

## Advisory Distributors – Tuesday 28 June 2016

Tylney Hall Hotel & Gardens, Rotherwick, Hook, Hampshire RG27 9AZ

### SCENE SETTER RESEARCH FINDINGS

In the run up to A Meeting of Minds Advisory Distributors, we asked you to answer some questions – our goal being to capture your thinking at a moment in time. The following are your aggregated responses. We hope you find this snapshot interesting as well as reassuring – in other words your peers are experiencing the same challenges and excitements as you are!

To give the data some more meaning and identify trends, we have introduced data from preceding reports. We hope the trending is helpful.

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## I. WE STARTED BY ASKING OUR PARTICIPANTS – “WHAT DO YOU CONSIDER TO BE THE BIGGEST ISSUE FACING YOUR BUSINESS AND/OR INDUSTRY?”

Unsurprisingly, **the two key concerns expressed were:**

- **concern at the reducing number of financial advisers and the lack of new entrants.** (11 mentions)

*“How can you grow your business with significant competition for quality financial planners and para-planners?”*

No solution offered but it will be discussed at the Meeting so let’s see what they come up with.

- Plenty of comments around the **constantly changing rules relating to financial products** – eg pensions and ISAs – as well as **frustrations at the inconsistencies and ever changing burden of regulation and its financial impact on their businesses.** Interfering politicians get a mention too.

*“FAMR output - more questions than answers”*

The challenge is to achieve *“profitability with the need to deliver great customer outcomes through a compliant approach.”* (13 mentions)

- **Technology clearly gives you a headache:** how do you source solutions fit for the future, how do you get ahead? And how do you marry up legacy business with modern practices? The threat of robo style advice models is still viewed as a threat by some rather than something to be embraced.
- **Macroeconomic factors:**
  - Brexit and the volatility of the markets (4 mentions) – mind you by the time we get to the Meeting on the 28<sup>th</sup> we will know whether we are in for a seriously rough ride or just a bumpy one.
  - Mention of social and demographic change – I suspect we have seen nothing yet!
- It’s a jungle out there. **Concerns aired on the market as a whole:**

*“how do you get advice to the masses efficiently since the demise of bancassurance?”*

*“can there be simple advice solutions for complex problems”*

Plus worries about competitive pricing (Ed: maybe healthy?), concerns around roboadvice and guidance and how it is being portrayed as advice.

Someone is getting on with it: *worrying about “the ability to maintain consistency of culture and brand as we grow our business”.*

- **FOS/FSCS:**
  - Irrational FOS decisions (2 mentions)
  - FSCS Funding

# THE SWOT ANALYSIS – WE ASKED OUR AUDIENCE TO PROVIDE A QUICK SUMMARY OF THEIR PERCEIVED STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS:

## 2. STRENGTHS:

Well it's your people, your proposition, your reputation and your resilience. On on I say!!

- Increasing professionalism, experience, knowledge, productivity and profitability.
- Respected regulated environment.

### People

- Depth of experience
- Our head office team
- People (10 mentions)
- Quality of Advisers (2 mentions)
- Quality of staff
- The high levels of experienced and quality advisers

### Proposition

- Our independence and future vision
- Our proposition
- Clarity of propositions
- Our culture of putting customers at the heart of everything we do
- Our advisers perform a holistic service for our clients
- Adviser/Client Propostion
- Clarity of service offering
- Client focused
- Consistency of proposition
- Our allround package of financial planning and award winning investment management
- Process
- Professional approach
- Professionalism, technical ability and simplicity
- Quality of advice now prevailing
- The quality of our offering to clients
- We are dual distribution which is unique in offering high quality F2F advice plus online portals across various product lines.

### Reputation

- Reputation (4 mentions)
- Trusted brand

### Resilience

- Our ability to adapt and change.

### Intellectual capital

- Intellectual capital (2 mentions)

### Size

- The relationships we have with our partner organisations enable us to use our scale to obtain better results for clients, with access to decision makers and leading fund managers.
- We are part of a large financial services group
- Size (economies of scale and influence) and capacity (2 mentions)

### 3. WEAKNESSES:

The two key themes to come out of this part of the analysis are again this lack of new advisers entering the market plus a sense of frustration at the lack of agility within the industry. Lack of scale was also mentioned on several occasions together with worry at an inability to cope with all the opportunities coming through.

#### Some general industry points raised:

- The inability of the profession to service lower value clients
- Lack of funding/investment
- Reliance on third party systems
- Industry infighting
- Distrust of the regulator

More specifically:

#### Lack of desperately needed good new people:

- Finding the quality of advisers in the market who are not already 'saturated' by their existing clients.
- Shrinking number of advisers
- Lack of new blood into industry
- More opportunities than we have advisers to advise on
- Shortage of advice availability in the UK
- Shrinking adviser market
- Too few female advisers and too few advisers under the age of 40.
- Reliance on key individuals

#### Lack of agility:

- Ability to move in agile manner
- Adapting to change quickly enough, embracing technology
- Fear of the new idea
- Legal structure and IT
- Modernising of 40 years of legacy business and ensuring that the firm is receiving remuneration for advice relating to old legacy products.
- Operating in 'silos' as we bring together 5 businesses under one Group structure
- Potential for internal bureaucracy
- Process too admin heavy
- Lack of diversity
- Probably not diverse enough with our income streams
- Keeping up to date with technology
- Legacy product providers

#### Lack of new business coming through:

- Over reliance on servicing existing clients and not enough new business
- Too much client work and over burdensome regulation may force us to take our eyes off business development and miss opportunities

#### Lack of scale (4 mentions)

- Inability to cope with increasing customer demand

### 4. OPPORTUNITIES:

Ever the positive ones, a lot of those weaknesses cited above are now turned to positive opportunities!

#### Hoovering up the opportunities left by those unable to survive in the new world:

- Fewer advisers means more enquiries per head
- IFA's leaving the industry

- Opportunities in the UK for advice due to UK population scale and the small numbers of authorised advisers now.
- Consolidation (2 mentions)
- Staff acquisition from fall out of consolidation in our sector
- Filling gaps left by firms who cannot operate in a fee based environment.
- Barrier to entry so less competition
- Staff acquisition from competition
- Continued growth, academy program

#### **And someone's worries around achieving scale are another's opportunity:**

- Building scale (4 mentions)
- Well capitalised enabling expansion as and when appropriate
- By streamlining all modern business to a strict DFM managed range of investments, we can deliver greater value for clients while improving profitability
- Realising the customer and business benefits of a truly vertically integrated wealth management business

#### **Pension freedoms**

- Ever greater complexity leaving more and more people confused over their best choices
- Near, at and post retirement market - these are individuals who have accumulated enough wealth to see the value of advice at a time in their life when they need it most.
- Pension freedoms (4 mentions)
- Pensions' reform and the longevity of planning needs (intergenerational)
- Death of DB pensions and lower for longer interest rates

#### **The opportunities thrown up by financial education in the workplace and workplace advice (2 mentions)**

#### **The consumer taking control**

- Ability to use robo advice (2 mentions)
- Multi-channel route to market for advice and investment services
- Simplifying the advice process

## **5. THREATS**

Oh lawd – and I thought the issue of regulation was just becoming a hygiene factor .... But oh no – it's still huge and not in a good way.

Regulator/negative regulatory changes/over regulation/red tape/regulation/rising regulatory costs (11 mentions). The only story in town really.

- Compliance arbitrage which means ARs go DA as the FCA does not have the resources to monitor all Das.
- Government promotion of workplace solutions - LISA/Pension confusion. The next mis-selling scandal? We have had endowments/pensions & PPI what next?
- Over regulation of the industry from FCA and/or Europe Directives. No issue with regulation, but it needs to be relevant, coordinated and well thought through.
- The burden of increased costs, regulator, PI and increasing staff numbers
- The number of non-regulated businesses in our market place with Lead Generation on Pension Freedoms and UCIS can damage the brand of Financial Advice
- The sheer volume and cost of regulation. It is too complex and there are too many reviews.
- Unknown legislation and regulatory impact.

#### **Other areas which rate a mention as a considered threat:**

- Concerns around the investment conditions (specifically mention of Brexit).
- Fears of getting it wrong in terms of investment solutions offered to clients
- Worries about the lack of consumer education and the general public not valuing advice. (4 mentions)

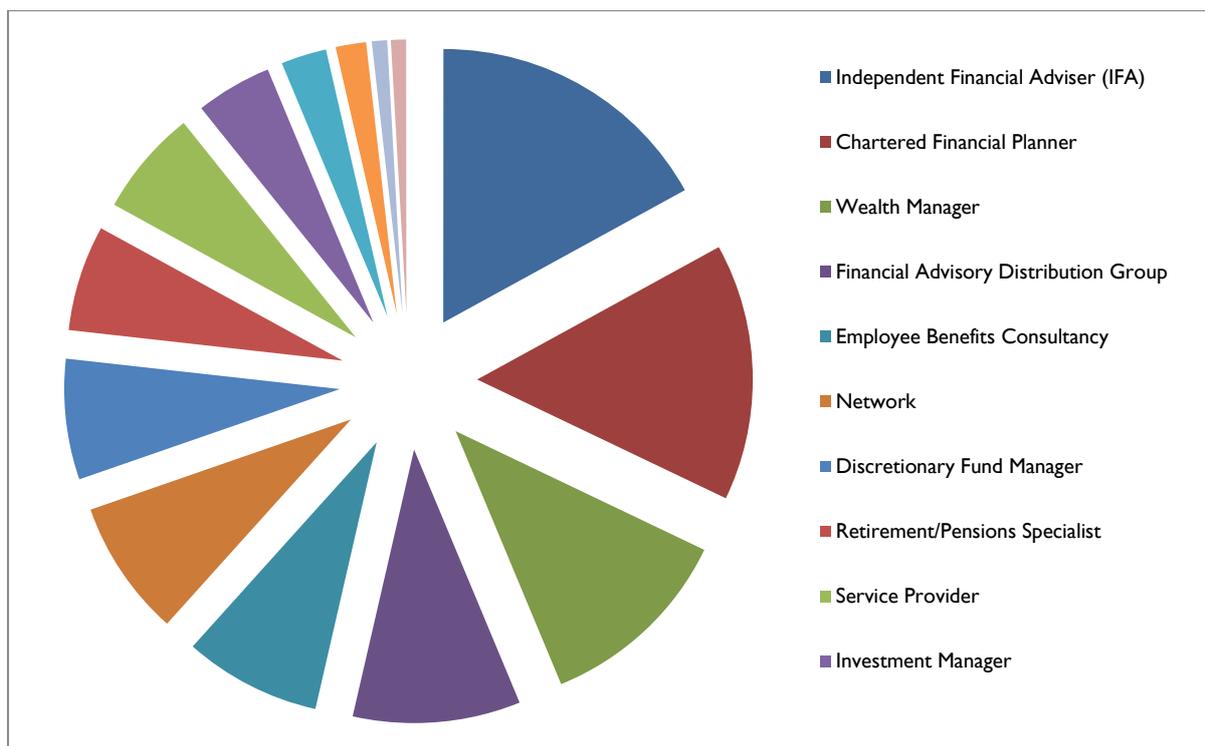
- The word “apathy” gets a mentioned three times.
- Poor PR: continuing poor publicity generated by some advisers which taints the whole industry.
- Entry of Tech led solutions/on line quasi advice (5 mentions)

**6. EACH SIX MONTHS, WE ASK YOUR PEER GROUP HOW THEY FEEL ABOUT THE YEAR AHEAD? THERE IS NOTHING PARTICULARLY SCIENTIFIC ABOUT THE EXERCISE BUT THE RESULTS ARE REMARKABLY CONSISTENT WHICH WOULD INDICATE SOME SORT OF VALIDITY.**

We also ask this question of the Winning Advisers (these are the owner managers of firms which typically have £200M FUM and on average 6 advisers. They seem more upbeat ... or is it that the tension surrounding the EU referendum is beginning to kick in? I suppose the autumn will tell!

Winning Advisers North	Apr-15	8.35
<b>Advisory Distributors</b>	Jun-15	8.17
Winning Advisers South	Oct-15	8.00
<b>Advisory Distributors</b>	Dec-15	8.00
Winning Advisers North	Apr-16	8.17
<b>Advisory Distributors</b>	Jun-16	7.73

**7. WE THEN ASKED YOU TO DEFINE YOUR BUSINESS?**

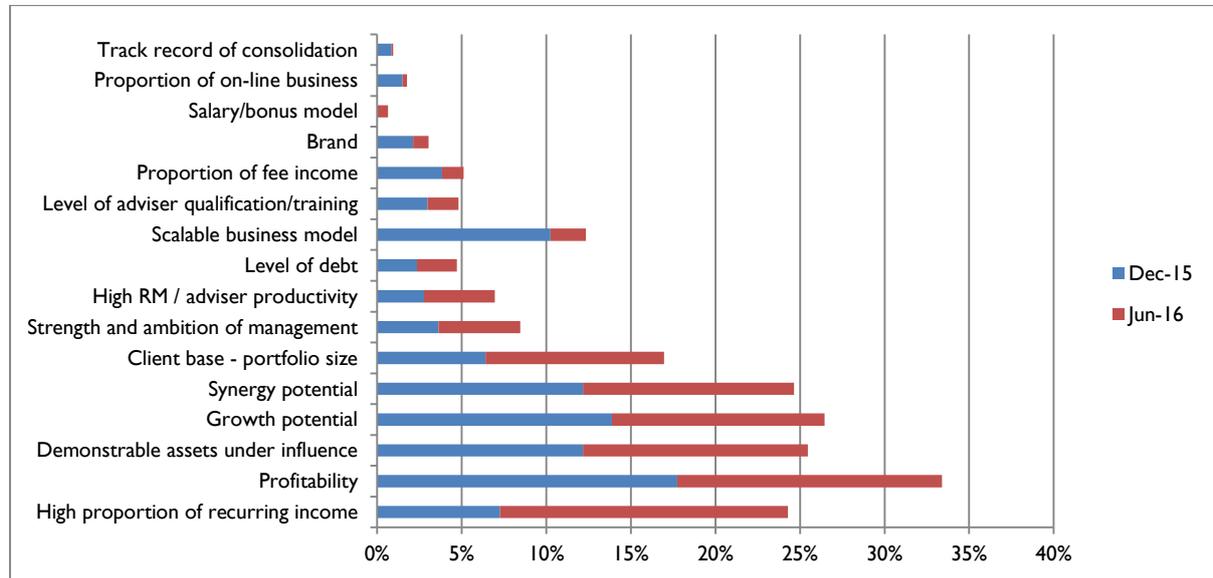


Participants were able to select more than one definition.

## 8. WE THEN ASKED RESPONDENTS TO PRIORITISE THE EIGHT MOST IMPORTANT VALUE DRIVERS WHEN PRICING UP AN ADVISER BUSINESS:

We have weighted the responses and compared this June's responses with last November's.

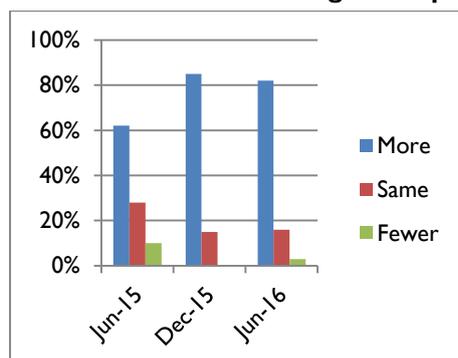
The big change over the past six months is the growing importance of a high proportion of recurring revenue. The importance of the client base and its portfolio size is clearly growing as is the strength and ambition of the management. A scalable business model is dropping down the priority list. Presumably because the respondents would offer that scalability upon acquisition.



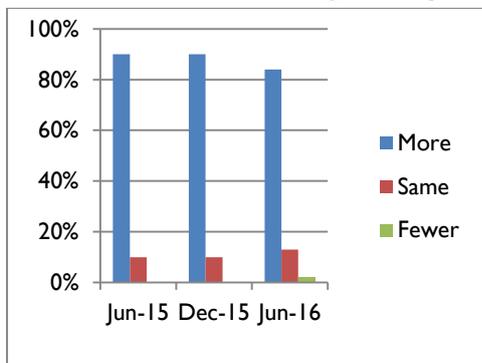
## 9. WE THEN ASKED RESPONDENTS FOR A SENSE OF HOW THEY SEE THE NUMBERS STACKING UP – OVER THE PAST YEAR AND THE YEAR AHEAD. WE HAVE DRAWN A COMPARISON WITH SENTIMENT EXPRESSED AT THE TWO MEETINGS HELD LAST YEAR.

All a bit like Oliver – “more please”

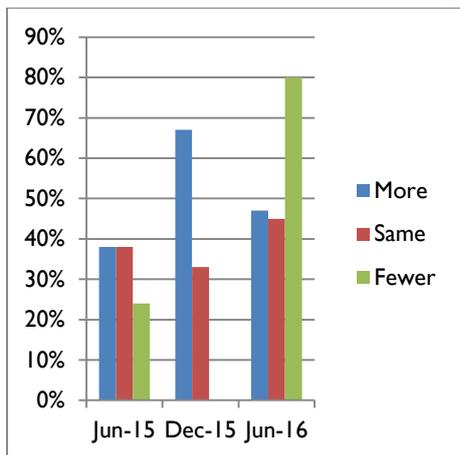
**In terms of clients: looking at the past year (what happened?)**



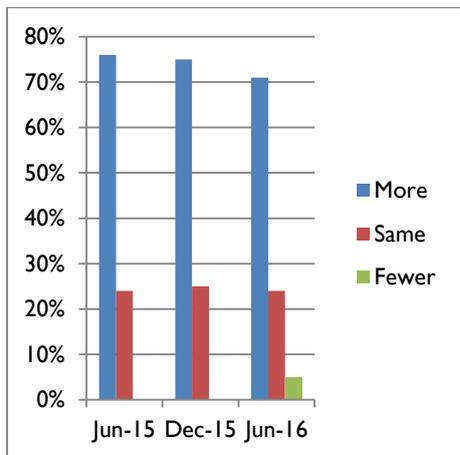
**In terms of clients: looking at the year ahead (what do you think will happen?)**



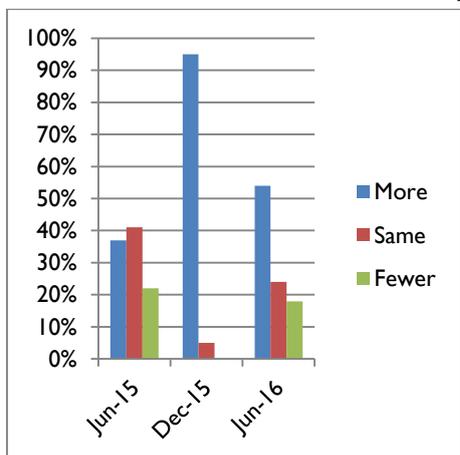
**In terms of headcount - client facing: past year**



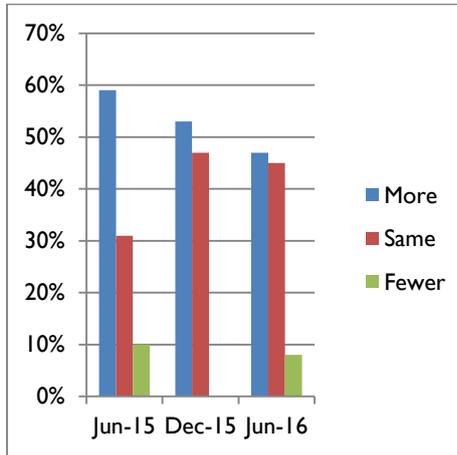
**In terms of headcount - client facing: year ahead**



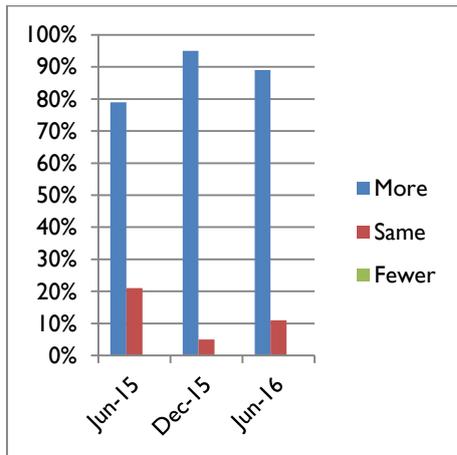
**In terms of headcount: back office - past year:**



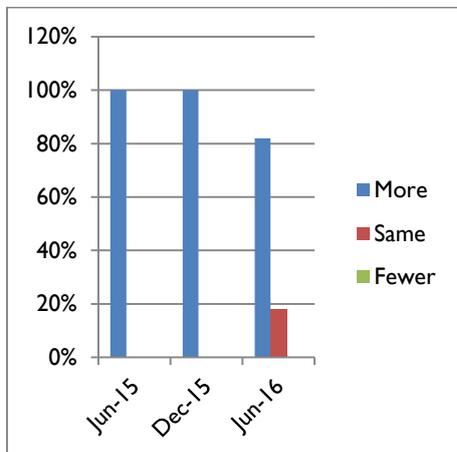
**In terms of headcount: back office - year ahead**



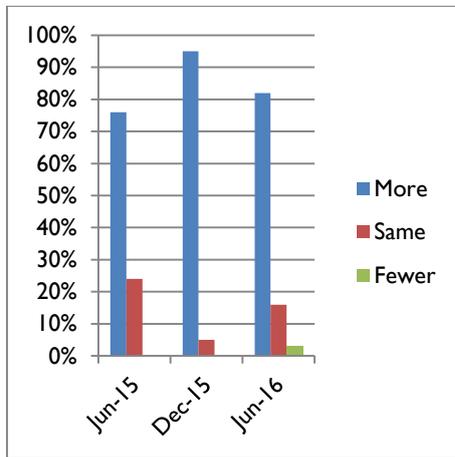
**In terms of assets under management: past year**



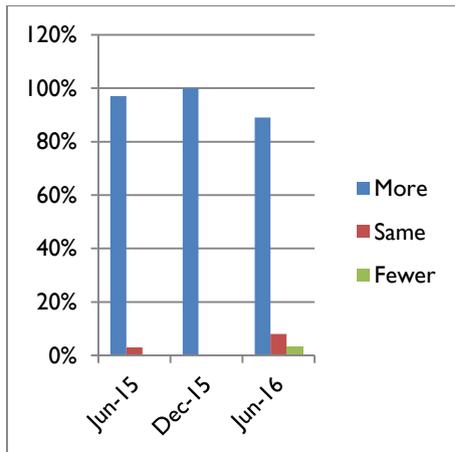
**In terms of assets under management: year ahead**



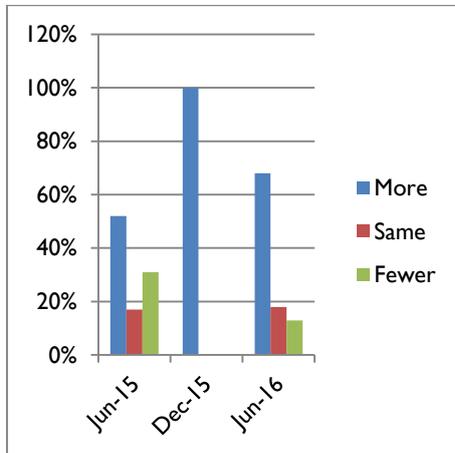
### In terms of revenues: past year



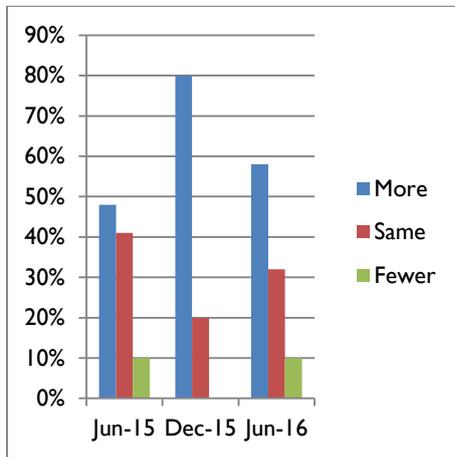
### In terms of revenues: year ahead:



### In terms of costs: past year

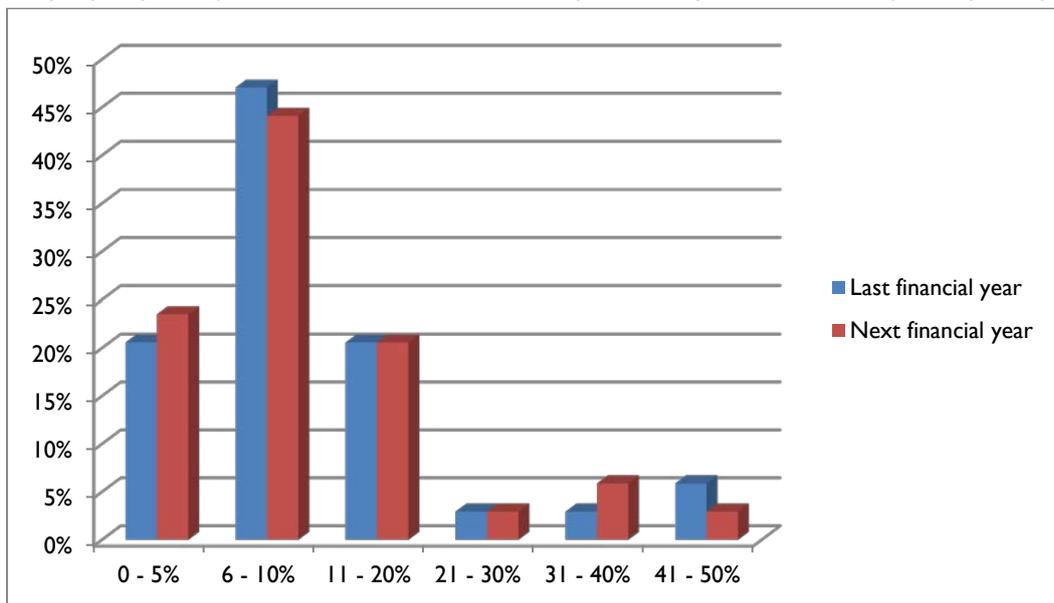


### In terms of costs: year ahead

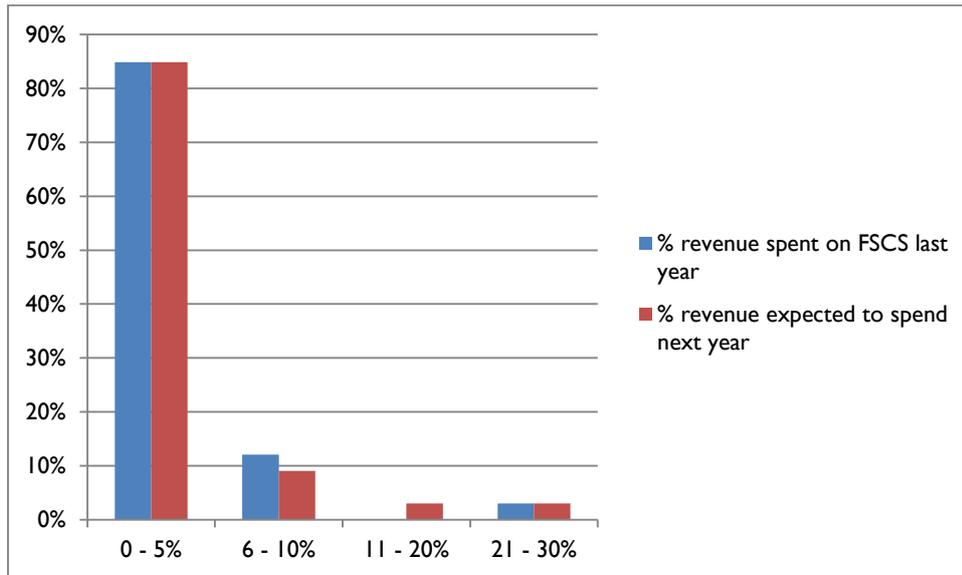


### 10. WE THEN ASKED CORRESPONDENTS WHAT PERCENTAGE OF THEIR REVENUE WAS SPENT ON COMPLIANCE DURING THE LAST FINANCIAL YEAR AND THEIR PREDICTIONS FOR THE NEXT?

This is the first time we have asked this question and were surprised by the range of costs. And much as I checked it, I couldn't understand why those spending under 5% last year expected the costs to increase next year, whereas those who spend between 5% and 10% expected their costs to decrease ... either way there are people spending over 40% of their costs on compliance. Maybe we need to tighten up the question?



## 11. WE THEN ASKED HOW MUCH OF THEIR REVENUE WAS SPENT ON THE FSCS LAST YEAR AND WHAT THEY EXPECTED TO SPEND NEXT YEAR?



## 12. WE THEN ASKED HOW MANY CLIENTS YOU WORKED WITH?

Perhaps a little arbitrary ... we added them all together and came up with averages:

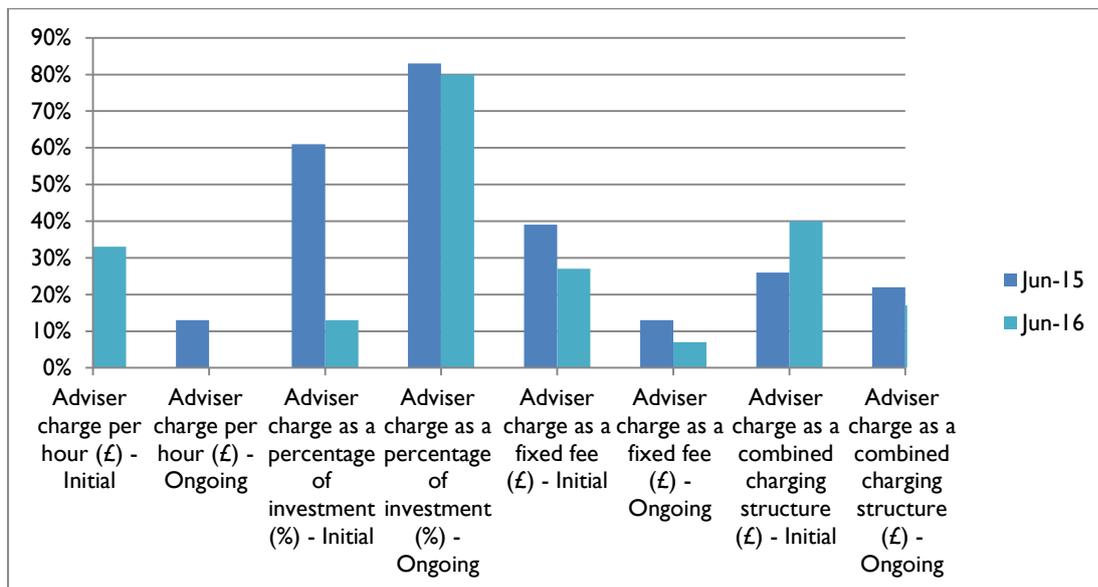
Corporate clients - 732  
Individual clients - 16,100

So as a group let's say:

Corporate clients - 26,800  
Individual clients - 805,000

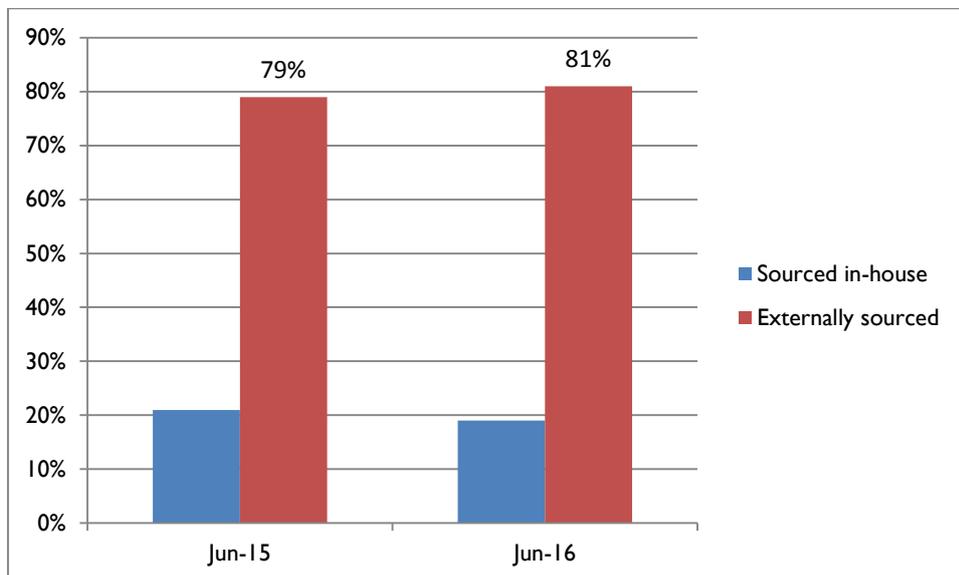
### 13. WE THEN ASKED RESPONDENTS HOW THEY TYPICALLY CHARGE FOR FINANCIAL ADVICE:

Comparing this year's responses with last year's, it looks like the initial fee is either a fixed fee or an hourly fee and that the ongoing is, as one would expect, a percentage of investment.



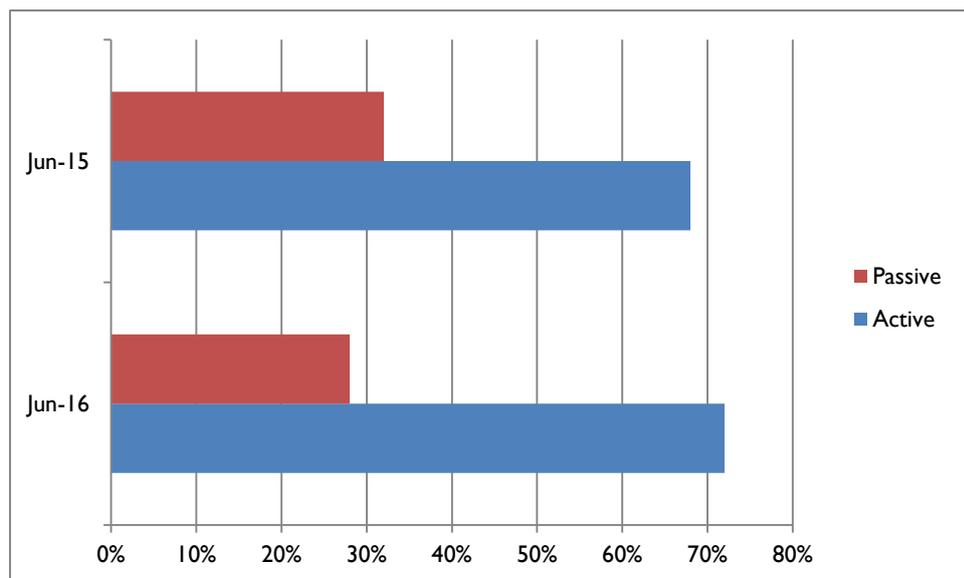
### 14. WE ASKED ABOUT THEIR PERCENTAGE USE OF IN-HOUSE PRODUCTS VERSUS EXTERNALLY SOURCED:

The steady trend towards outsourcing clearly continues:

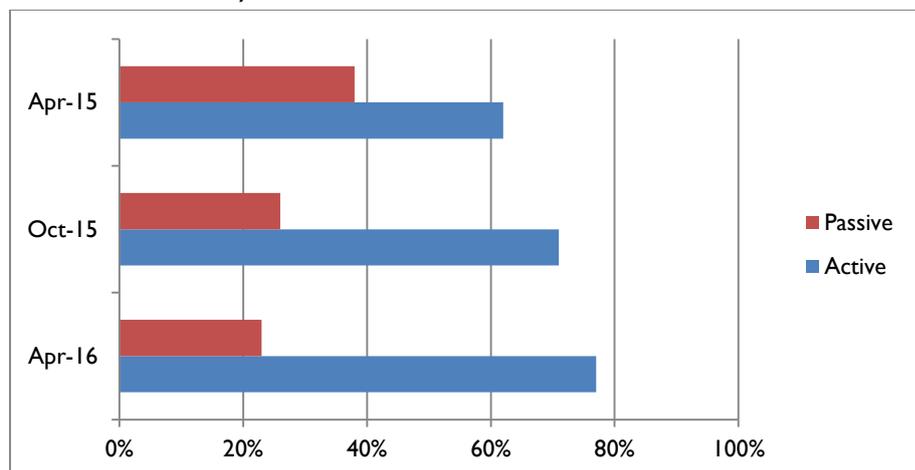


## 15. WE ASKED ABOUT THEIR PERCENTAGE USE OF ACTIVE VERSUS PASSIVE:

The direction of travel is clearly away from passive.



And to support that, we thought you might like to see the trend reflected in the Winning Adviser data collected earlier this year.



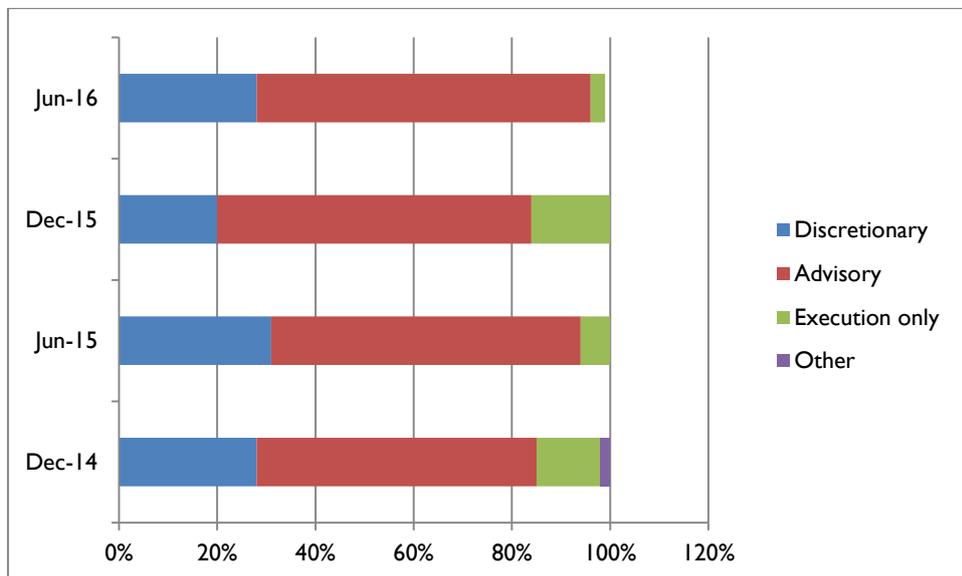
## 16. WE THEN ASKED WHY THEY USE PASSIVE?

- A cheaper alternative (3 mentions)
- As a core part of the investment strategy and in places where tracker would suit better
- As a lower cost solution for certain clients
- Client preference
- Cost (2 mentions)
- Lower costs
- Cost and performance (3 mentions)
- Cost and regulation
- Cost, access to relatively efficient markets,
- Costs and simplicity
- Reduce overall costs of client portfolios whilst providing the appropriate asset allocation
  
- For exposure to equities in the more efficient markets, predominantly US, but also with Gilts
- Have used ETFs and Index funds since 2008. Largely in major markets.
- Hedge against active plus costs
- More often a blend in a client's portfolio
- Passive investments are used within active solutions at times
- Price. trackingcertainty

- Risk profiling and charges
- We don't, our customers choose
- Where the markets that they relate to offer little potential for Alpha
- Where we cannot be confident of positive Alpha
- Clear motivation is around cost.

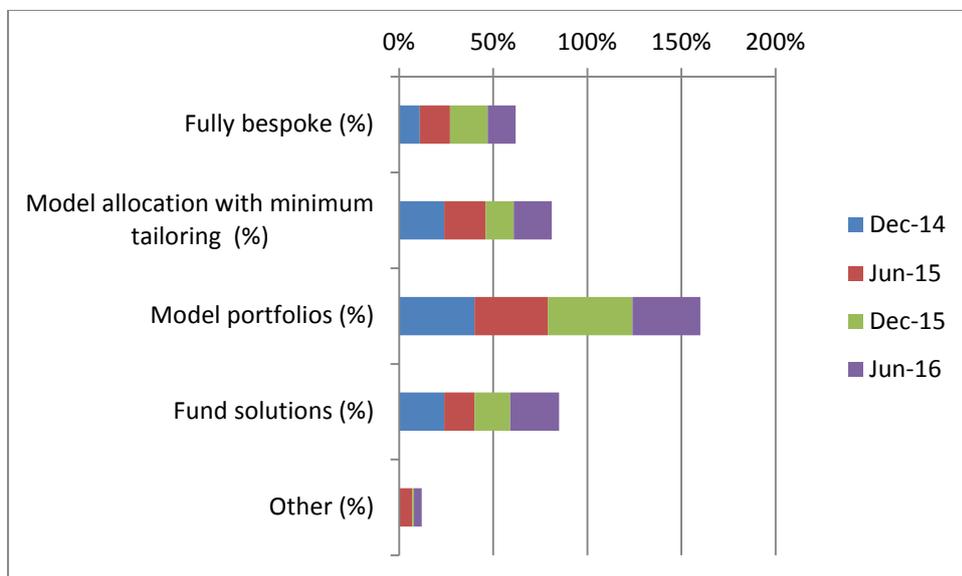
### 17. WE ASKED ABOUT THEIR OFFERING AND THE SPLIT BETWEEN DISCRETIONARY, ADVISORY, EXECUTION ONLY AND OTHER:

Not surprisingly, advisory is growing – albeit slightly.

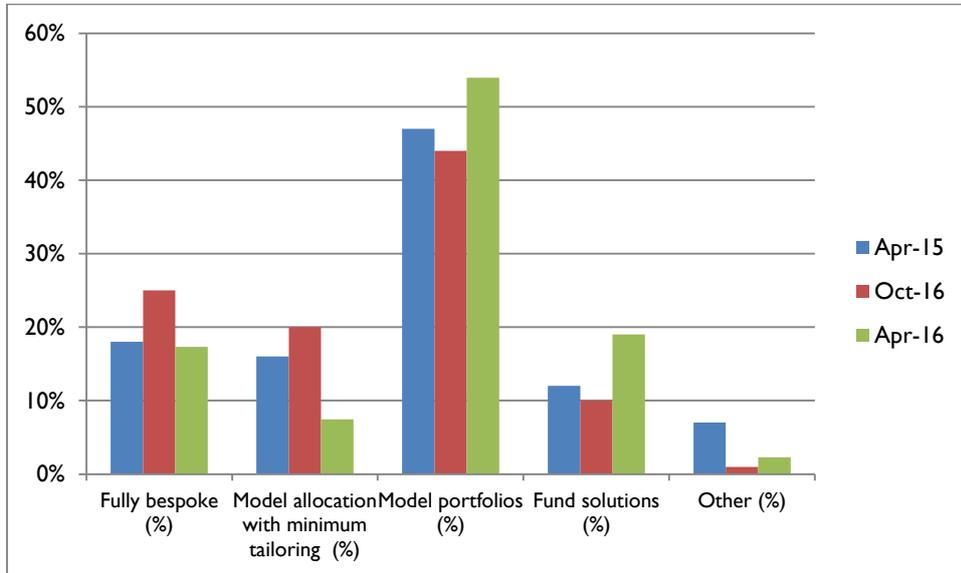


### 18. AND WHAT SORT OF APPROACH ARE THEY TYPICALLY ADOPTING:

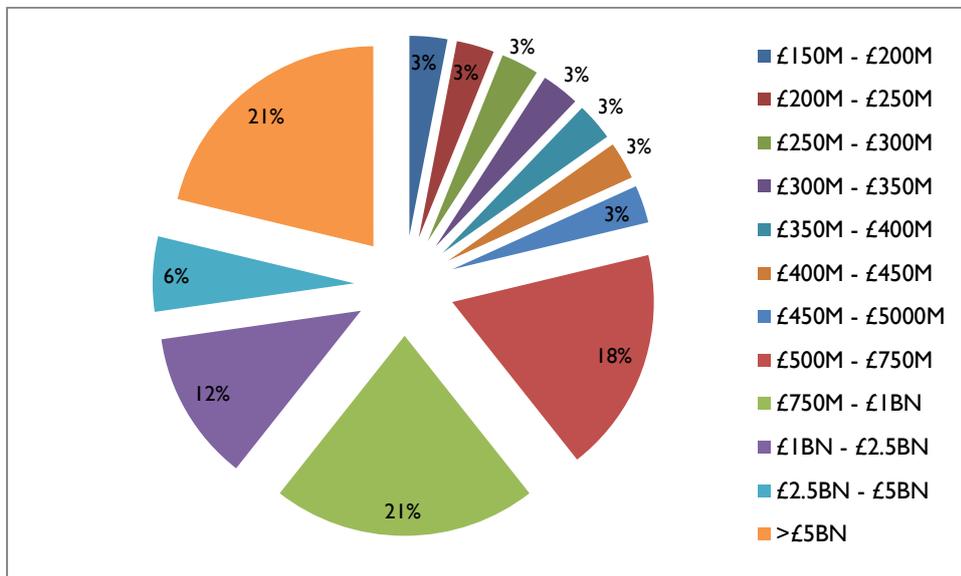
All rather consistent.



And by way of a comparison, the Winning Advisers are definitely leaning towards model portfolios:



### 19. FUNDS UNDER MANAGEMENT:



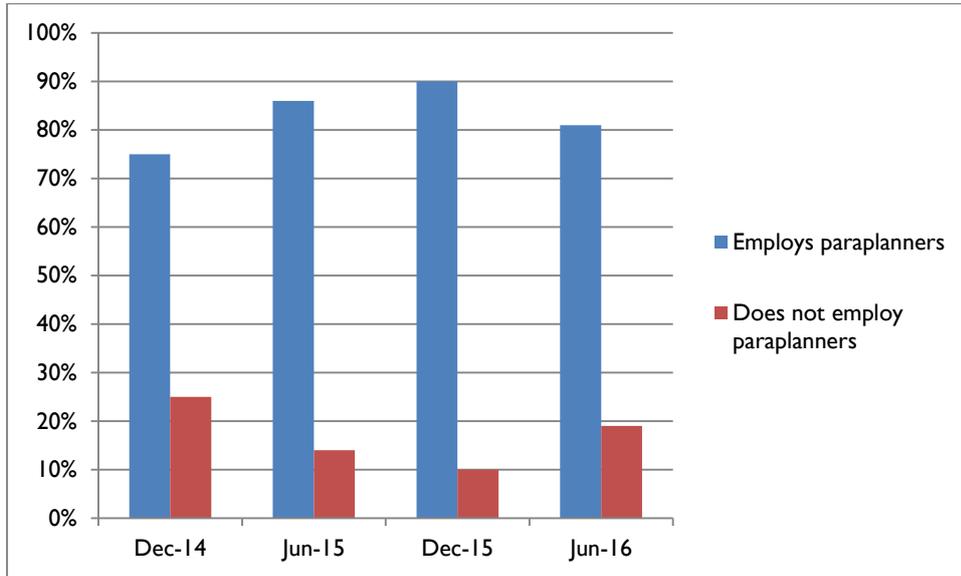
The average company at A Meeting of Minds Advisory Distributors has £2.5BN and the total represented at the Meeting will be £125BN.

### 20. ON AVERAGE, EACH FIRM AT A MEETING OF MINDS ADVISORY DISTRIBUTORS:

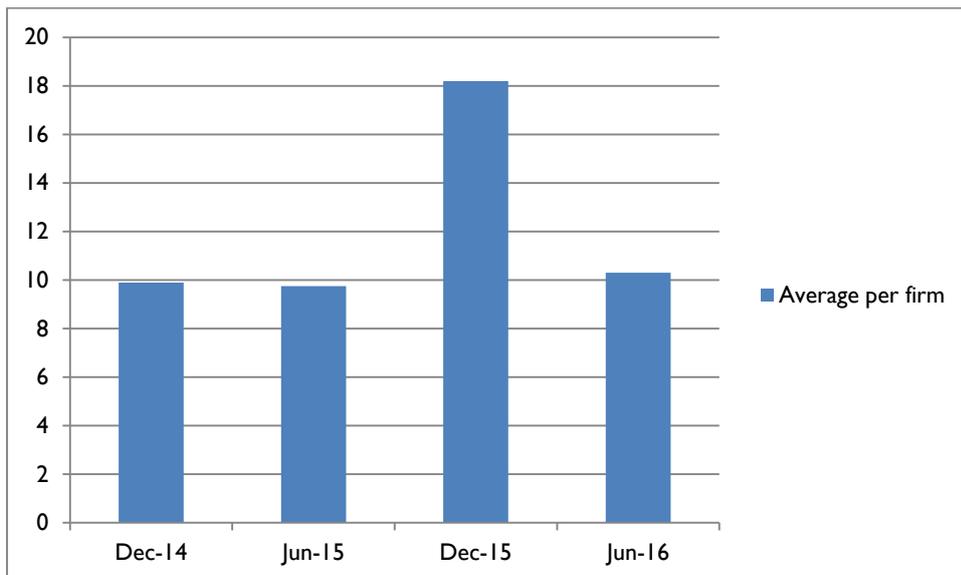
An average of 228 appointed representatives and 642 directly authorised.

## 21. WE ASKED HOW MANY FIRMS EMPLOY PARAPLANNERS AND IF YES – HOW MANY?

A slight dip this time. This was a trend we noticed at Winning Advisers too. Maybe because so much of the investment piece is now outsourced, their role is becoming less important? Still one swallow and all that...

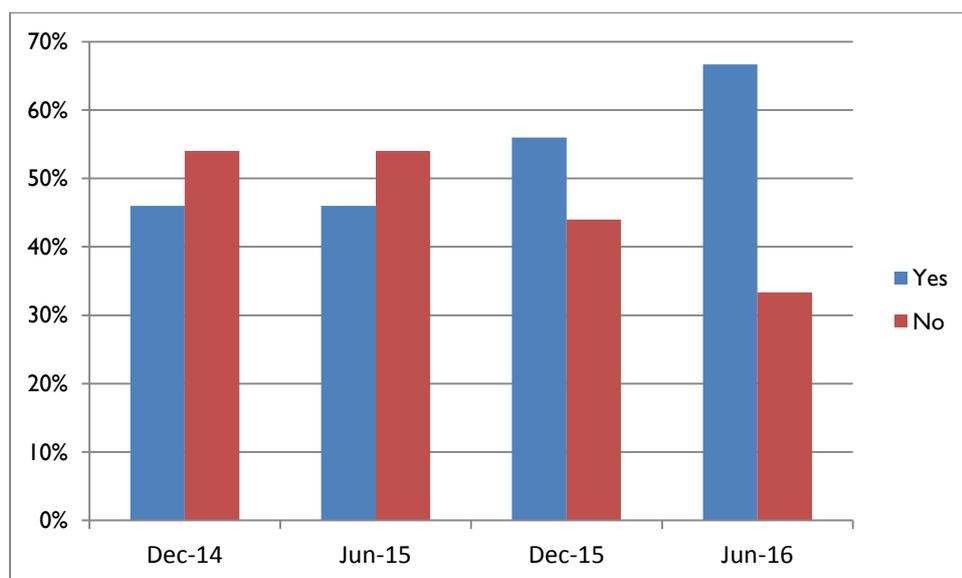


And in terms of how many Paraplanners per firm – the average is:

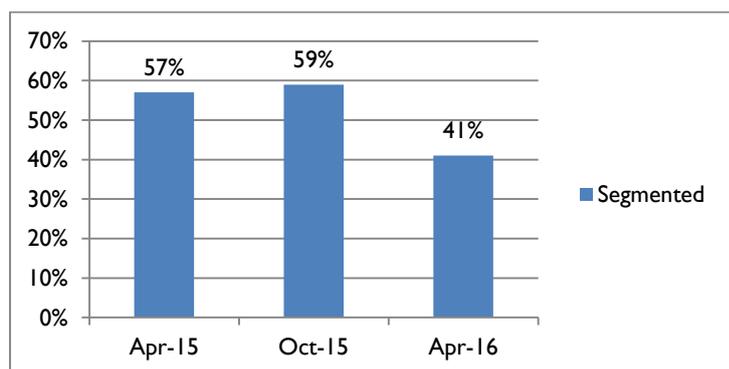


## 22. WE ASKED IF FIRMS SEGMENTED THEIR CLIENT BASE?

The trend towards segmentation continues for this group. However, interestingly the Winning Advisers seemed to be shifting towards a more bespoke offering. Again we will need to see how this change pans out.



The Winning Advisers questioned:

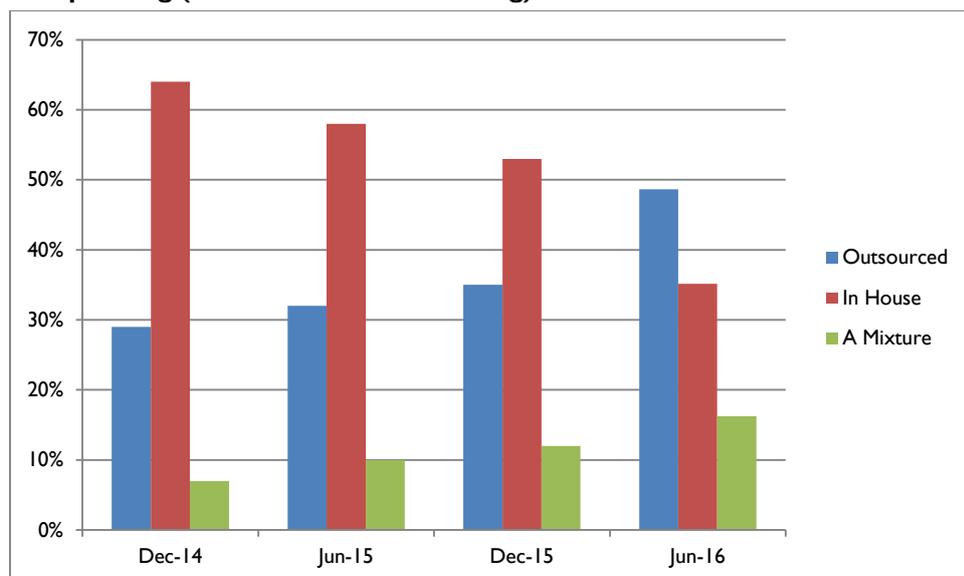


In terms of how those who segment do segment:

- Based on combination of FUM and adviser fees paid
- Core up to £150k (no platform), £150k to £500k core and satellite (from panel), £500k plus DFM
- Discretionary models, advisory models, multi-fund solutions and bespoke
- Full segmentation in line with FCA requirements of operating a CIP strategy
- Discretionary & Advisory
- Value to the business, fees
- Only deal with clients over £250k of investible income with a minimum fee of £2.5k pa per client.
- Services based on suitability and client preferences: Bespoke Directionary; Discretionary Model Portfolios; Discretionary Investment Service (fund of funds); Advisory Portfolio Services and Product & Investment Review Service
- Full service, using CIP; Bespoke; Product review only
- FiSS profile and objectives
- Up to £250k - small client offering. £250-£2m managed portfolio service. £2m+ investment consulting
- by income generated
- We have choices of where to consider investing from Secure Investments through to Specialist, High Risk investments (where EIS and VCTs would sit) and a various channels between including Structured Products, Full DFM, Managed Solutions and individual funds.
- We have four services that cater for clients with a bespoke offering at the top end to a transaction one off model

## 23. WE ASKED FIRMS WHETHER OR NOT THEY OUTSOURCE CERTAIN ASPECTS OF THEIR BUSINESS:

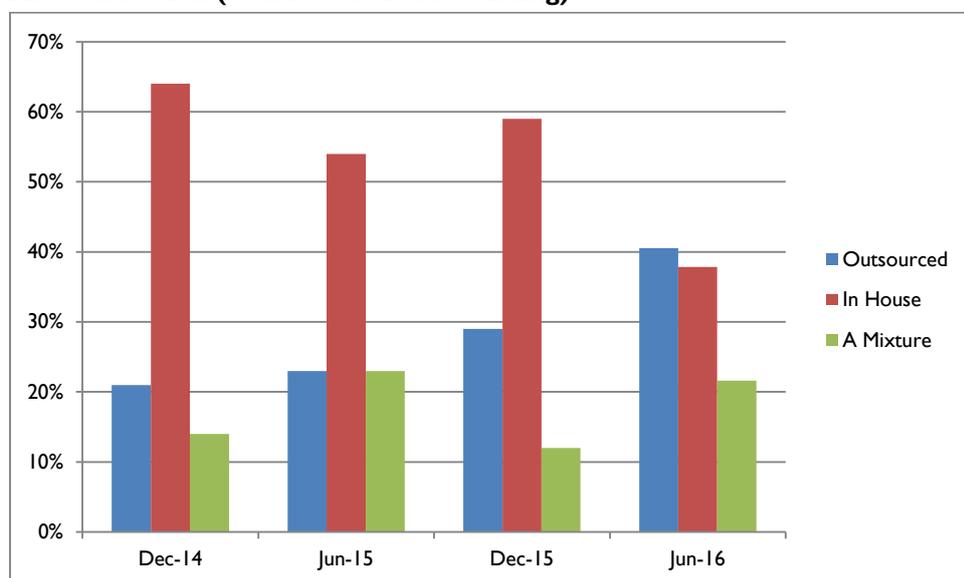
### Risk profiling (trend towards outsourcing):



### Risk profiling - outsourced to:

- CAERUS Portfolio Management Services & DFMs
- DT
- FinaMetrica (2 mentions)
- Martin Dorey
- Oxford Risk
- Oxford Risk (2 mentions)
- Rayner Spencer Mills

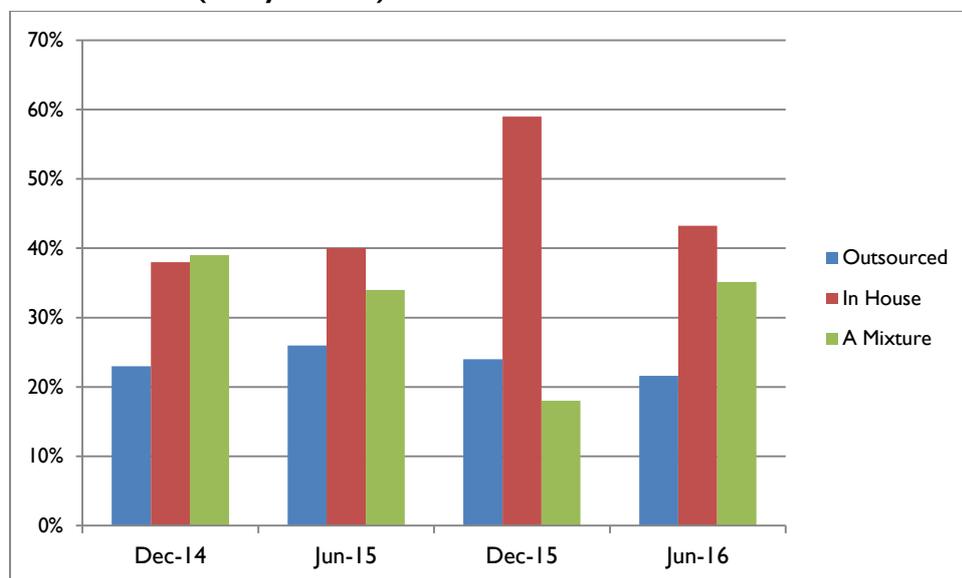
### Asset allocation (trend towards outsourcing):



### Asset allocation - outsourced to:

- CAERUS Portfolio Management Services & DFMs
- Consensus view from DT, Towers Watson, L&G, Fidelity and Barrie and Hibbert
- Oxford Risk (2 mentions)
- Psigma Investment
- Rayner Spencer Mills
- Sarasin & Partners

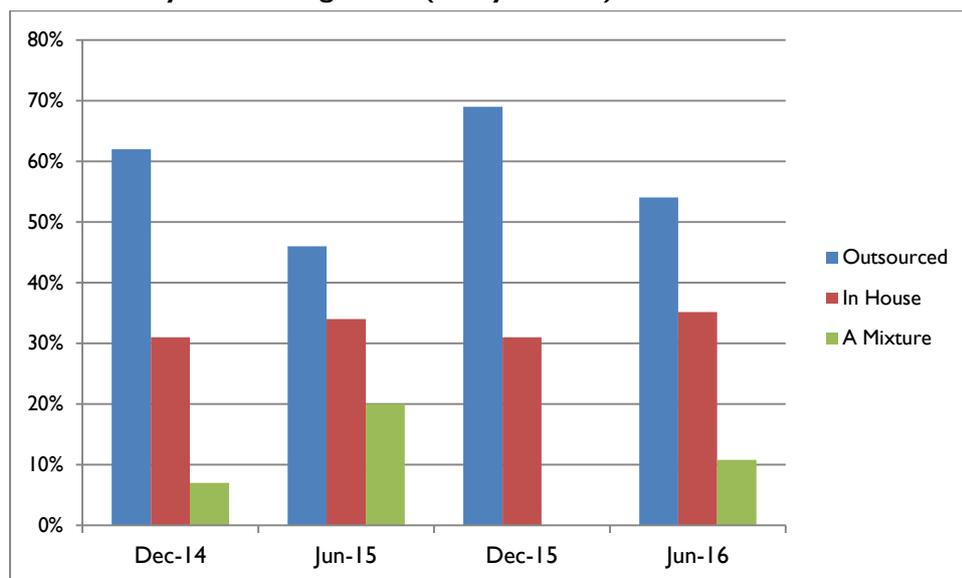
### Fund research (tricky to read):



### Fund research - outsourced to

- Bankhall
- CAERUS Portfolio Management Services & DFMs
- Parmenion
- Psigma Investment
- Rayner Spencer Mills

### Discretionary fund management (tricky to read):



### DFM - outsourced to:

- Fusion Wealth
- Panel of DFMs (2 mentions)
- Sarasin and various
- Square Mile
- Various (2 mentions)

## 24. AND WHEN ASKED – WHAT DISCOURAGES THEM FROM OUTSOURCING?

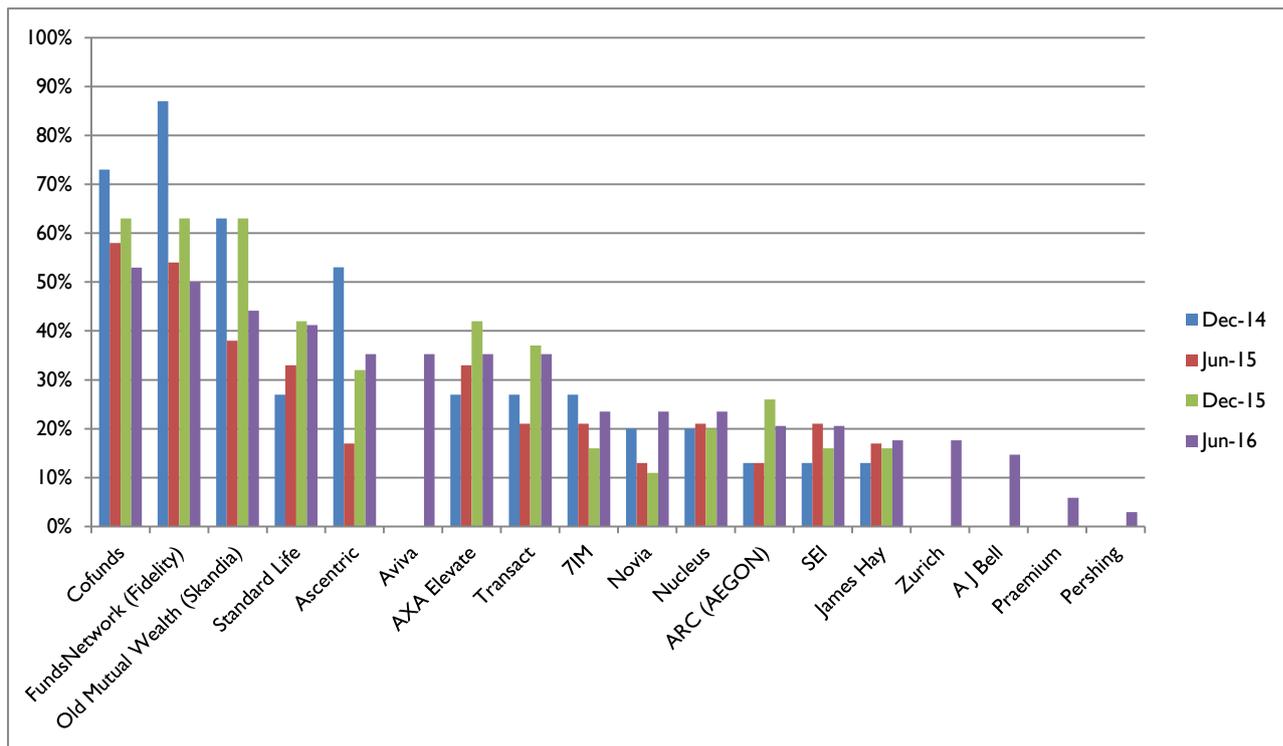
- Control
- Lack of control and independence
- Loss of control
- Loss of control, Due Diligence, business failure
- Maintaining responsibility

- Nothing (4 mentions)
- Nothing - providing appropriate due diligence taken out.
- Owning the value chain and ensuring we can drive good consumer outcomes
- Taking control of the process, which I believe that we will do in time as prefer to control the overall research and selection process.
- We do not need to as we have our own inhouse offering
- We have sufficient in house expertise as we are a sizable business.

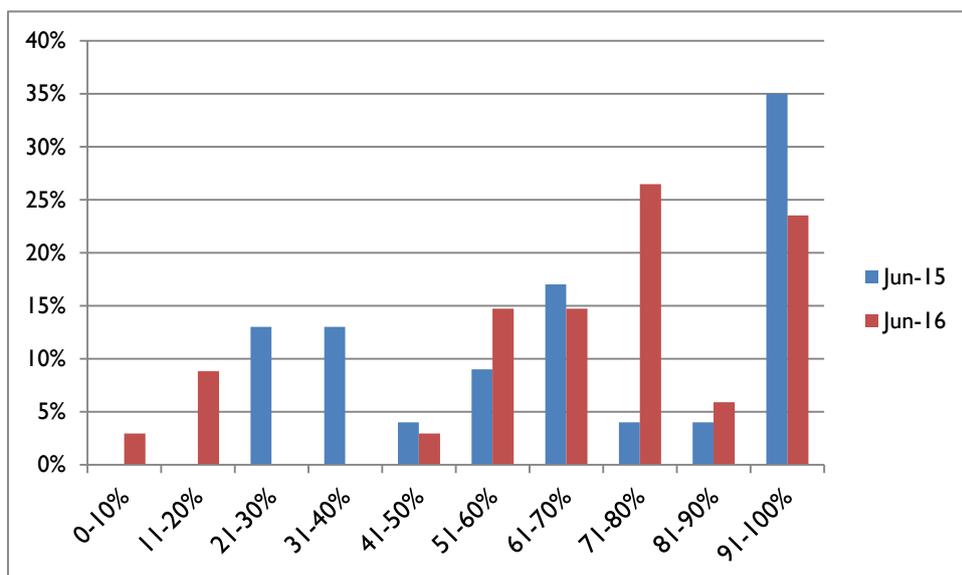
## 25. ALL ABOUT PLATFORMS:

Maybe there is too much information in this graph, the idea is to show you in a broad brush way how the platforms are doing in terms of looking after the needs of this cohort.

Cofunds still in the lead, closely followed by FundsNetwork then Old Mutual and Standard Life. However if you combine Standard Life and AXA Elevate ... well things might look a bit different.



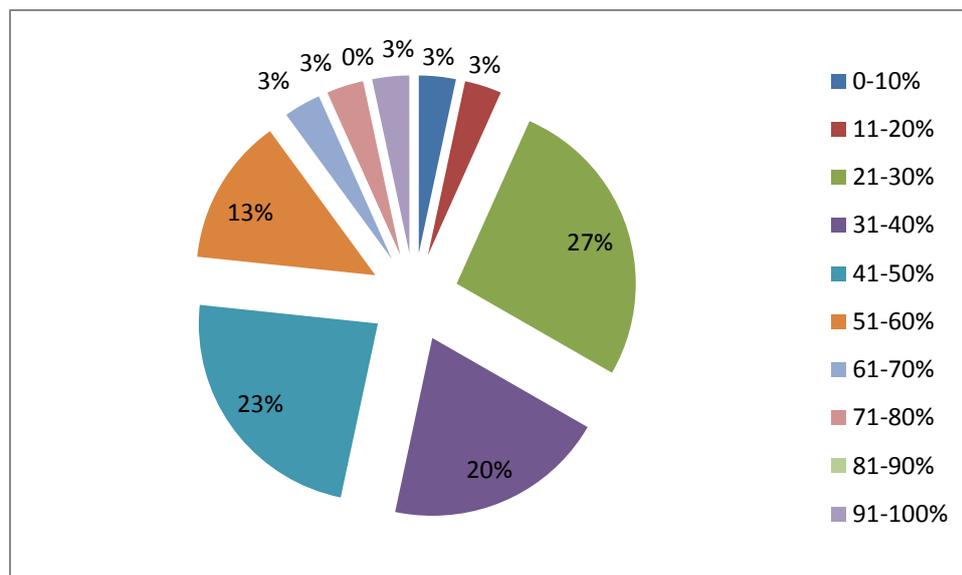
## 26. WE THEN ASKED WHAT PERCENTAGE OF FUNDS UNDER MANAGEMENT FIRMS HOLD ON PLATFORM.



The table demonstrates that by far the majority of funds are held on platform. And it is all down to client suitability!

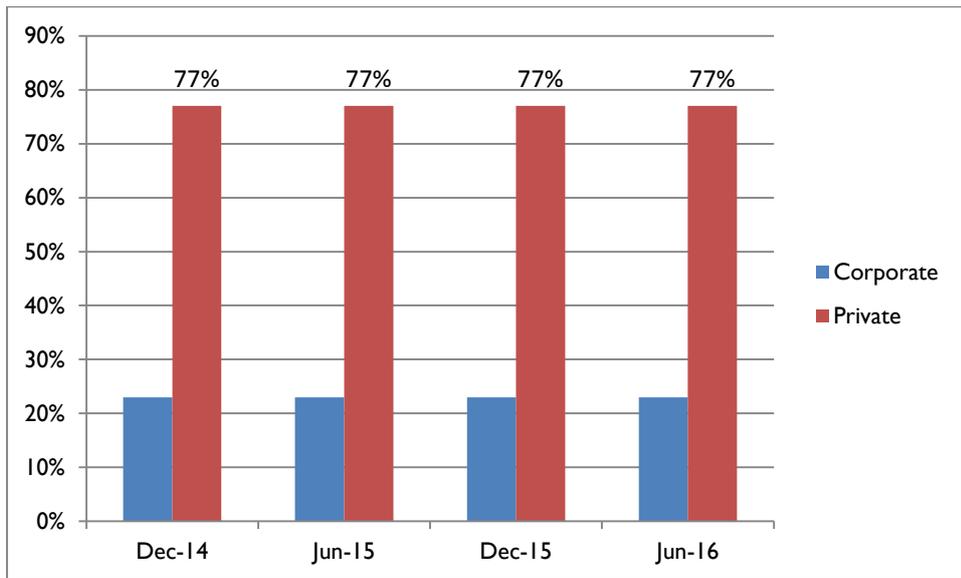
- All In-house discretionary and advisory model services are automatically managed on institutional platforms. For non-discretionary investments platform choice is decided based on suitability, desire for consolidation, cost and client preferences,
- amount and client complexity
- Beneficial for the client
- By client suitability
- CAR post RDR
- Client Needs and qualifying criteria for appropriateness on our CIP
- Client objective and costs
- Client requirements
- Client suitability
- Client's requirements - cost - service - choice of funds - financial tools availability -
- Cost and client convenience
- Cost, range of potential outcomes
- Costs, competitive fund choice, size of portfolio, tax
- Most goes on platforms- off platform business is often old business that cannot be moved for tax reasons.
- Operational efficiency and appropriateness
- Product suitability
- Restricted advice model
- Set Process of Research.
- Suitability
- whether a client already hold assets on a platform
- Whether the client want an advisory funds service as opposed to full blown DFM

**27. WE ASKED THEM HOW MUCH OF THEIR BUSINESS WAS PENSIONS:**

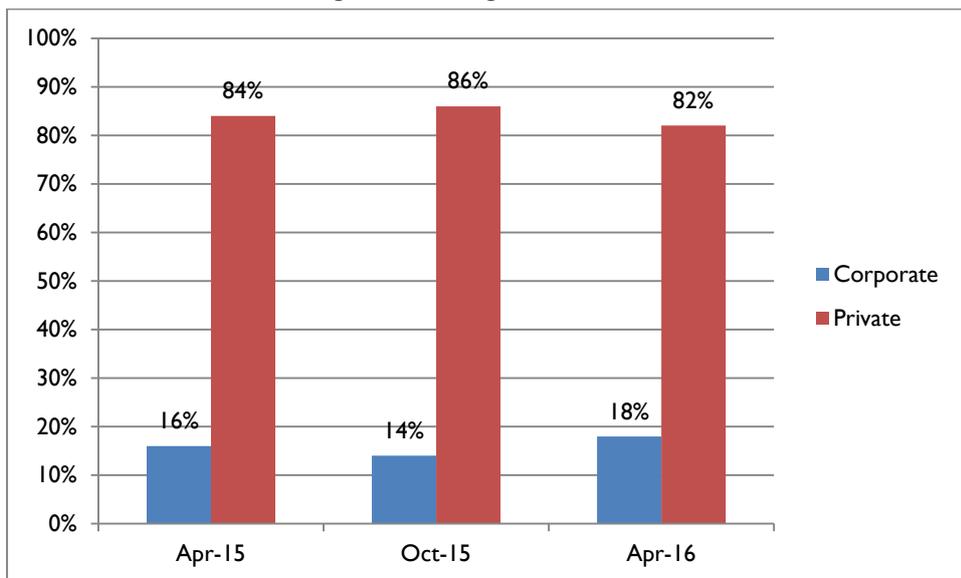


## 28. AND FINALLY – WHAT IS THE SPLIT OF THAT PENSION BUSINESS BETWEEN CORPORATE AND PRIVATE:

Looks like we are really taking advantage of workplace pensions then.



The smaller firms however might be showing an interest:



We very much hope you have found this profile of your industry of interest and broadly in line with what you would expect. If you have any questions about any aspect of the research do please call Owen James at 01483 861334 and speak to Evie Owen or James Goad.

Thank you.

15 June 2016