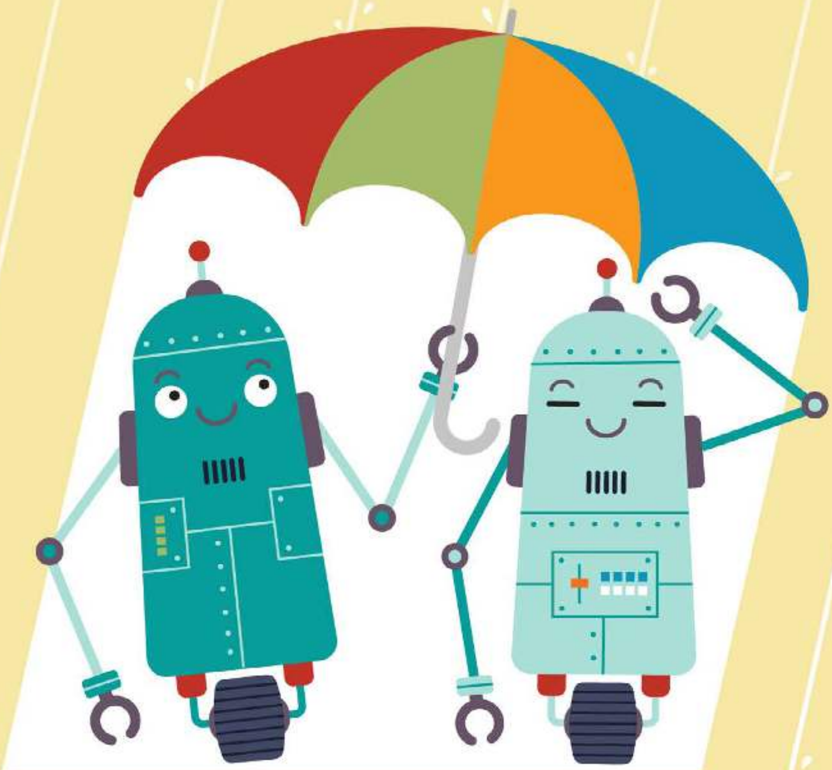
October 2023 | Issue 5

Financial Advice Business Benchmarks 2023

Planning a path through the storm



Letter from the CISI

This year the NextWealth Financial Advice Business Benchmarks report has extra importance and relevance given the introduction of the FCA Consumer duty on 31st July, which is arguably the biggest new piece of regulation since the retail distribution review. Having a client centred approach is no longer desirable but essential and sitting at the heart of the consumer duty is exactly that.

In an ever-changing landscape of regulation & technology, all against the backdrop of some very challenging economic conditions, it is essential for firms to truly understand the trends within the profession so they can make both short and longer terms plans for their firm and clients. This report provides an invaluable insight into the current health of the UK financial planning profession highlighting the opportunities and challenges that exist.

Sally Plant

Assistant Director, Financial Planning and Education Development, CISI

Letter from the PIMFA

We are delighted to be able to support the 5th iteration of NextWealth's Financial Adviser Business Benchmark report. This report provides such a valuable insight into the market; what the average client looks like, where money is being invested, and crucially what the emerging trends in this market are.

Whilst there is clearly some tension which exists within the market, it is clear to me that this is a market and, more broadly, a profession that is in rude health.

More positively, over the previous 12 months, this industry has shown itself to be tremendously resilient. Whilst welcome, the implementation of the Consumer Duty in particular has represented a significant change for this industry to both implement as well as get to grips with. When we look at attitudes towards data, technology, AI etc, it is clear to me that this will both be geared towards observing the Consumer Duty as well as utilising it in order to achieve better outcomes for both clients but also firms themselves in future.

Whilst off the starting blocks of Consumer Duty, so to speak, the coming year and years after will carry further regulatory and legislative challenges. The current government has recently conferred significant rule making powers onto the regulator in order to remodel the rule book to better suit UK businesses. This will provide significant opportunities for UK firms as well as inevitable challenges of implementation.

I have every confidence, based on the findings of this report, that this industry will not only rise to the challenge and meet what is required of it, but build on the successes of years past and continue to flourish.

Liz Field

Chief Executive, PIMFA

Letter from NextWealth

Let's be honest, it's tough out there. Between tepid markets, rising interest rates and Consumer Duty, financial advice firms are having a rough ride. Review meetings are harder and many advisers tell us they have seen their first unhappy clients. Financial advice firms may be adding more value now than ever but right or wrong, clients often judge firms against relatively short-term investment performance.

How is all that playing out within financial advice firms? Client numbers are holding steady but plans for growth are being curtailed. Firms are less likely to be planning to add staff or take on new clients. Perhaps most worrying, the sharing planning to sell or exit in the next 18 months has hit a high of 16%.

Last year, we said that financial advice firms are battening down the hatches, curbing growth plans and reigning in tech spend. That trend continues but we're also seeing some interesting changes in firms.

Fees have come down from a fairly steady all-in fee of 2% to 1.75%. More firms are experimenting with subscription fee models. Innovation around fee models is on the rise. This may be a result of the focus on price and value from Consumer Duty but it might also be a result of younger financial planning professionals looking to attract younger clients. We've included a section for the first time this year on the distinction between planners and advisers. Most firms say their client-facing staff are 'advisers' but those that use the label 'planner' tend to be younger, work with higher net worth clients, charge higher fees and work in firms looking to grow. Perhaps unsurprising, they are also far more likely to use cashflow modelling.

Whether financial advisers are in the eye of the storm caused by continued regulatory disruption coupled with weak markets and higher interest rates or they are just battening down the hatches and the worst is yet to come, we think firms are well set up for growth when markets recover. Firms have honed their tech, refined their business model and are putting more resource into client recruitment.

We hope you find our fifth update to our Financial Advice Business Benchmarks report useful. The need for financial advice and planning is acute as individuals take ever-greater responsibility for their retirement.

Heather Hopkins

Founder and Managing Director, NextWealth

Feedback: enquiries@nextwealth.co.uk

Join our research panel: www.nextwealth.co.uk/join-the-research-panel/

Contents

Executive summary

Hiring plans slow, growth plans curtailed and more firms look to sell

16%
are looking to sell the firm or exit the market in the next 18 months
(up 5% year-on-year)

45%
are looking to increase assets under management
(down from 51% in 2022)

48%
have been approached about acquiring the firm

36%
are looking to take on new staff in the next 12 months
(down 4% on 2022)

50%
plan to grow by taking on new clients
(down from 53% in 2022)

Advisers and Planners

We asked if client facing staff are called financial advisers or financial planners: 60% label client facing staff as financial advisers.

Advisers		Planners
	Characteristics	
11%	Under the age of 45	26%
37%	Hold a level 6 qualification or above	73%
	Client profile	
23%	Looking to attract younger clients	29%
£223,000	Average client portfolio size	£487,000
60.1bps	Ongoing advice fee	70.2bps
	Business plans	
18%	Firms are seeking to exit by selling the firm	9%

Client numbers slow but age profile is constant

29%
are working with more clients than last year
(down from 46% in 2022)

60%
of clients are over the age of 55
(consistent with 2022)

17%
have fewer clients
(up from 5% in 2022)

19%
of clients are under the age of 45
(down from 20% in 2022)

Cost of advice falls and firms experiment with subscription fees

The total all-in cost fell from **1.98% to 1.75%**, the first shift since we've been asking the question.

Ongoing advice costs fell

4bps to 64bps

Fund and DFM fees also fell but platform charges remained steady

The average initial charge for advice is

2%

79% of firms charge based on a percentage of assets all or most of the time

Use of subscription fees is up from 13% in 2022 to **18%** in 2023

17% will make a change to the fee structure in the next 12 months, up from 11% in 2022

Consumer Duty

38% think Consumer Duty will have no impact on their business

13% are concerned the rules will have a negative impact

46% use cashflow modelling to evidence the value of advice

Investment strategy

55%

use multi-asset or multi-manager funds for new client money

(down from 63% in 2022)

The largest allocation of client portfolios is to equities **55%** followed by fixed income **23%**

45%

use discretionary MPS. 22% expect to increase use

Advisers tell us on average **8%** of clients' assets are invested in cash, 28% of advisers expect their clients' holding in cash to increase over the next year

Technology

43%

are satisfied with their tech stack

(up from 38% in 2022)

11%

plan to discontinue one or more partnerships

(up from 4% in 2022)

44%

say preparing the report is the lengthiest step in the annual client review process

59%

of advice firms are actively considering AI or are open to what solutions may come to market

4.6 hours

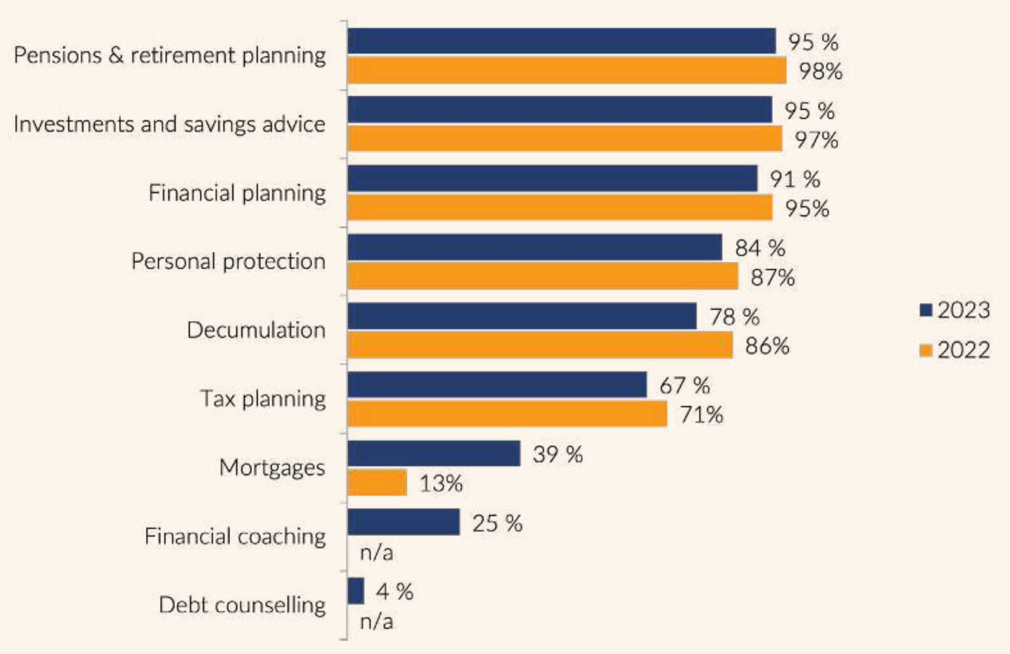
is the average time to prepare for an annual review meeting

(down from 5.5 hours in 2022)

1. Financial advice firm profile and future plans

The services offered by financial advice firms remain largely unchanged, with a continued focus on pensions and retirement planning, investments and savings advice and financial planning. We saw a trebling in the share of financial advisers/ planners who said they advise on mortgages regularly. Rising interest rates have fueled demand for help when renegotiating mortgages.

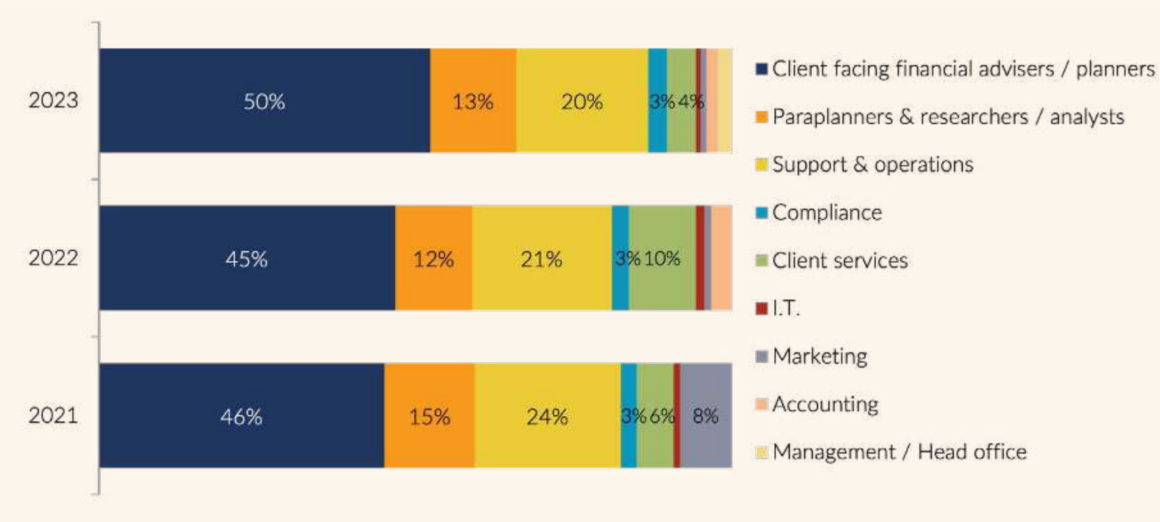
Figure 1: Services offered regularly by firms



We added two new options this year to the list of services offered regularly – financial coaching and debt counselling. 25% of financial advice professionals say they offer financial coaching regularly.

Each year we ask financial advice professionals about staff mix in firms. This year, half of staff overall are in client facing financial advice/ planning roles with a proportional decrease across many other functions.

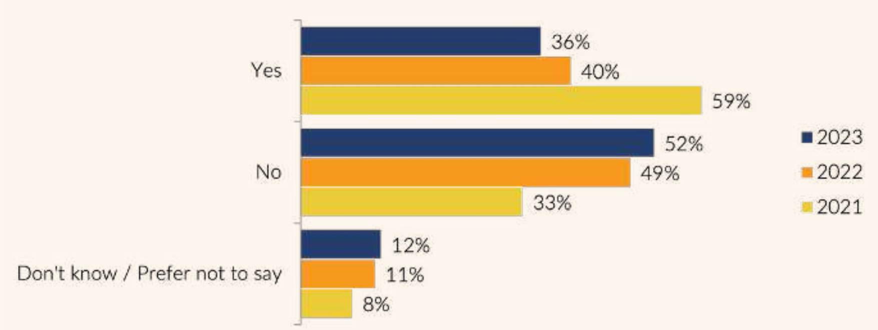
Figure 2: Proportion of staff at advice firms



Staff mix varies by firm size, as evidenced in Figure 2. In firms with 10 or more financial advisers/ planners, 5% of the headcount are in management roles and 6% in compliance.

Tech is an area of specific focus for many financial advice businesses. NextWealth has reported on the growing trend of large financial advice firms becoming platform operators and a growing number of firms are also launching their own back office system (typically built using Microsoft Dynamics or Salesforce). Among all firms 15% employ a least one person dedicated to IT. That rises to 51% of firms among those with more than 10 financial advisers/ planners.

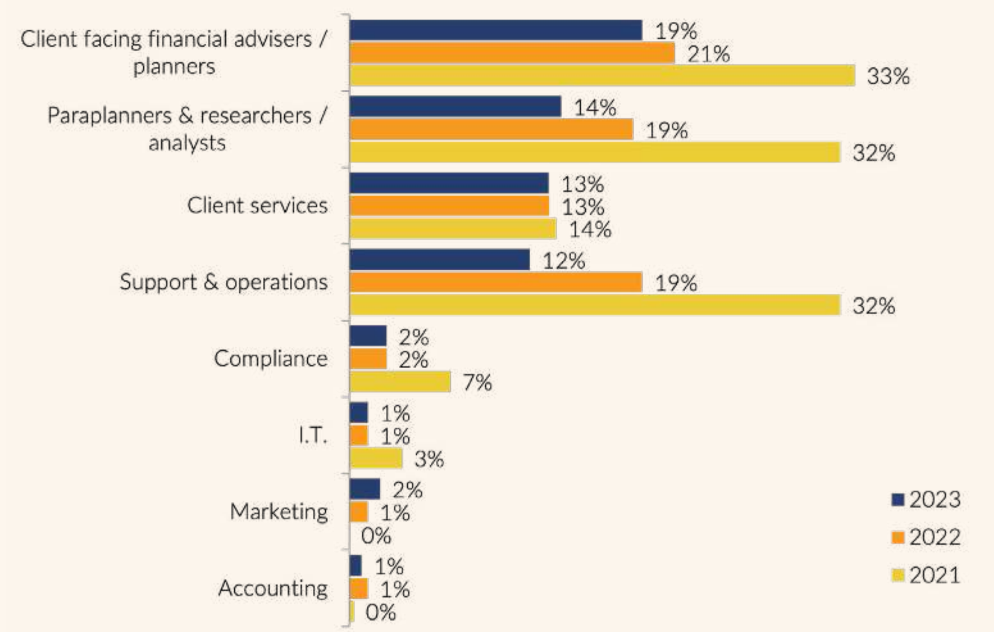
Figure 3: Plans to hire new staff over the next 12 months



Plans to add staff continue to be curtailed. Only one third of firms plan to add staff in the next 12 months compared to 59% two years ago. Whilst our research suggests that revenues are steady, there is a slowdown in new client numbers and costs are mounting due to inflationary pressures and Consumer Duty implementation (particularly in large firms). These forces combined are curbing appetite to hire staff.

Firms most likely to be planning to hire are also the largest – employing more than 10 advisers or planners. The biggest shift we have seen is in the internal structure of firms. We are seeing a downward trend in headcount of operational (support) and marketing staff in favour of new advisers/ planners.

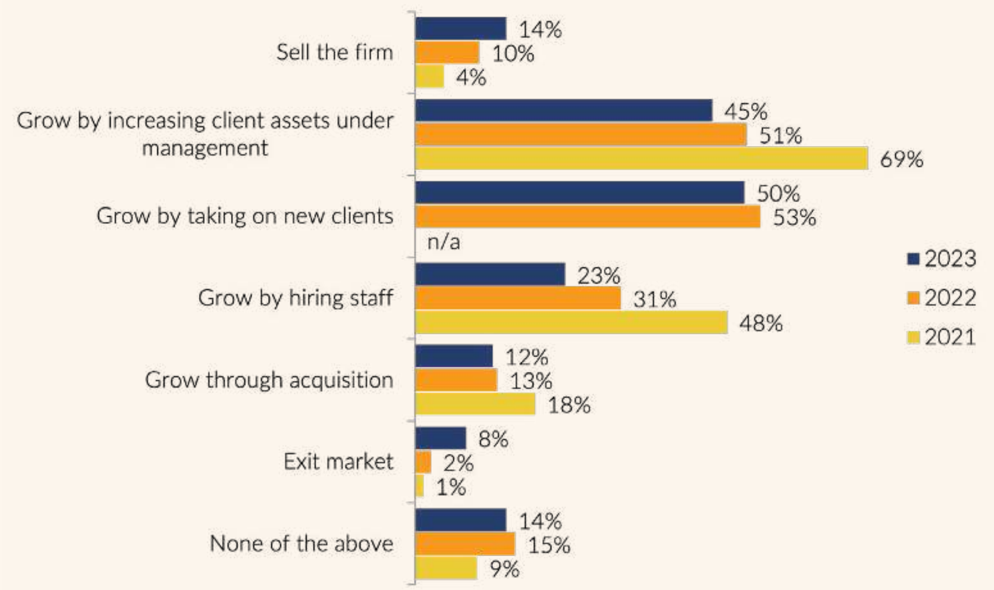
Figure 4: Roles being recruited by firms



Among those looking to hire, they are most likely to be adding client-facing financial advisers/ planners and paraplanners.

The past three years has seen a steady increase in the share of firms looking to sell or exit. Nearly one fifth of our respondents say their firm is looking to sell or exit in the next 18 months. Small firms are more likely to be looking to sell or exit. We think that soft financial markets are behind this rather than Consumer Duty.

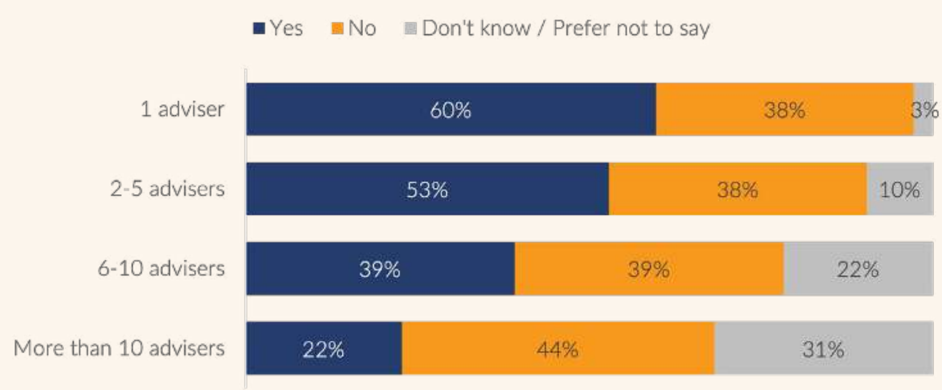
Figure 5: Plans for firm over the next 18 months



We are also seeing firms planning to do more with less. Hiring plans are being shelved while plans to take on new clients remain steady year-on-year. Interestingly, tepid markets may be dampening optimism. Only 45% of firms expect to grow by increasing client assets under management compared with 69% two years ago.

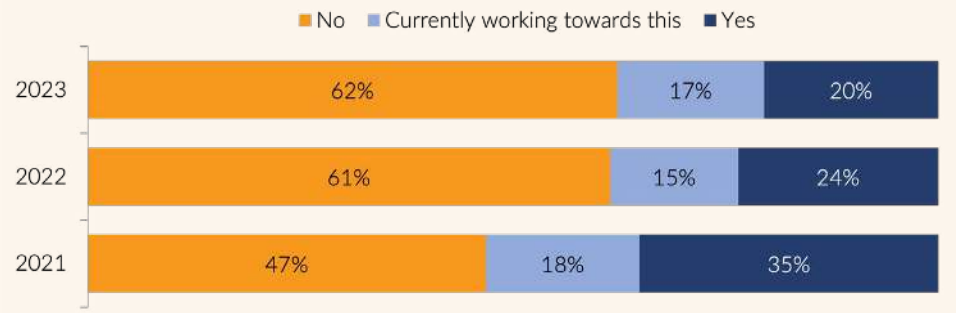
Nearly half (48%) of financial advice professionals said their firm has been approached about acquiring the firm. Sole traders were most likely to have been approached though employees of these firms are also most likely to be aware of approaches as typically the adviser or planner is also a director of the firm. There is much talk about the pace of consolidation slowing down in advice businesses. We will update our Consolidators and Aggregators report in March 2024 with an update on volumes for 2023. To the end of September, however, the number of announced deals in 2023 exceeded those in 2022 suggesting consolidation continues apace.

Figure 6: Approached for acquisition within the last 12 months- by size of firm



One fifth of financial advisers work in firms that have been awarded Chartered status. While the share continues to decline year on year, we think this designation remains important to the future of the industry. Younger financial advice professionals are more likely to work in firms that have been awarded this status.

Figure 7: Firms awarded Chartered status



2. Planners and advisers

As an industry, we have observed the rise of financial planning, and of professionals describing themselves as financial planners as distinct from advisers, since the rollout of RDR in 2012.

The popular distinction made is that financial advisers deliver a transactional service to clients, providing advice on a particular product or specific need, and financial planners take a more holistic view of the client's financial and life objectives. For some, the financial plan is a pre-requisite for all new clients regardless of the initial query and that informs how the firm's services are marketed and charged.

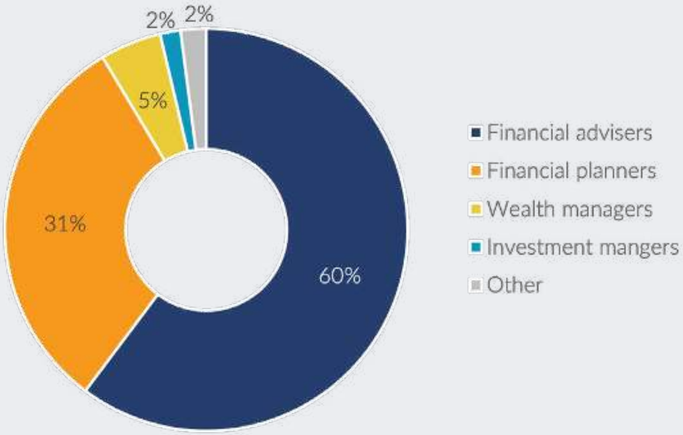
We asked respondents to our survey, who we call 'financial advice professionals' as they are professionals working in financial advice firms, if the client facing professionals in their firm are called financial advisers or financial planners. As illustrated in Figure 8, 60% use the term financial adviser.

Financial planners were early adopters of cashflow modelling and this remains one of the starkest distinguishing factors.

- Among employees of firms that call their client facing professionals financial planners, 54% use cashflow modelling. This compares to 18% among those that use the term financial adviser.
- Client portal use is also higher among firms that use the term financial planner at 70% versus 43%.

In this year's report, we evaluate how those that use the term adviser and planner differ in practice across a number of measures.

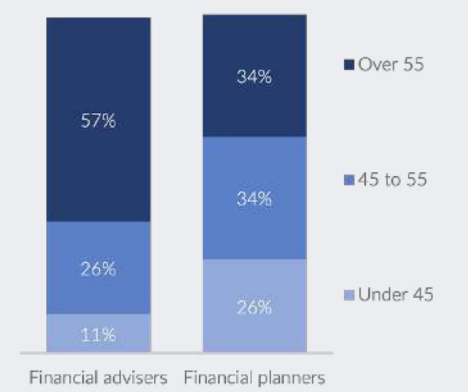
Figure 8: Most common description of individuals who provide financial advice and planning



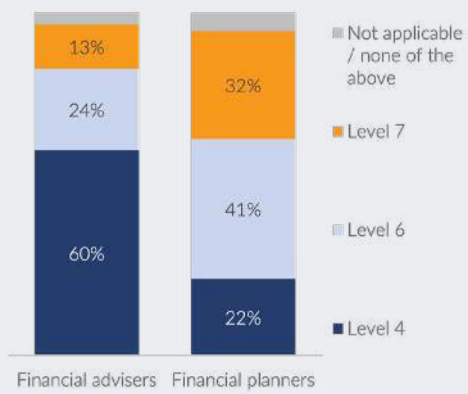
The term financial adviser is still very much relevant and dominant. 60% of firms describe their client-facing staff as financial advisers. Less than a third (31%) use the term financial planner. While the term financial adviser is about twice as common, we find clear distinctions in firms using both descriptions.

Figure 9: Adviser vs. Planner age and qualification

Financial planners are likely to be younger than advisers



Financial planners are likely to hold a higher level of qualification



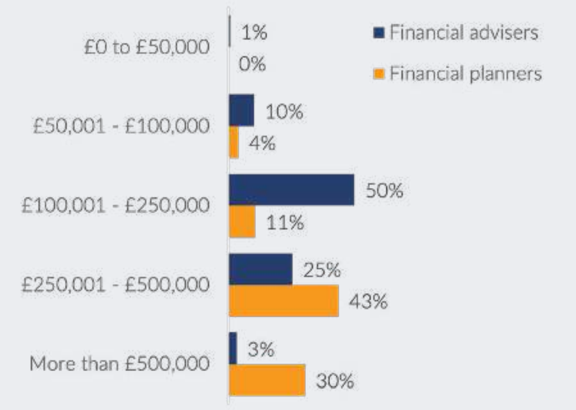
Looking at differences in demographics, staff of firms employing financial planners are more likely to be younger. They are less likely to be over 55 and over a quarter are under the age of 45. Financial planner is a comparatively recent term and therefore it's unsurprising that these individuals are likely to be younger.

Financial planners are three times more likely to work for firms using the term financial planner are three times more likely to be Chartered and nearly a third of their staff hold a Level 7 qualification.

When it comes to the financial planning business model, we observe some significant points of difference.

Figure 10: Adviser vs. Planner average portfolio size and ongoing advice fee

Average client portfolio size



Average ongoing advice fee (bps)

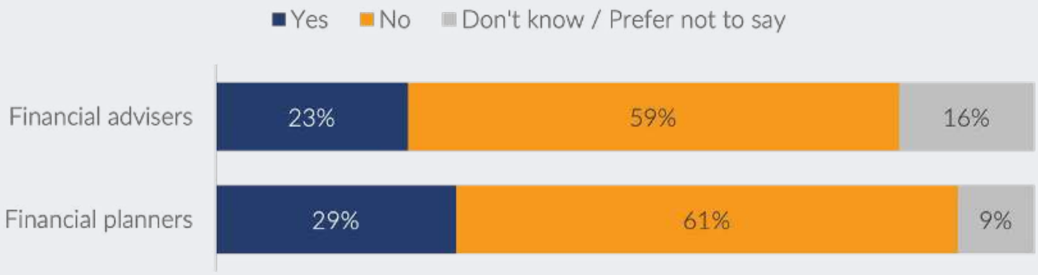
Firms that describe their client-facing professionals as financial planners, on average:

- Command a higher ongoing advice fee than advisers (ten basis points higher)
- Advise clients with larger portfolio values (financial advisers average £223k versus financial planner average £487k)

They are also more likely to be:

- Looking to attract younger clients
- Working with more clients than last year
- Aiming for higher growth expectations for the firm
- Planning to hire new staff

Figure 11: Adviser vs. Planner looking to attract younger clients



Only 9% of financial planning firms are seeking to exit the market compared with twice as many financial advice firms.

Figure 12: Plans for the next 18 months

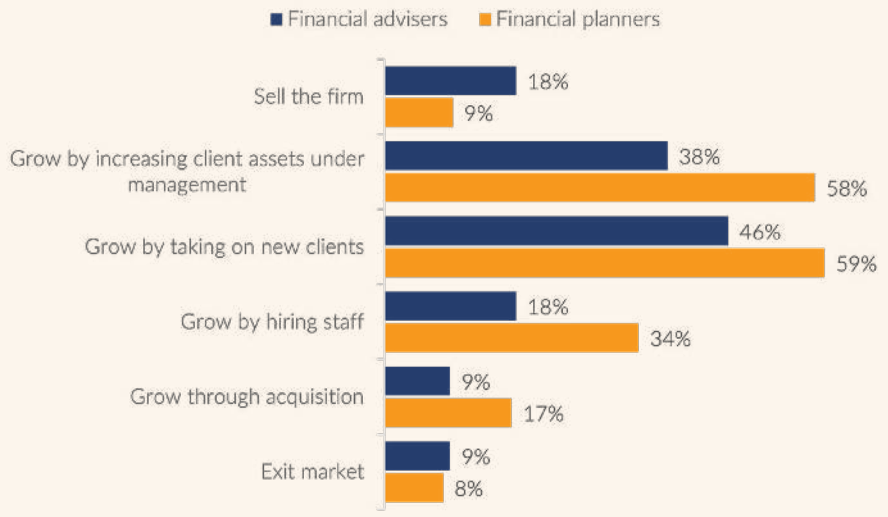
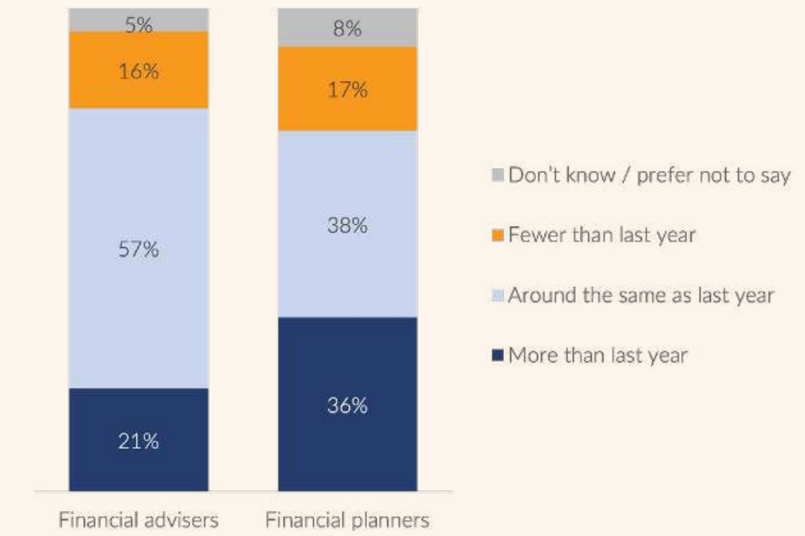


Figure 13: Change in number of clients in the last year

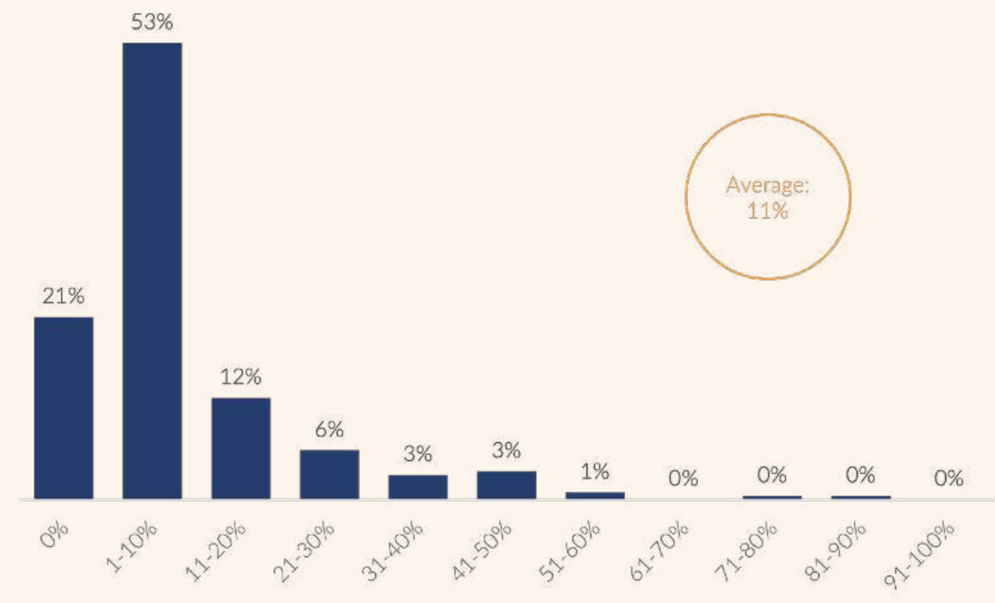


Our view is that the term financial planner will become pervasive. Younger, growing businesses (both in terms of staff recruitment and client numbers) are more likely to use the term financial planner. Firms seeking to recruit or acquire financial advisers (or planners) would be smart to adopt the term when seeking to attract younger, more qualified and more dynamic client-facing staff. Providers looking for partnerships would also be wise to use the term to connect with this growth segment.

3. Clients

In this section we turn our attention to clients of financial advice firms. We begin by looking at client characteristics, before gauging the likelihood to be working to diversify the client base. We then turn our attention to assessing the approach firms are taking to working with vulnerable clients.

Figure 14: Proportion of annual revenue from new clients



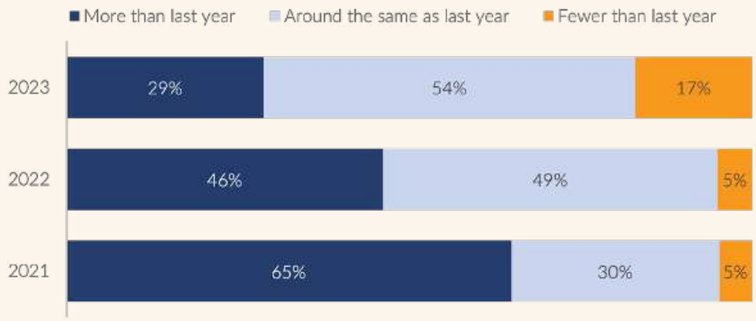
On average, 11% of revenue for financial advice firms is from new clients. This demonstrates that firms are focussed on serving and honing their proposition on existing clients. They are also focussed on realising revenue from existing clients. 53% of firms say that between 1% to 10% of their annual revenue comes from new clients.

Referrals remain the primary source of new client acquisition. Referrals from existing clients deliver 59% of clients – a relatively consistent figure across all size of firm. Professional referrals come second, but trail client referrals by quite a large margin. Family links play a role for 7% and digital marketing draws in 5% of new clients on average. Digital marketing is a more important channel for larger firms. These firms are more likely to be using this as a channel to attract clients and are more likely, as we saw earlier, to employ dedicated marketing resource.

Figure 15: Proportion of clients arriving through different channels

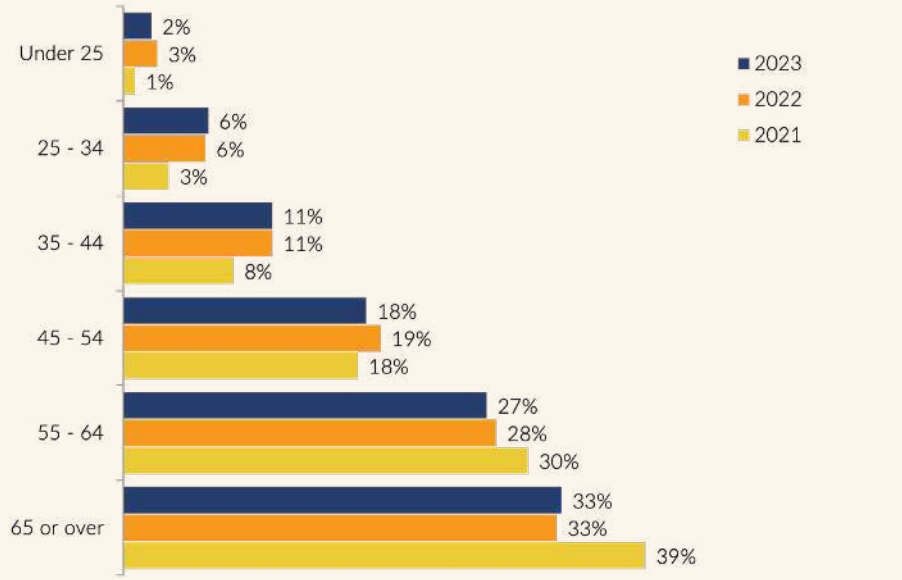
Almost one in five advisers (17%) have fewer clients than last year, over three time more than in 2022. Year on year we see that the number of new clients is slowing. This may be a result of weak financial markets and high cash rates. We hear anecdotally that client retention is more challenging and new client numbers are down with returns on cash looking more attractive to some.

Figure 16: Change in personal number of clients from last year



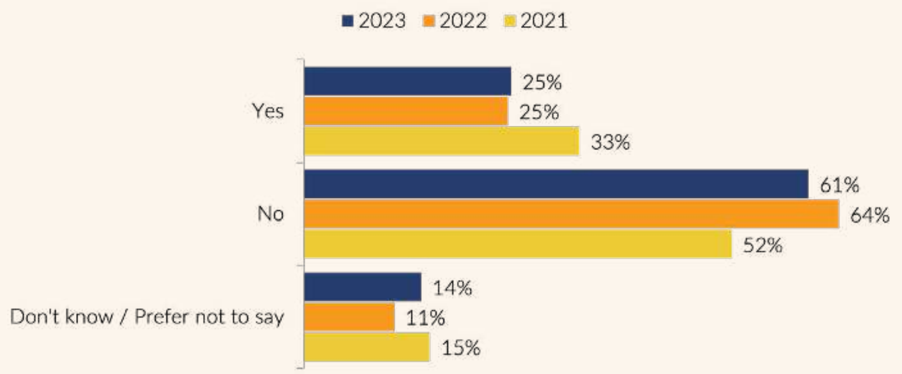
Over the past two years we've seen a gradual shift toward a younger client base, with about one fifth of clients aged under 45. The majority of clients remain in the over 55 category (60%). This is down from 69% two years ago.

Figure 17: Approximate age distribution of client base



One quarter of financial advice professionals say their firm is actively looking to attract younger clients.

Figure 18: Proportion of firms looking to attract younger clients



The most commonly cited methods for attracting younger clients were:

48% - Referrals

"Asking younger clients for referrals."

"Mortgage referrals"

"Referrals from existing clients"

21% - Wealth transfer and children of clients

"Involving clients' children in meetings and showing them the benefits of receiving advice"

"We are working on families of existing clients as well as trying to be a bit less like a dull financial services firm and more like a destination venue for hip Instagram accounts."

"Yes, Inter-generational planning strategy"

20% - Proposition and comms for younger clients

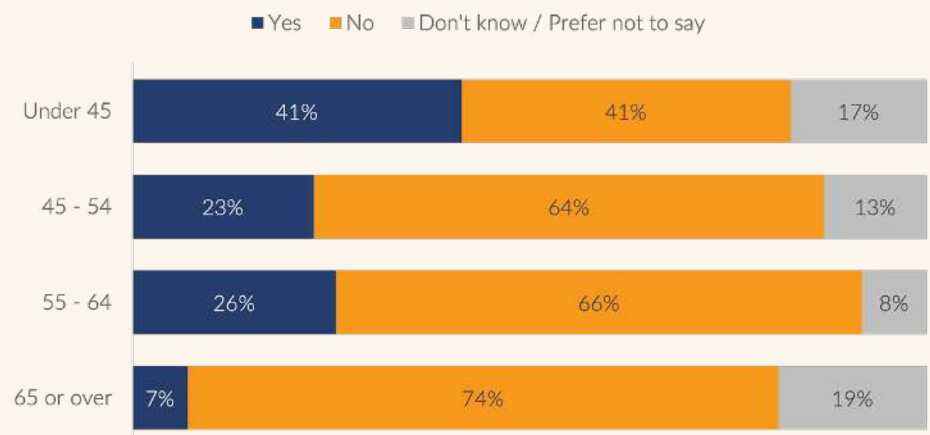
"Through digital journey, financial coaching"

"By making the onboarding process as digital as possible."

"Launching a low-cost model"

Financial advice professionals aged under 45 are more likely to be looking to attract younger clients than older cohorts. Figure 19 reveals that the likelihood of working to attract younger clients correlates to age.

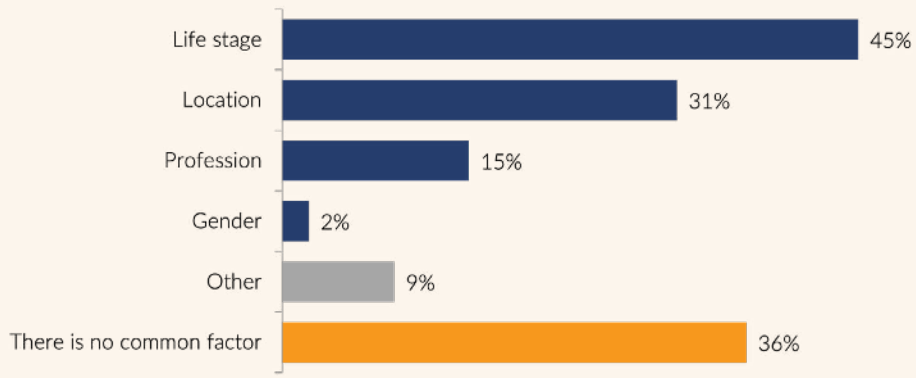
Figure 19: Firms looking to attract younger clients by age of adviser



Employees of larger firms are also more likely to be looking to attract younger clients. These firms might be better resourced to offer tailored propositions to younger clients. They also tend to employ more younger staff.

Our survey results suggest that for most firms there are common factors that characterise the client base, most commonly life stage, cited by 45% of our respondents. Just over one third said there is no common factor between clients, a fall from 51% in 2022. Year-on-year comparisons of the results suggest that financial advice firms are increasingly focussing on a niche with respondents more likely to cite life stage, location and profession as factors characterising the majority of their clients.

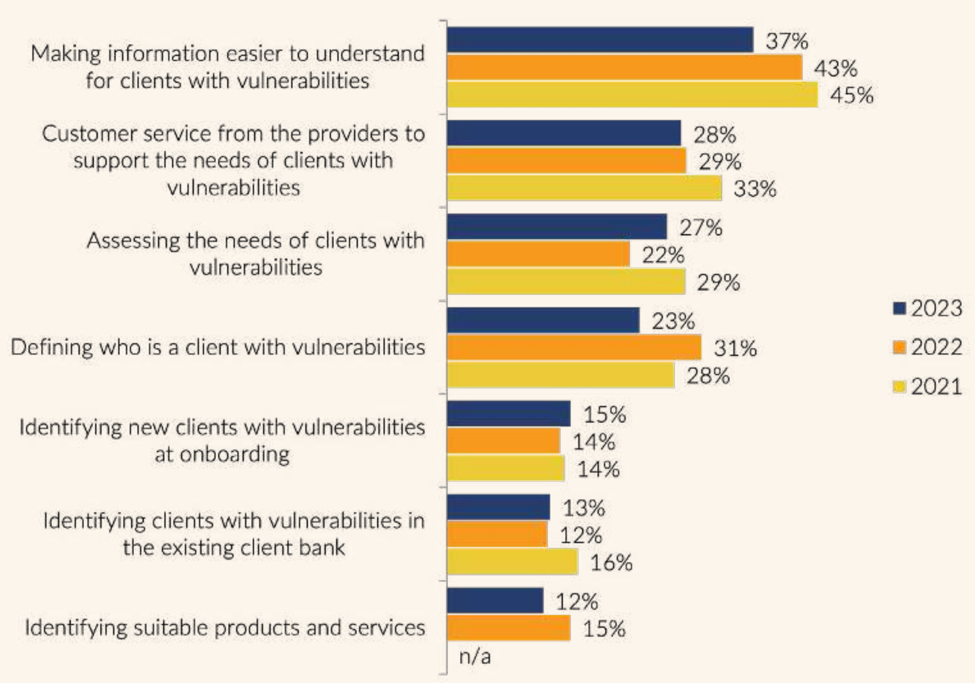
Figure 20: Factors characterising the majority of clients



We asked financial advice professionals what improvements they'd like to see to help them better meet the needs of clients with vulnerabilities. The results suggest that providers are making progress in this area.

In previous years, 'support needed from providers in producing client-friendly materials', and in 'client service', were highlighted as two areas that needed most improvement in order for financial advice professionals to feel able to meet the needs of their clients. While still among the most often chosen options, the proportion of advisers choosing these has fallen this year.

Figure 21: Areas in need of improvement to meet the needs of clients with vulnerabilities



Providers did a lot of work to improve communications and service to clients with vulnerabilities in the run up to the Consumer Duty implementation deadline of 31 July. It is possible that these improvements are having the desired effect.

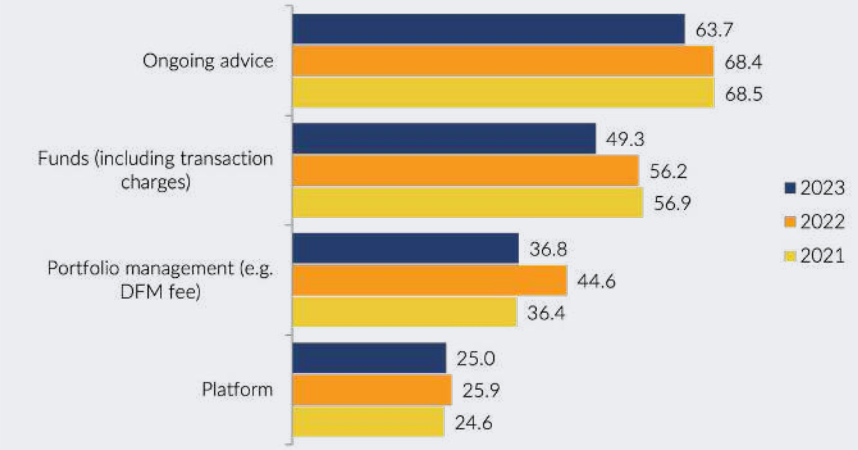
Where things are becoming more challenging is in assessing the needs of clients with vulnerabilities, chosen by 27% of financial advice professionals compared to 22% last year. This is an important area where financial advice professionals could use additional support.

4. Price and value

Price and value are key areas of focus for the regulator and form an important part of our report this year. NextWealth has established benchmarks for the total cost of investing for advised clients as well as the cost for each component of the supply chain: ongoing advice, funds, platform, and portfolio management. We asked financial advice professionals the average basis point fee paid by clients for each component. We think these benchmarks offer important input into fair value assessments.

The total client cost fell in the past year after remaining at about 2% for several years. The total cost dropped to 1.75%, as estimated by financial advice professionals. A series of regulatory interventions have put a focus on fee disclosure – the RDR and MiFID II in particular. Consumer Duty put the onus on each part of the supply chain to ensure firms put customer needs first and put price and value squarely in focus. This shift in onus from the buyer (client) to the distributor (adviser) may be responsible for this sudden decrease in overall fees.

Figure 22: Average basis point fee paid by clients (excluding VAT)



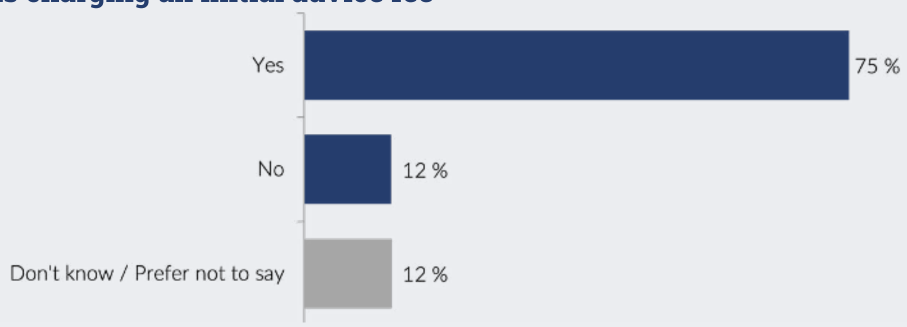
The average cost of ongoing advice is 63.7bps, down 4.7bps. It remains in 2023 the largest share of total client costs. Platform fees represent the smallest share at 25.0bps.

Initial fees tend to be higher than ongoing advice fees. Tiering was the most widely used initial fee charging mechanism. 28% of respondents said their firm charges clients, typically, based on amount invested.

One fifth of respondents said their firm charged 3% on initial advice given to clients, whilst the average is 2%. A further 21% said clients were charged a fixed amount, with an average of £1800.

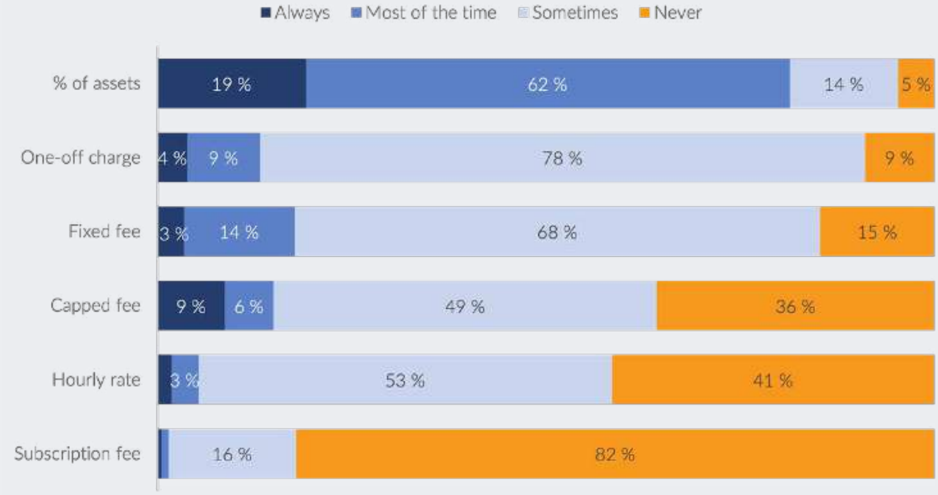
Approximately one in 10 firms don't charge an initial advice fee, typically to encourage new clients to join the firm.

Figure 23: Firms charging an initial advice fee



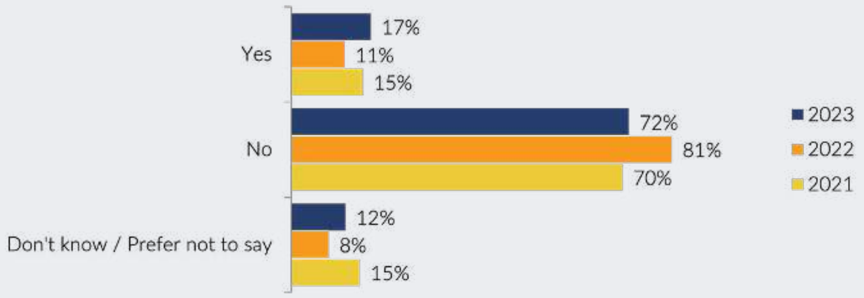
There is a lot of talk in the trade press and in industry forums about charging models. By far the most common method of charging is on a percentage of assets – used always or most of the time by 81% of financial advice firms. Our research with advised customers suggests that most prefer this method of charging. They understand it and there is a belief that it aligns interests.

Figure 24: Use of fee structures in firms



We are beginning to see more firms explore subscription-based fee structures. About one fifth use this fee model at least sometimes compared to 13% last year. Subscription-based fee models are growing in popularity in the US to support HENRYs (high earning, not rich yet) clients. Asset based fees work well for those that have already accrued wealth. Firms looking to work with clients of different profiles may need to explore alternative fee models.

Figure 25: Plans to make changes to fee structure in next 12 months



A growing proportion of financial advice firms are looking to make changes to their fee structure in the next twelve months. 17% said they will make a change compared to 11% last year. Firms with 5-10 advisers are most likely to be planning a change.

5. Consumer Duty

The Consumer Duty came into effect for open-ended products on 31 July 2023 after a 9-month implementation period. Our survey was fielded in late July and August giving us an early indication of the impact of the rule.

We begin by asking advisers about the expected impact on their firms' advice. Over a quarter still said it was too early to say. A further third thought the Consumer Duty would have no impact on their firm's advice. If we remove "too early to tell", that climbs to 54%. We asked a similar question last year when most financial advice professionals had only a cursory understanding of what was required. Views are almost unchanged.

Figure 26: Consumer Duty impact on advice

When looked at through the prism of firm size, more financial advice professionals at large firms (10+ advisers/planners) expect a positive impact from Consumer Duty on their firms' advice.

Interestingly, whilst only 13% of all respondents said they thought the Duty was having a negative impact on the firm, when asked to detail their view of the rules, overall sentiment was distinctly cautionary, and in some cases, sceptical.

Among those that expected an impact, the most common responses centre on three themes: operational impacts on the firm (19%); more time required to produce compliant documentation, (16%), and changes to the fee structure (14%).

Operational impacts on the firm:

"We will need to devote even more time to compliance monitoring and MI gathering - it is eating up resources and taking time away from developments which clients would benefit from."

"Focus on administration around advice provided."

"Increased workload documenting outcomes. More clients will become unprofitable. Need to increase efficiency and productivity, which is largely out of our control."

"Take up a great deal of time to provide the same very high standards that we aim for and have always done so."

More time required to produce compliant documentation:

"It will mean that there is more time spent writing down what we have done or what we will do, and less time doing it. So, there will be less time to give advice."

"We need to get better at writing down where we have added value in both initial planning and ongoing reporting."

"More 'showing our working' - more robust procedures."

Changes to the fee structure:

"Principally through a charging review - plus the decision to move to a Model B firm from a Model A."

"It will increase client fees."

"It'll provide both downward & upward pressure on fees."

"More work for the firm resulting in higher charges to the client."

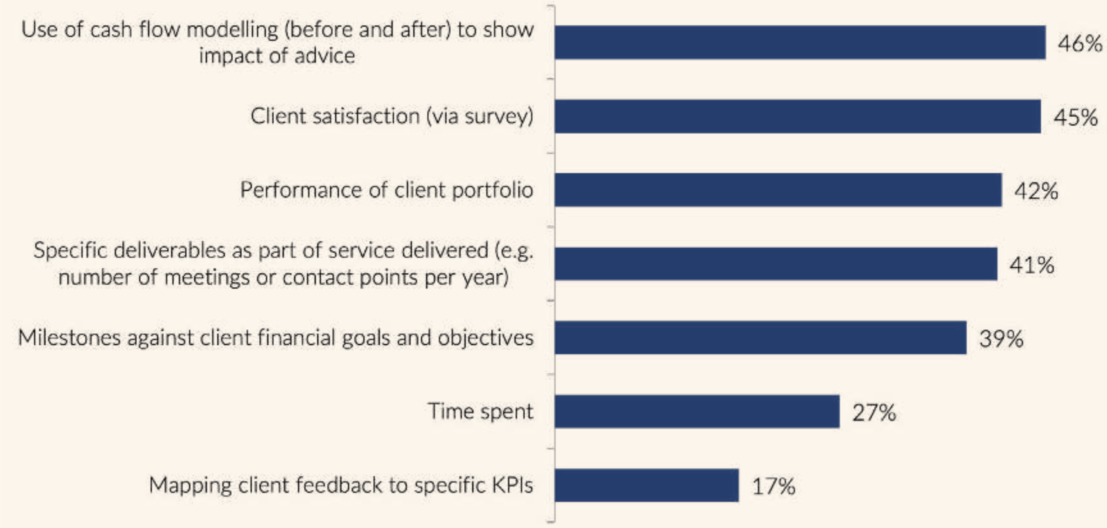
"I'll service less clients and charge fees to a higher proportion of those I keep."

A few respondents expressed concern about a widening advice gap. The Consumer Duty has increased costs for firms and also forced some to consider the profitability of offering advice to different client segments. Some firms are looking to increase fees for clients with smaller portfolios or will ask them to leave the firm.

> *"We are incurring additional costs and so are looking at the fees we receive from clients with under £200,000 and particularly those under £100,000, where we are making a loss on providing advisory services."*

Firms rely on myriad criteria to evidence value to clients. The most commonly used methods, used by just under half of firms are cashflow modelling, client satisfaction, performance and specific deliverables as part of the service.

Figure 27: Criteria utilised by firms to demonstrate the value of advice



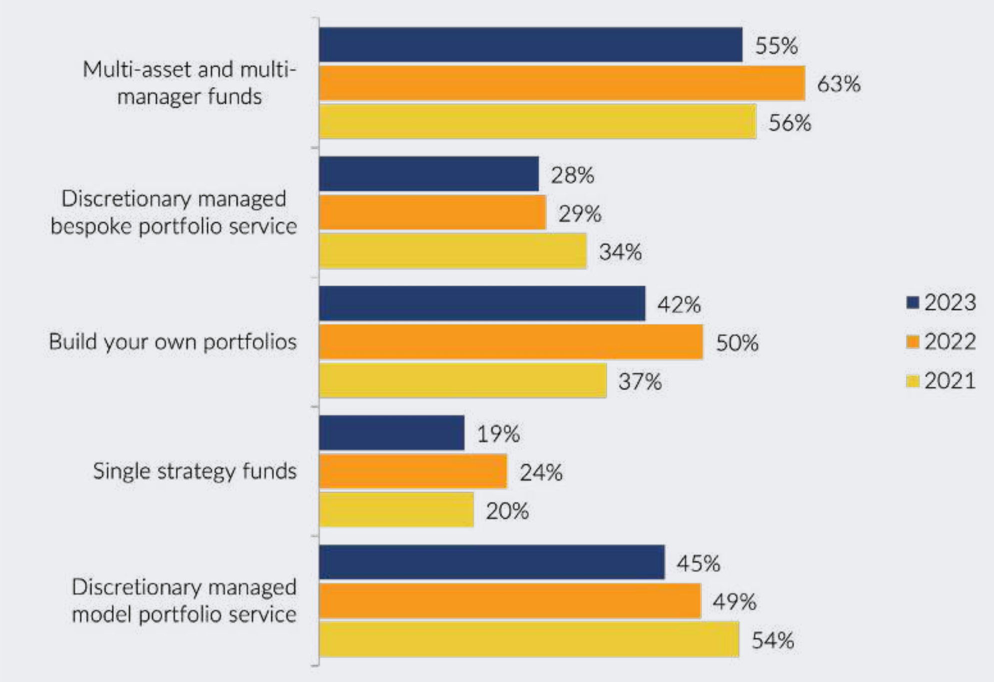
In our regular interviews with financial advice professionals, we have heard consistently that cashflow modelling has become more important as a result of Consumer Duty - both to evidence value and to prevent foreseeable harm.

Cashflow modelling can be used to illustrate outcomes based on the current financial plan versus the one in place prior to the adviser's involvement. It can also be used to encourage clients to stay invested. With cash rates looking attractive relative to 3 or 5-year portfolio performance, the ability to forecast portfolio growth relative to inflation is extremely valuable and can help slow the 'dash for cash'.

6. Investment strategies

As in previous years, multi-asset and multi-manager funds are the most used investment strategies for new client money. However, this year the gap between multi-asset/multi-manager fund use and discretionary managed model portfolios has reduced.

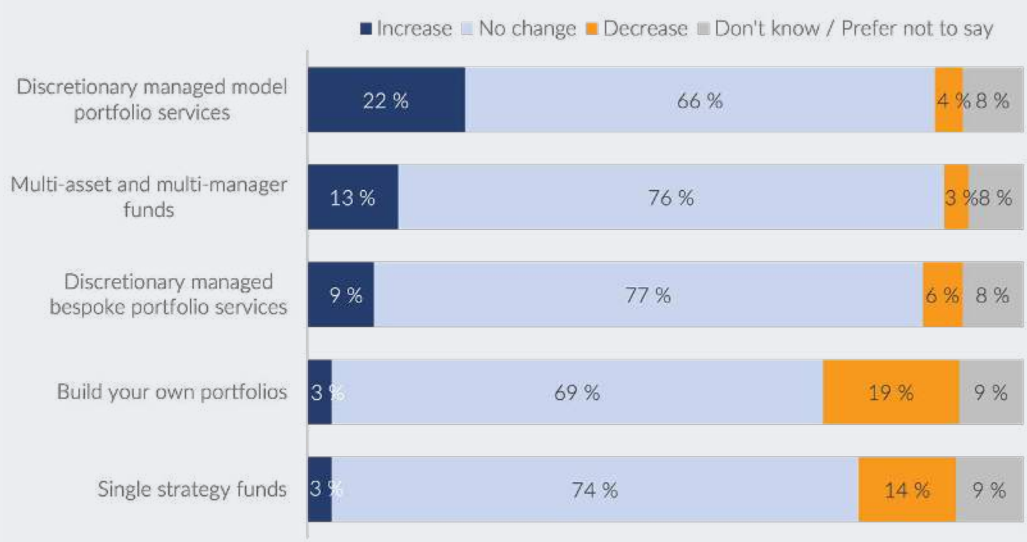
Figure 28: Investment strategies used for new client money



Fewer advice firms report using discretionary investment managers than last year, for either bespoke or model portfolios. However, as shown in Figure 29, over a fifth (22%) of respondents plan to increase their use of outsourced MPS. Most of these already use discretionary MPS and plan to shift more client assets to these solutions.

We have seen a bit of a recovery in the past two years of adviser managed models. These are more commonly used by advisers in large firms who buy in investment expertise and employ operations teams to manage portfolios.

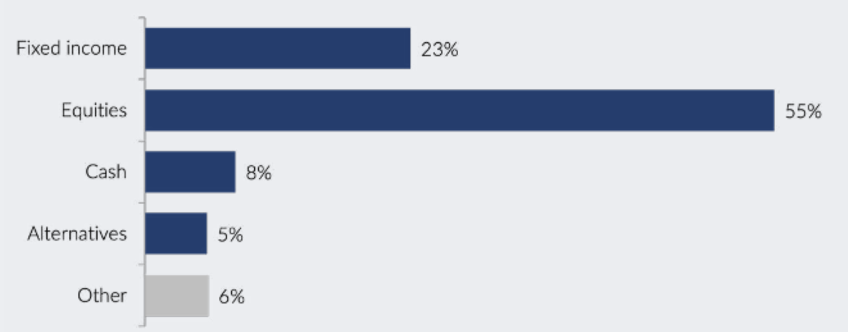
Figure 29: Expected change in use of investment strategies



6.1 Asset allocation

In a new section this year, we explore the distribution of client assets between asset classes. With raging debates about the 60/40 rule and the role of private assets or alternative assets in client portfolios, we think this will be an important tracking question moving forward.

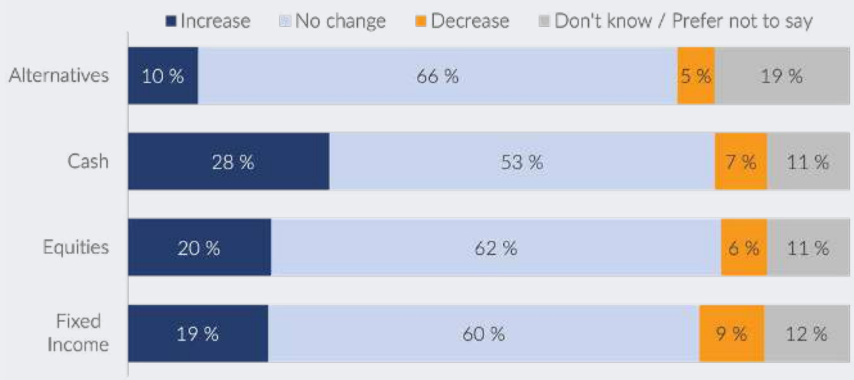
Figure 30: Average asset allocation of client portfolios



Unsurprisingly, on average, the largest allocation is to equities at 55% followed by fixed income at 23%.

Advisers report that an average of 8% of their client assets are held as cash. Looking ahead, this is the asset class where the largest share of advisers expect to see an increase over the next 12 months. Against market volatility and with improved savings rates on offer, it can be challenging for advisers to encourage clients to remain invested. We consistently hear that cashflow modelling tools are key to demonstrating the longer-term benefits of remaining invested.

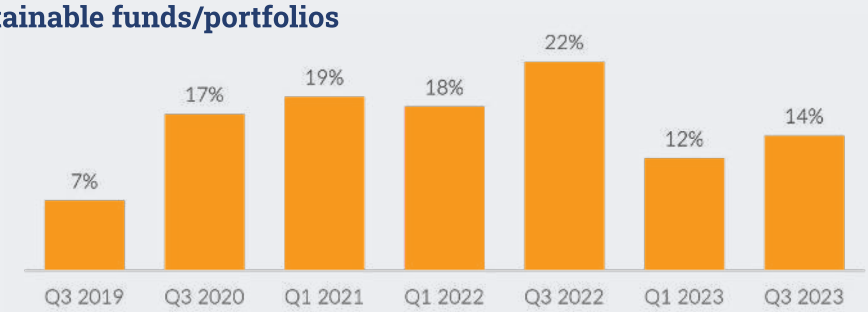
Figure 31: Expected change by asset class over the next 12 months



6.2 Sustainable Investing

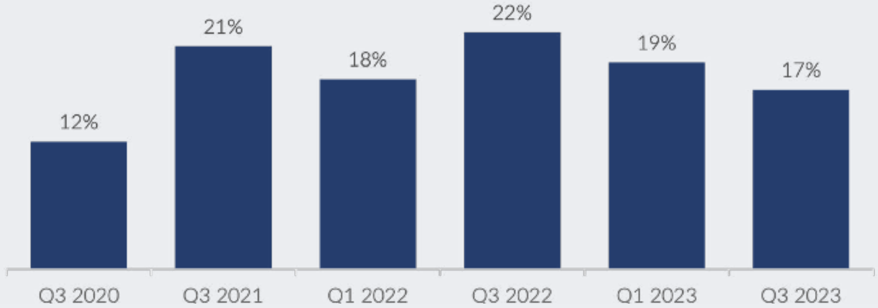
The percentage of conversations in which the client raises the question of sustainable investing has dropped back this year, from 22% in 2022 to 14%. That's now below pre-Covid levels.

Figure 32: Percentage of conversations where clients raise the question of ESG, ethical, impact or sustainable funds/portfolios



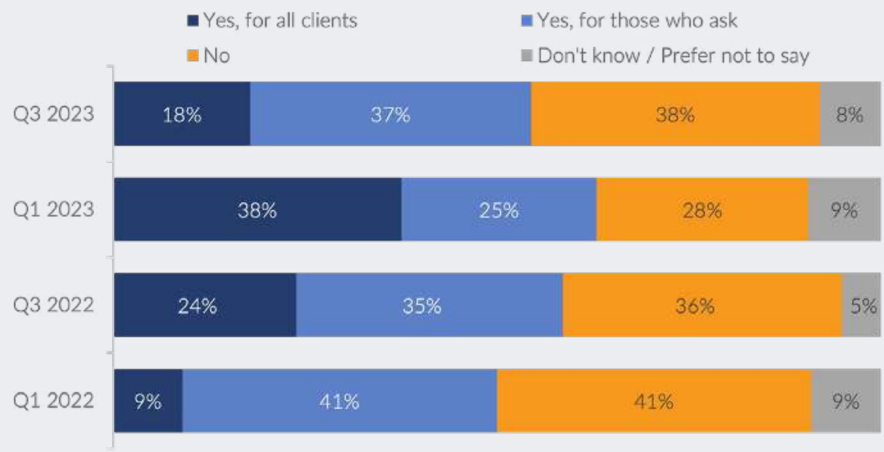
The percentage of client assets held in sustainable funds or portfolios has also fallen, from 22% in 2022 to 17% this year.

Figure 33: Percentage of client assets under advice in ESG, ethical, impact or sustainable funds/portfolios



There are a number of reasons for this decline, among which performance is a critical consideration. Another factor is the growth in ESG/sustainable criteria applied to mainstream funds; clients may have less demand for sustainable funds if their objectives are already being met via their regular investment portfolio. Sustainable investing has observably received less media attention in the past year, having been subsumed by other issues such as the cost of living crisis.

Figure 34: Provision of sustainability assessment/rating report to clients



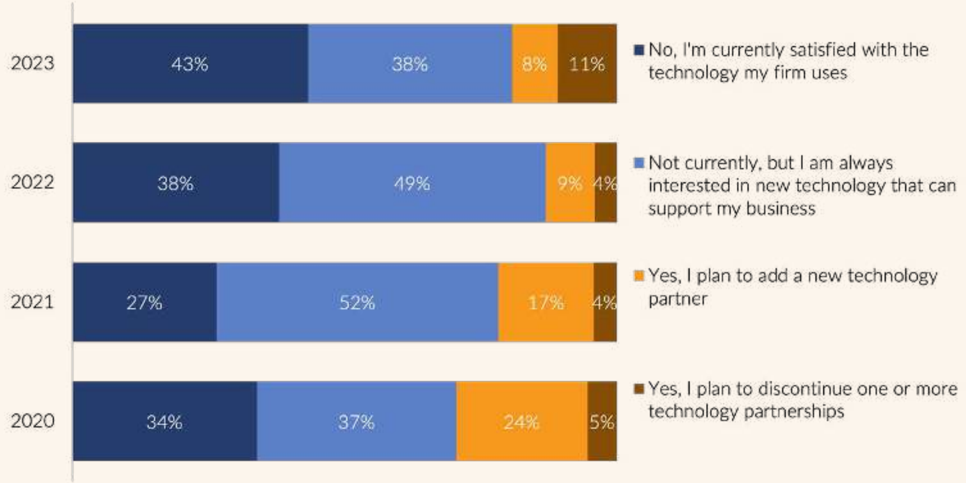
Overall, fewer advisers are providing their clients with an ongoing report on sustainability criteria and performance within their portfolios: 55%, down from 63% in 2022. While a decreasing share are providing such a report to clients as standard, they are more likely this year to offer the report to those clients who request it. This suggests that the ability to offer the report exists but that demand is low.

7. Technology

In this section, we look at the technology supporting financial advice businesses. Further detail is available in NextWealth's Advice Tech Foundations: stability and satisfaction in adviser tech.

- Financial advice professionals are increasingly satisfied with their tech stack, with 43% saying they are satisfied, and not planning to make changes. This is up from 38% in 2022 and 27% in 2021.
- Only 8% plan to add a new tech partner and 11% plan to discontinue use of one or more tech partner. This is higher than we've seen in previous years.
- In interviews, advisers report 'getting their house in order' as a result of Consumer Duty and taking a fresh look at the advice journey. Others discuss the ongoing drive for efficiency, and these factors together appear to be prompting rationalising the tech stack, after partners swelled during the pandemic.

Figure 35: Adviser appetite for change



We asked firms that reported having made a change to their tech over the past year if there was a specific reason for doing so. Analysis of the write-in comments reveals that respondents had an equal eye on the need to make improvements to their client proposition as well as improving business efficiency.

Those who made changes to their technology to deliver a better client proposition spoke of enhancing the service and keeping pace with change:

> *"Always looking to improve, better technology being made available."*
>
> *"Constantly looking to evolve and improve processes with new tech."*
>
> *"We are adapting and confirming our client offer. The best way to provide the right service for our clients."*

Those firms more focused on improving efficiencies within the business were looking for simplicity, streamlining and scalability:

> *"Simplify admin"*
>
> *"To try and make efficiencies."*
>
> *"Needed a scalable solution that would provide better MI and workflow management."*

Two respondents reported introducing AI tools, including one firm making use of "ChatGPT on a basic level to help with report writing."

24% of advisers cited cost as a reason that prevents their firm from updating the tech used. Some respondents expressed how scepticism about the overall value and relevance to clients as well as the firm being a barrier to their firm going ahead with tech updates:

> *"Cost. All proprietary systems are expensive because they include so much extra over and above what we need or would use".*
>
> *"Cost mainly but also client engagement with tech is low."*

1 in 10 financial advice professionals said time is the biggest the barrier to making changes to the tech stack. Nearly half (47%) said 'inertia' was the main blocker. Inertia is caused by the lack of appetite to do the work to move and a sense that the solutions that exist may not solve the underlying problems.

Advisers cite a lack of training and support from providers, the time it takes to understand new tech and lack of engagement and lack of 'drive' from senior management to make changes, as influences that can slow and prevent tech changes from happening:

"Time to understand offerings."

"Happy with existing and major upheaval when you do change."

"Time spent having to move or recalibrate data and information."

"Staff comfort with existing tech".

"Existing systems knowledge/comfort for employees + time that would take the business to roll out changes is often time taken away from servicing clients."

"Time it takes to implement changes and transfer client data."

"Just the time it takes to understand it."

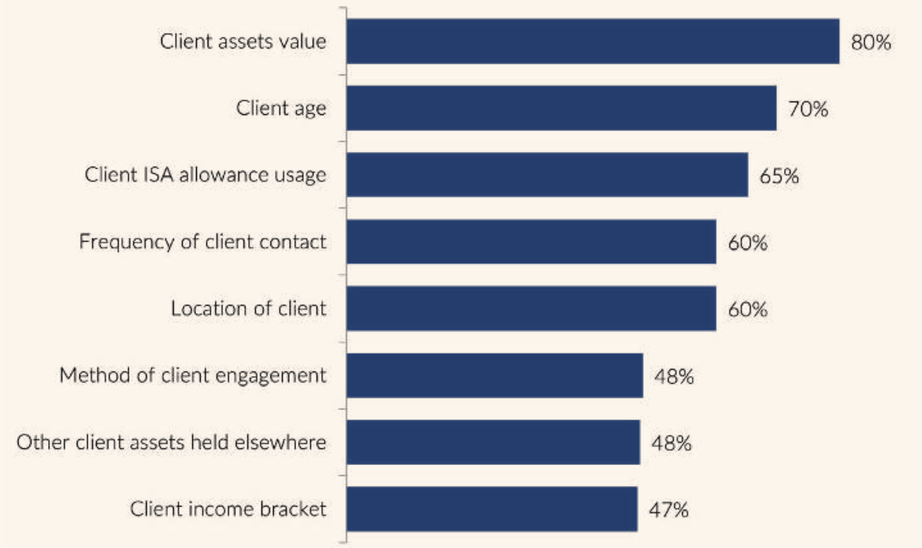
"Reluctance from directors."

"Inertia in terms of data and training."

7.1 Use of data

In recognition of the growing importance of data to financial advice businesses, we added a new question this year to look at the data being collected by firms. Firms are mainly collecting client data to feed into a fact find - the information that advisers have a regulatory responsibility to collect and understand.

Figure 36: Categories of data collected for use within firm



The data most likely collected is client asset value, client age and ISA allowance. Some firms are starting to collect data to support nudging – for example client engagement methods and dwell time on particular content.

We also asked if there was a piece of data/information that is not currently collected that would enhance the quality of advice provided to clients. The two main responses included:

1. More information on pensions:

29% of advisers put pensions data at the top of their wishlists highlighting either more information or easier access to pensionsn data.

"Access to workplace pension data."

"Level of pension entitlement."

"Death benefit nominations – make it easier to obtain from pension providers."

"A useful pension dashboard."

2. A fuller picture of assets held elsewhere:

Nearly a fifth (18%) of advisers would like better data on cash and other holdings.

> *"The amount of money that a client has in cash within banks."*
>
> *"Full breakdown of all cash savings and other assets."*
>
> *"Undisclosed assets."*

Others mentioned having more information on family links to support intergenerational wealth planning strategies.

7.2 Client review process

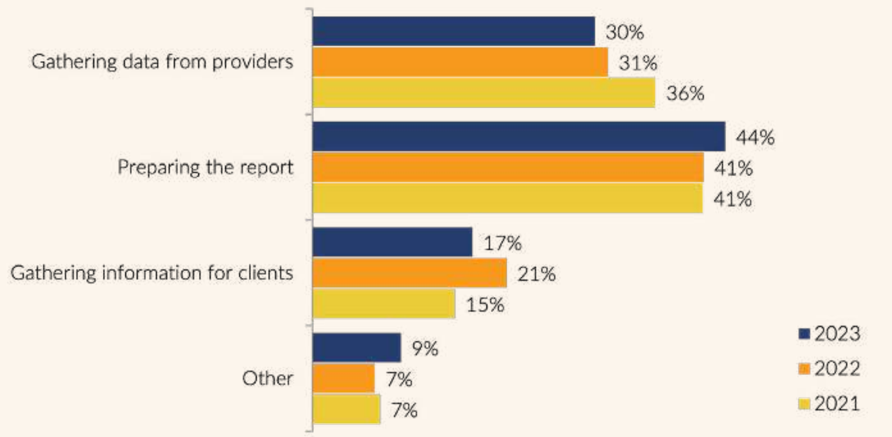
Preparing for annual review meetings is a lengthy step in the advice process, and with an average of 94 active clients per adviser/ planner this is an area where firms are striving for efficiencies and support from tech solutions.

Figure 37: Average time spent preparing for each annual review/ planning meeting with existing clients

This year the average time spent preparing for annual reviews has fallen by nearly an hour, from five and a half hours to just over four and a half.

Figure 38 reveals that, as in previous years, the lengthiest step for most firms in the process of preparing for client review meetings is the report preparation.

Figure 38: Lengthiest step in the annual review / planning meeting process



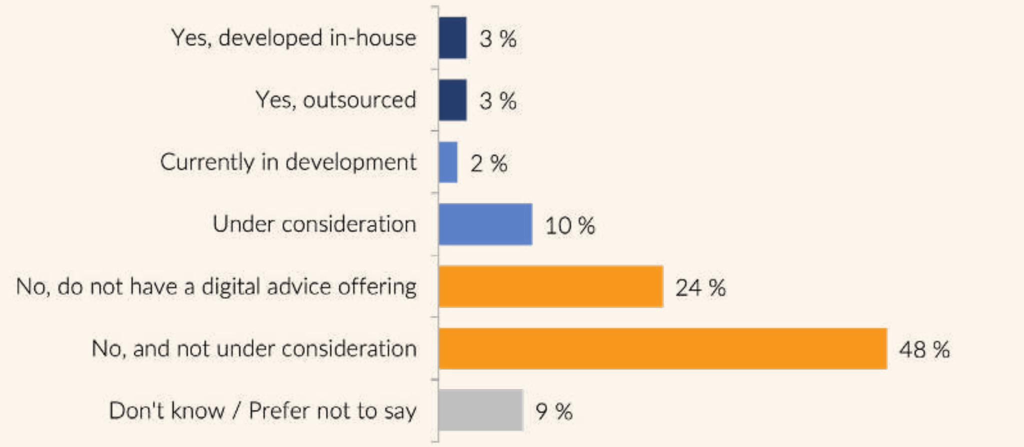
The data shows that firms are spending less time this year on data gathering, both from providers and clients. We hope this represents a long overdue improvement in how providers are handling data requests, as well as the increased take-up and client engagement with portals.

We heard from several firms who have found that engaging clients with the firm's portal ahead of a review meeting helps speed up data gathering and communications.

7.3 Digital advice

Since 2019, we have monitored the share of financial advice firms considering or launching digital advice offerings to their clients.

Figure 39: Digital advice offering



- The number of firms that have or refer clients to a digital advice offering fell slightly in 2023 from 9% to 7%.
- Financial advice professionals in large restricted businesses are far more likely to say they offer or refer clients to a digital advice offering.
- The share saying that their firm was developing or considering developing a digital advice offering remained at 13%.

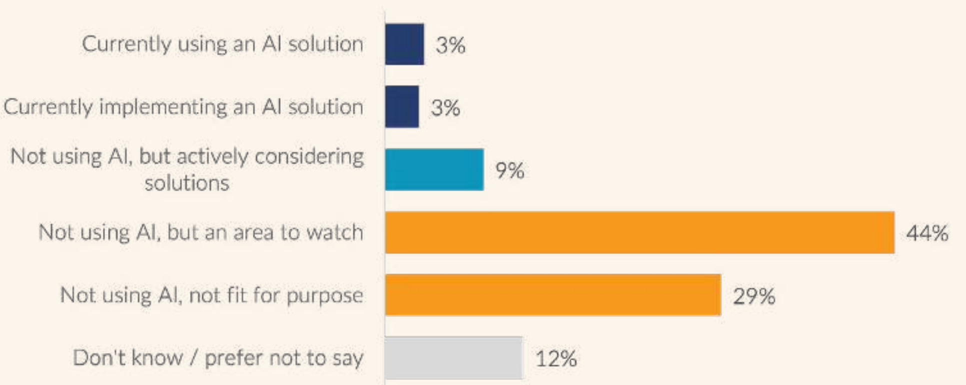
We think this cooling of enthusiasm might be a result of a return to normal post-Covid. Businesses digitised rapidly through Covid-19 and many had plans to build digital advice journeys for clients. With a return to business as usual, plans in some cases have been shelved.

7.4 Use of AI

Tech pundit and AI optimist Scott Galloway says *"AI won't steal your job, someone who knows how to use AI will."* With this in mind and given the intense hype around AI in the economy as a whole, we wanted to understand how financial advisers are and expect to use AI.

- Whilst a minority of firms have so far embedded or are in the process of implementing an AI solution, it is very much on the radar for most financial advice businesses.
- 59% of advice firms are actively considering AI solutions or are open to what may come to market in this area.
- Larger firms are more likely to have already implemented or actively considering AI solutions.

Figure 40: Current view of AI in advice firms



8. Advice Market Segments

In this section we introduce a way of classifying advice businesses to capture what we see as some of the key differences in operating models and approaches.

In the same way that advice firms segment their clients to try and better understand their needs and preferences, we think this model will offer more useful benchmarking than just looking at how firms differ by size. Of course, some clients will sit outside the segmentation model, and there will be significant differences between firms in each segment.

The advice firm segments we explore here are:

1. Build to grow firms
2. Succession searchers
3. Investment outsourcers
4. Turnkey advisers
5. Investment advisers

On the following pages you'll find our segmentation criteria for those five firm types as well as some interesting differences in their approach to delivering advice.

Build to grow firms

These firms tend to employ younger staff and typically have 10 or fewer employees. They have plans to grow by increasing assets and hiring staff.

- Most likely to have seen a growth in active clients in the past 12 months (43%).
- Charge the lowest fees for ongoing advice – at 55bps, compared to 64bps on average.
- More likely than average to use cashflow modelling.
- High adopters of all types of advice tech and more open minded to trying new tech.
- 59% of these firms in our sample spend more than £5,000 per year on technology.
- Almost half (45%) of firms are currently planning to hire new staff in the coming 12 months.
- More likely to be actively seeking younger clients.

Succession searchers

These are firms who are planning to exit the market in the next 2-5 years, looking to maximise their value through the right partnership.

- Most likely segment to refer to client-facing staff as financial advisers (72%).
- Most likely to have had an offer for the acquisition of their firm (72%).
- Most likely to have clients increasing their allocation to cash (45%).
- Low appetite for changing tech partners ahead of exit and adoption of tech in general, particularly for cashflow modelling (17%).
- Least likely to have plans to hire staff (10%).
- Least likely to be actively seeking younger clients (3%).

Investment outsourcers

Mid-size firms are classified by their use of discretionary investment managers for models or bespoke portfolios. These firms seem to be weathering weak markets better than other segments with plans to hire and add new tech.

- Very likely to be hiring new staff over the next 12 months (76%).
- Typically refer to their client-facing staff as planners (51% compared to 31% average). This segment is the most likely to use this label.
- Most likely segment to believe that Consumer Duty is having a positive impact (35%).
- Highest ongoing advice fees (70bps) and second highest fund fees (61bps).
- Most likely to be adding a technology partner (36%) and experiment with AI.
- One of the most likely segments to have made a change in their technology over the last 12 months (59%).
- More likely than average to use tech solutions for client portals (70%) and cashflow planning / scenario modelling (49%).

Turnkey advice firms

Turnkey firms are sole traders and small firms who operate as Appointed Representatives and require an "out of the box" solution to tech and investments.

- Annual tech spend is the lowest of the market segments with 60% of firms spending less than £5,000 on tech.
- While the majority charge clients based on a percentage of assets; they are the most likely firm to charge a fixed fee (25%).
- More likely than the average to have plans over the next 18 months to grow client assets (60%) and take on new clients (65%).
- Most likely to be actively looking for younger clients (45%).
- More likely to have a higher average (21%) of client assets in ESG (ethical, impact or sustainable) funds/portfolios.

Investment advisers

These are larger firms with a more established and higher level of assets under management. They run their own investment proposition and are seeking growth, either organically or by acquisition.

- Tech requirements are focused on operational efficiency and central MI reporting. Over half (59%) spend over £25,000 on technology.
- Clients of these firms pay more for funds, 79bps compared to 49bps average for the industry. These firms tend to manufacture their own funds, though they typically do this on a sub-advised basis.
- These firms are more likely to employ dedicated tech and marketing resource.
- Digital marketing plays a bigger role than average for new client acquisition.
- They are most likely to hire over the next 12 months (82%).
- They are most likely to refer to client-facing roles as wealth managers (24%).
- Most likely to have changed their back office / CRM in the last 12 months (24%).

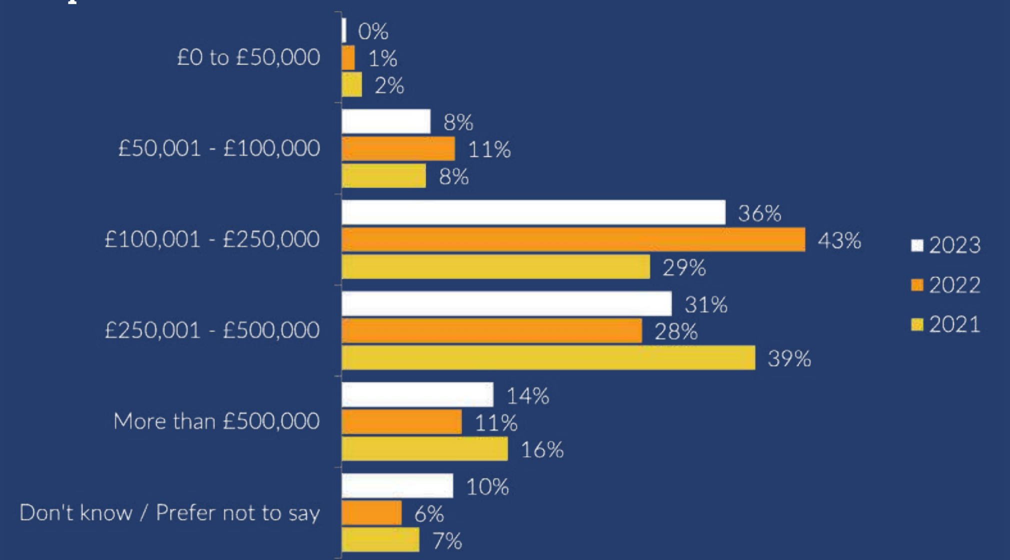
9. Respondent profile

The results in this report are based on a survey of 244 financial advice professionals conducted between 11 July and 21 August 2023.

The charts in this section show the profile of the financial advice professionals that responded to our survey. We use the term 'financial advice professional' because we want to hear views from across financial advice businesses – from planners, paraplanners, ops and admin teams. This year's respondent profile is similar to past reports.

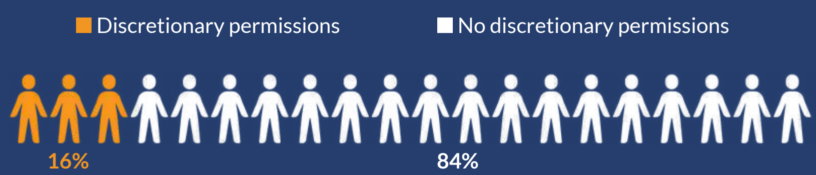
- 78% work in businesses that are directly authorised.
- 62% are between the ages of 45 and 64, with nearly half under the age of 54.
- Most are based in the South of England or London.
- Respondents represent a wide range of firms by size, based on assets under advice and number of client-facing financial advisers.

Average client portfolio size



Region

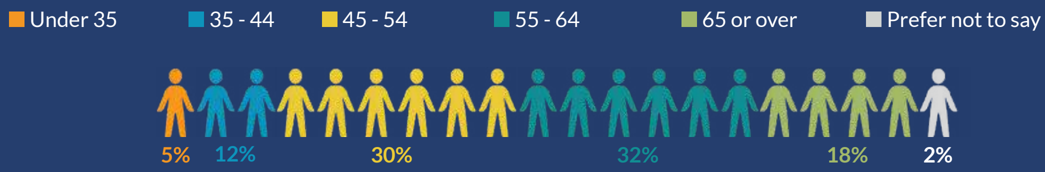
Discretionary permissions



Directly authorised or appointed representative

Independent or restricted

Age of adviser



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We would love your voice to be heard too as we continue to collate the latest views and trends.

Your effort and contributions don't go unnoticed, we really REALLY value your input so we give back to you too. As a member of our research panel, you receive a digital copy of each of our reports which you take part in in either via a survey or interview. You will only ever get invited to take part 4 times a year maximum.

On top of that, we host small gatherings of adviser-only national roundtables (usually in a pub near you), to debate and collectively share ideas on topical matters of interest. No providers, no formality - just you and us. We would love you to come along.

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