in the UK, currently administering £77.3bn in assets as at 30 December 2018. Fidelity's financial strength allows continual investment to develop the platform's capabilities, underlining our long-term commitment to the advice market. Understanding the business challenges facing financial advisers is critical to helping us further develop our platform offering.

We hope you find this report of value.



For more information on how FundsNetwork supports firms please visit fundsnetwork.co.uk

Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, FundsNetwork™, their logos and F symbol are trademarks of FIL Limited.
UKM0219/23269/SSO/1219



FundsNetwork™