NEXTWEALTH

Personal Finance Society
Standards. Professionalism. Trust.

September 2022 | Issue 4

Financial Advice Business Benchmarks 2022

What's next for advice firms

Letter from the PFS

Striving for client-centricity is key to financial planning firms thriving commercially and meeting regulatory requirements in 2022 and beyond.

The Financial Conduct Authority's Consumer Duty is set to come into force for new and existing products or services that are open to sale or renewal on 31 July 2023 and for closed products or services on 31 July 2024.

Many financial planning firms will find that what they are doing already goes a huge way to complying with the duty as they ensure their processes place the client's needs at the heart of all they do.

The FCA's rules require firms to consider the needs, characteristics, and objectives of their clients – including those with characteristics of vulnerability – and how they behave, at every stage of the journey.

As well as acting to deliver good client outcomes, firms will need to understand and evidence whether those outcomes are being met.

The FCA's requirements state the evidence has only got to be on the level of segments, with a policy put in place by financial planning firms to treat each segment differently.

The Personal Finance Society is pleased to read in Next Wealth's report the recognition of the profession that renewed rigour is required when it comes to evidencing processes.

The Consumer Duty – plus the real appetite from the top of government to remove barriers for enterprise – shows 2022 is a real opportunity for the profession to show there is no longer a need for the detailed, prescriptive rules that were a regular feature of previous regulation, including European Union regulation.

Rather than rules that create unnecessary bureaucracy without necessarily providing better outcomes for the public, we have a regulator keen to be specific about the kind of culture and mindset that it Is looking for within firms, so that it can treat financial planners that are looking for the right answer but have not yet found it differently from those that are not interested in improving consumer outcomes.

Financial planning professionals who can demonstrate the value they are providing for consumers could use the Consumer Duty to win the freedom to do what works rather than being micro-managed by prescriptive regulation.

I think in 2022 there is a real opportunity for the financial planning profession to take greater control of our destiny or be passive and wait for the regulator to act.

Dr Matthew Connell

Director, Policy and Public Affairs
The Personal Finance Society

Letter from NextWealth

Where 2020 was a year of drastic adjustments, and 2021 was a year of finding out what the new 'normal' might look like, 2022 sees advice firms becoming increasingly cautious. Advice businesses remain healthy – client numbers are steady, but growth plans are being curtailed.

After an initial post-Covid bounce back, when advice firms reported a recovery in recruitment and client numbers, this year we see a return to more cautious estimates. After years of optimism, fuelled by rising markets and growing demand for advice, financial advice firms are scaling back their ambitions amid greater uncertainty.

In this fourth collaborative annual benchmark report with The Personal Finance Society, we revisit key benchmarks to evaluate the health of the advice industry and explore how firms are building on the changes they made during the pandemic to face the next set of challenges.

The Consumer Duty rules announced this summer demand a sharper focus on client outcomes. That's not new for advice firms who have built their businesses around the needs of their clients.

However, it does require a new rigour around approaches to assessing suitability, evidencing processes and more clarity on value and fees charged for products and services. We look at fee models, client review and suitability processes, client profiles and investment strategies.

Our Financial Advice Business Benchmarks study is designed to provide insight and ideas for financial advice firms as they innovate to meet new challenges and opportunities. Our industry is characterised by a rich diversity of shapes and sizes of firm, operating models and preferences, and there is no "one-size-fits-all" benchmark.

So as we look to the next set of challenges for our industry, we introduce our segmentation model that is more aligned to how firms are organised and their future ambitions rather than to size alone. We reveal key differences in business ambitions, technology choices and investment propositions across our five segments: build to grow, investment advisers, succession searchers, investment outsourcers and turnkey advisers.

We welcome your comments and feedback. Please consider adding your voice to our industry reports and research projects by joining our research panel.

Heather Hopkins

Founder and Managing Director NextWealth

Feedback: enquiries@nextwealth.co.uk

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

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Executive Summary

Clients

Client numbers are steady but fewer advisers say they are taking on more clients. Portfolio values are down but advisers are also working with more younger clients.

Average client portfolio size
£352,129
(down from £404,437 in 2021)

46%
of planners are working with more clients than last year
(down from 65% in 2021)

42%
of respondents would like to see improvements in making information easier to understand for vulnerable clients

60%
of clients are over the age of 55
(down from 70% in 2021)

20%
of clients are under the age of 45
(up from 12% in 2021)

Business plans

Firms are cutting back on hiring plans, though among the biggest firms half are still looking to recruit. More firms are looking to sell or exit the market but more than half plan to grow next year by taking on new clients.

40%
of financial advice professionals are looking to take on new staff in the next 12 months

12%
of financial advice firms are looking to sell or exit the market

53%
of advisers say their firm will grow by taking on new clients next year

27%
of those hiring or planning to hire in the next 12 months have vacancies for client facing financial advisers and paraplanners

Compliance

Financial advisers report spending 18% of average on compliance costs. SimplyBiz is the most used compliance support providers for smaller firms and threesixty is most used among big firms.

18%
of firm's revenue goes to compliance costs compared to **42%** to salary

Large firms spend **5%** less of their revenue on compliance than small firms

21%
of small firms use SimplyBiz and 30% of large firms use threesixty for compliance support

Client Reviews

41%
say preparing the report is lengthiest step in the annual review process

5.5hrs
average time to prepare for an annual review meeting

Fees

The average cost of on-going advice is
68bps

Clients of advisers based in London pay most at
80bps

Platform charges make up the smallest proportion of client fees, at
29bps

38%
use a tiered charging model all or most of the time

81%
of advisers charge based on a percentage of client assets all or most of the time

Consumer Duty

15%
of financial advice professionals are concerned that the Consumer Duty will have a negative impact on their business

40%
of firms are getting information on Consumer Duty from a compliance support provider

42%
of financial advice professionals felt 'moderately knowledgeable' on the detail of the regulation (in August 2022)

Tech Stack

9%
of advice firms plan to add a new technology partner in the next 12 months
(down from 18% in 2021)

49%
of firms are open minded to new tech solutions

Investment

62%
of planners use multi-asset or multi-manager funds

52%
of advisers use discretionary MPS

22%
of client assets are in ESG, ethical, impact or sustainable solutions
(12% in 2020)

1 Financial Advice Firms in 2022

In this first section we present research on the changing size and structure of financial advice firms, covering staffing levels, mix of employees and recruitment.

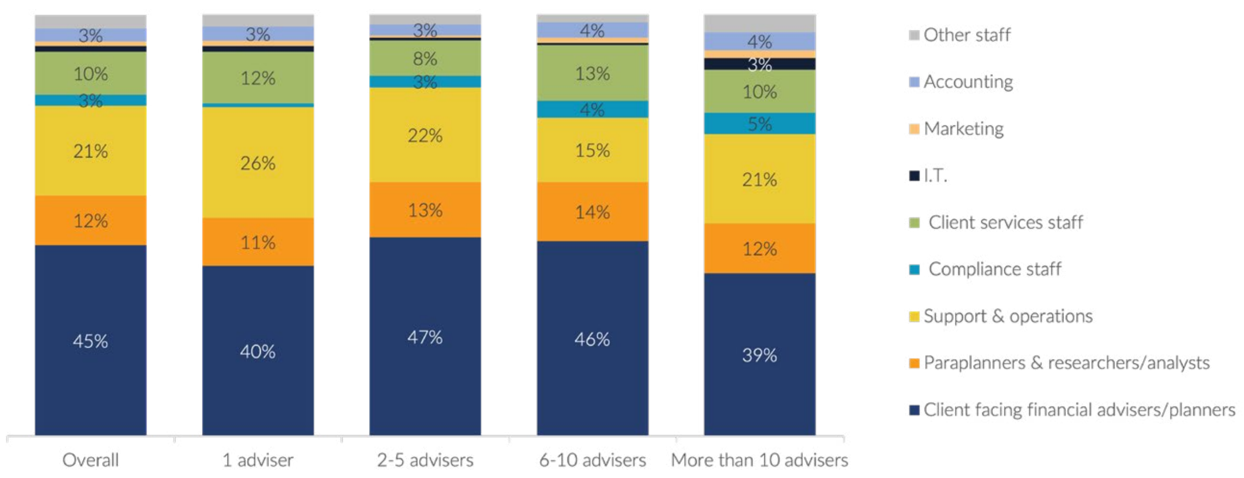
1.1 Staff mix

The mix of staff has remained broadly consistent over the last 4 years.

45% of the firm's total headcount in 2022 is made up of advisers and planners. This year we see a slightly higher proportion of support and operations staff (21%, compared with 19% last year), and paraplanners and researchers representing 12% of advice firm staff.

In firms with more employees the proportion of client-facing advisers decreases, while the proportion of head office staff (marketing, IT and compliance) increases.

Figure 1: Proportion of staff within roles by size of firm- number of advisers



1.2 Recruitment

In 2021 we saw a resurgence in recruitment plans with over half of respondents saying their firm expected to add headcount in the year ahead.

This year recruitment for all roles within the advice firm has fallen from that post-Covid bounce back period. 40% of respondents say they are looking to take on new staff, which is still an increase on 2020 levels.

Smaller firms are least likely to be planning to hire staff. The decision to add staff for a firm of less than 10 employees is far more important than for one with 250 staff. The caution among smaller firms makes sense.

More than a quarter, 27%, of those hiring or planning to hire in the coming year have vacancies for client-facing advisers and planners.

Smaller firms are more likely to be seeking to add support and operations staff to their employee mix.

Figure 2: Does your firm plan to take on new staff in the next 12months?

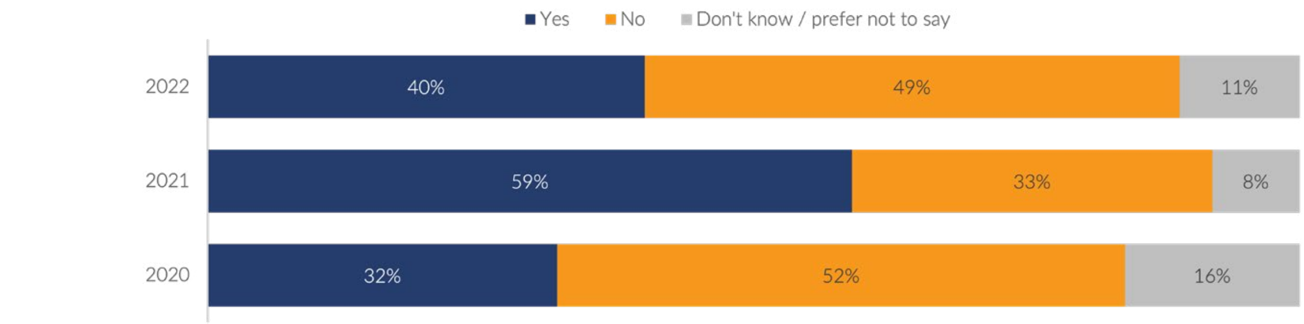


Figure 3: Does your firm plan to take on new staff in the next 12months? By size of firm - number of advisers

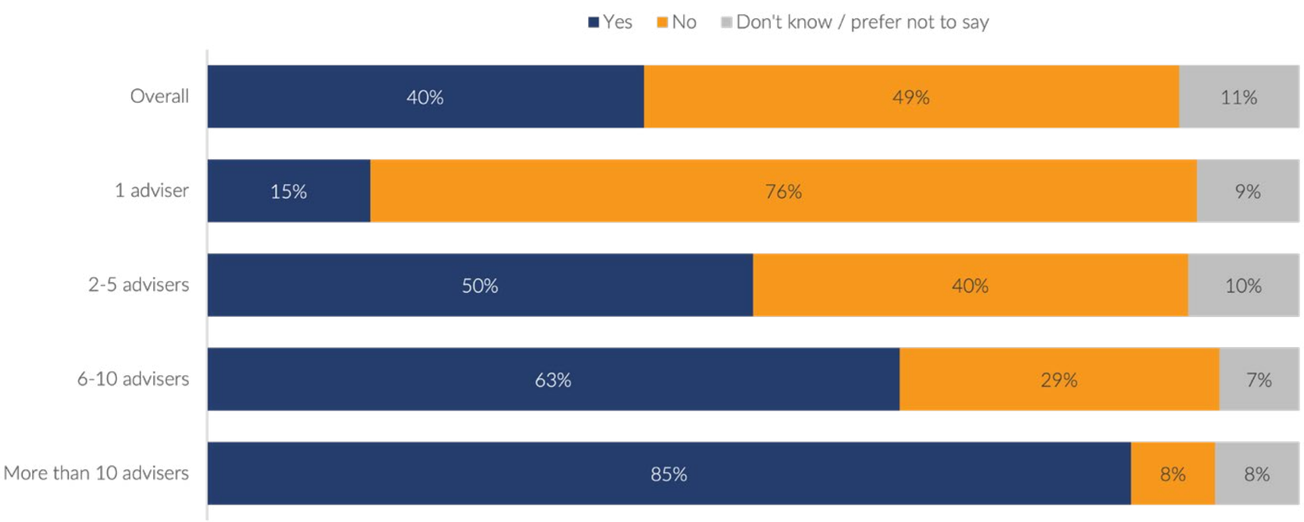
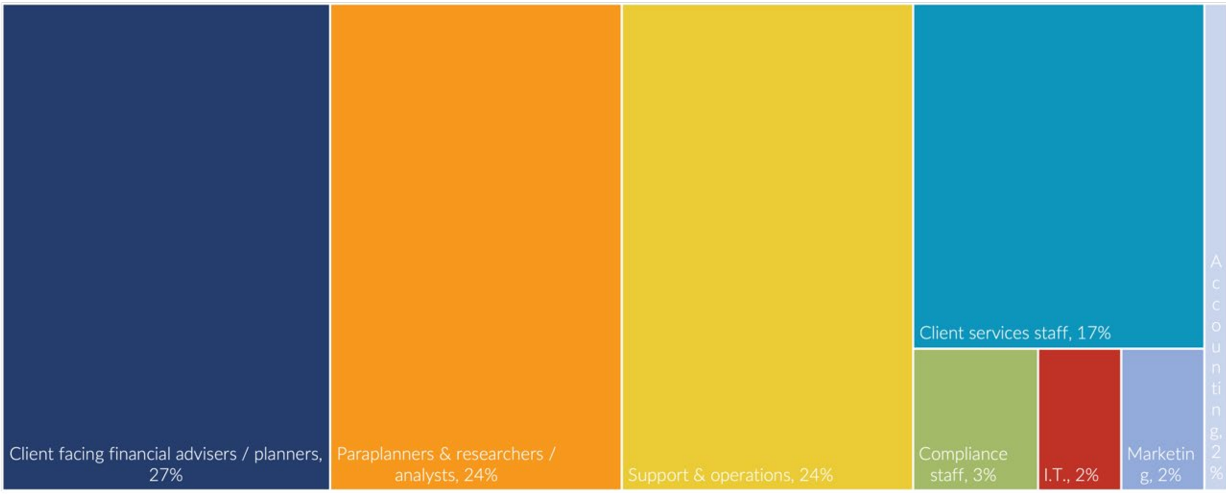


Figure 4: Roles being recruited



1.3 Equality, diversity and inclusion

Clients are changing and so too are the financial advice firms they work with. Recent years have seen a greater focus on diversity and inclusion, to help broaden access to financial advice and planning for more of the people who could benefit from it or who could contribute to its future growth as an industry.

Male respondents to the survey are more likely than female financial advice professionals to be of the opinion that the industry is fairly representative of the wider population.

While more undoubtedly needs to be done to attract and include diverse talent, only one fifth of women disagree that the financial advice sector embraces diversity and creates opportunities for inclusion.

As expected larger firms are more likely to have an EDI policy than smaller firms, larger firms are still only 52% likely to have an EDI policy which is essential to B- corporation certification.

Figure 5: To what extent do you agree that the financial advice sector embraces diversity and creates opportunities for inclusion?

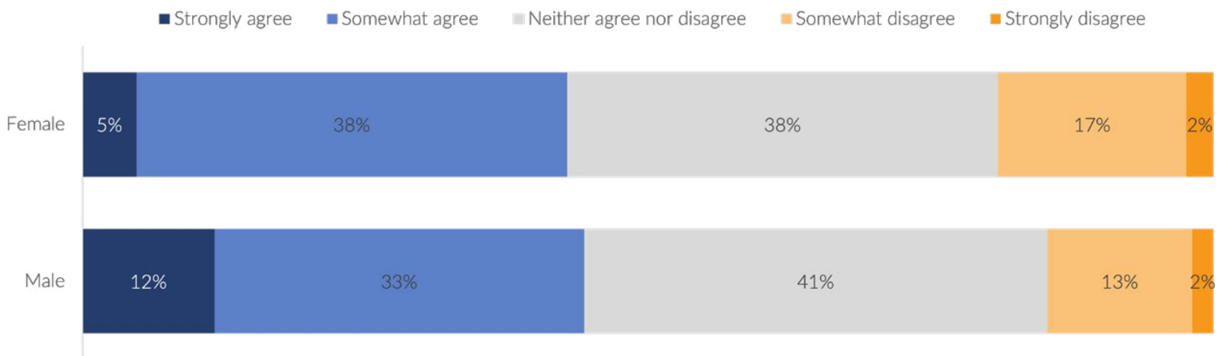
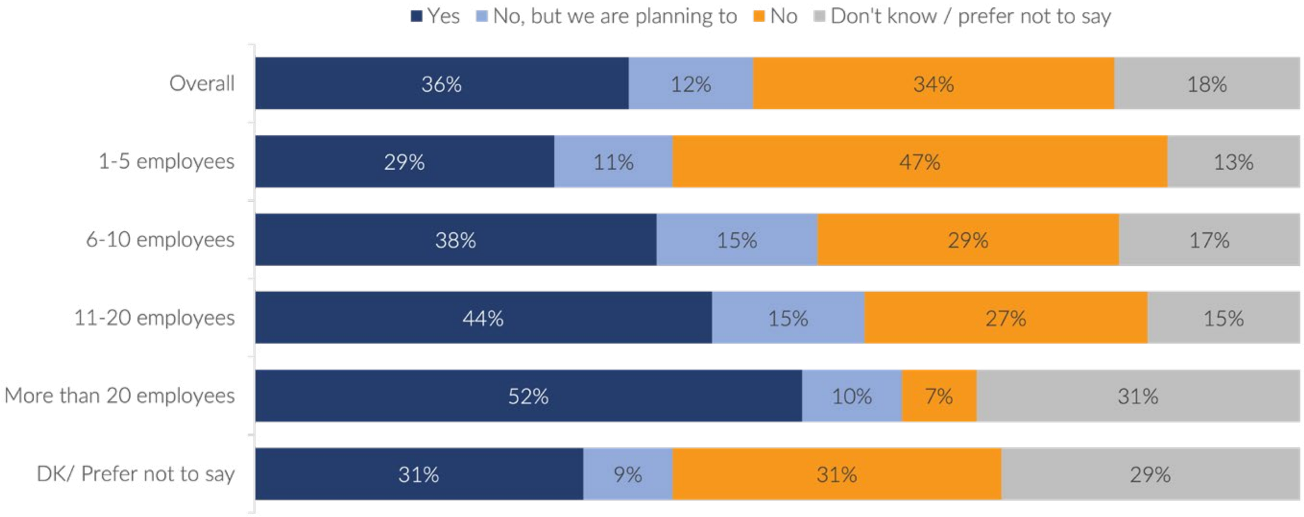


Figure 6: Does your firm have an Equality, Diversity & Inclusion policy in place? By size of firm- number of employees



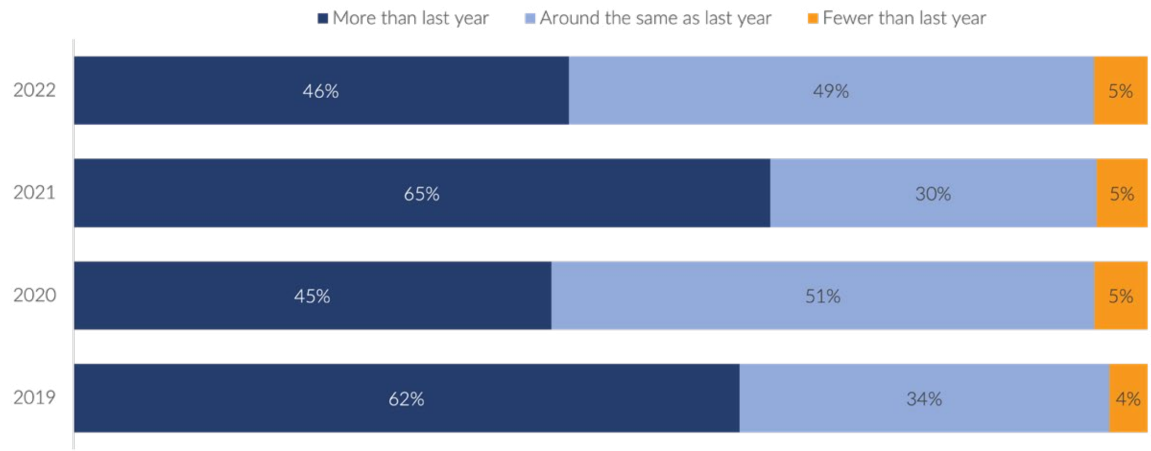
1.4 Client numbers and average portfolio

As a measure of the health of the business and the ongoing pipeline we look at the average number of clients with whom advisers are actively working and how that has changed year-on-year.

In a similar pattern to staff recruitment, which saw a boost last year post-Covid, our survey revealed rosy figures in 2021 with nearly two thirds (65%) of respondents saying their number of active clients was up year on year.

This year client numbers have cooled but not fallen. Half of firms say their client numbers are the same as last year. A healthy 46% report working with more clients than last year.

Figure 7: How does your personal number of active clients compare with this time last year?

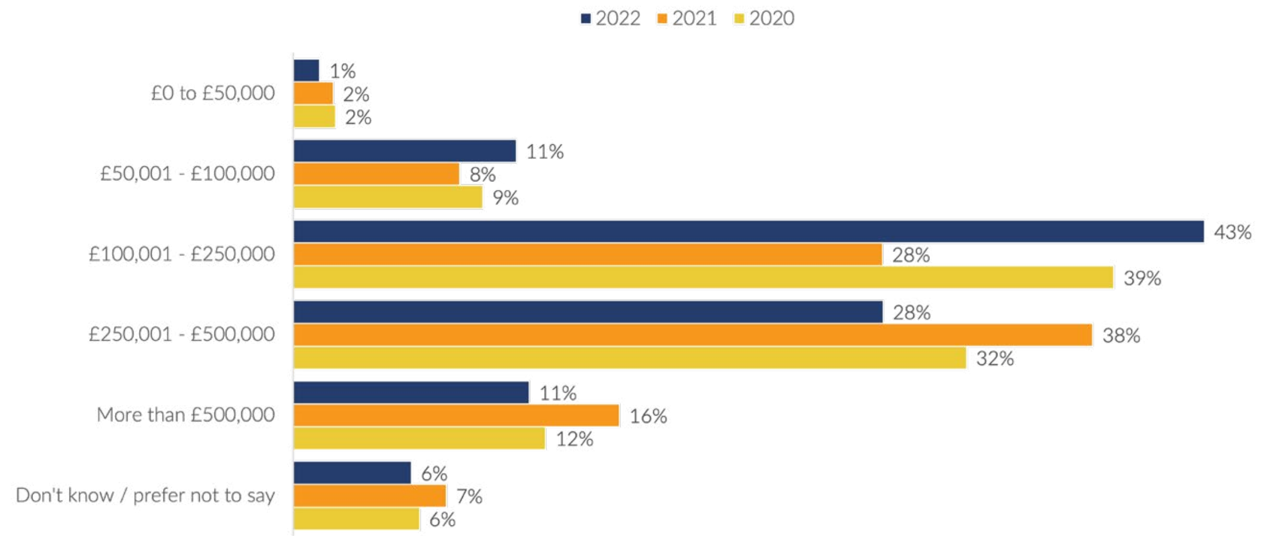


Perhaps more worrying, estimates for average client portfolio size are down to near 2020 levels, with most of the gains made in 2021 wiped out by harsh market conditions in 2022.

The average client portfolio for a financial advice professional in 2022 is £352,129. This is a significant fall from 2021's average figure of £404,437. While firms may have introduced new propositions that allow them to serve more clients with £100,000-250,000, the effects of poor performing markets cannot be escaped. The data is normalised to account for sample shifts in sizes of firms responding.

Normalised average client portfolio size	
2022	£352,129
2021	£404,437
2020	£334,882

Figure 8: Average portfolio values



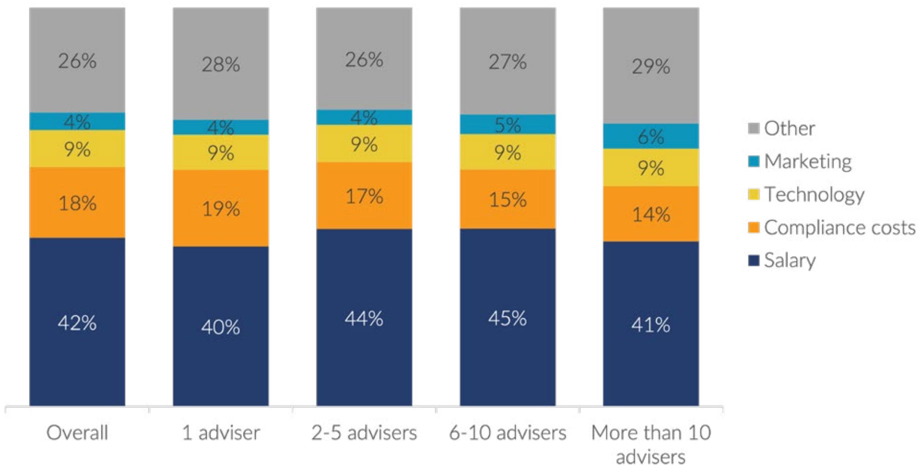
1.5 Spend

Figure 9 below shows the percentage of revenue that is spent on average on compliance, technology and marketing. On average financial advice firms spend 42% of their revenue on salary, unsurprisingly the largest cost for the business.

We consistently hear that regulatory change and compliance are two of the biggest challenges facing financial advice firms. Increasing regulatory scrutiny and rising Professional Indemnity insurance premiums are impacting the profitability of advice firms. Compliance costs consume close to a fifth (18%) of revenue as reported by respondents to the survey. The proportion of revenue spent on compliance decreases slightly by size of firm, from 19% for sole trader to 14% for firms with 10 or more client facing advisers.

In 2019, we asked financial advice professionals the proportion of revenue they spend on marketing. At that time it was 5%, about even with this year's results.

Figure 9: Approximately what proportion of your/your firm's revenue goes towards the following activities? By size of firm, number of advisers



1.6 Compliance

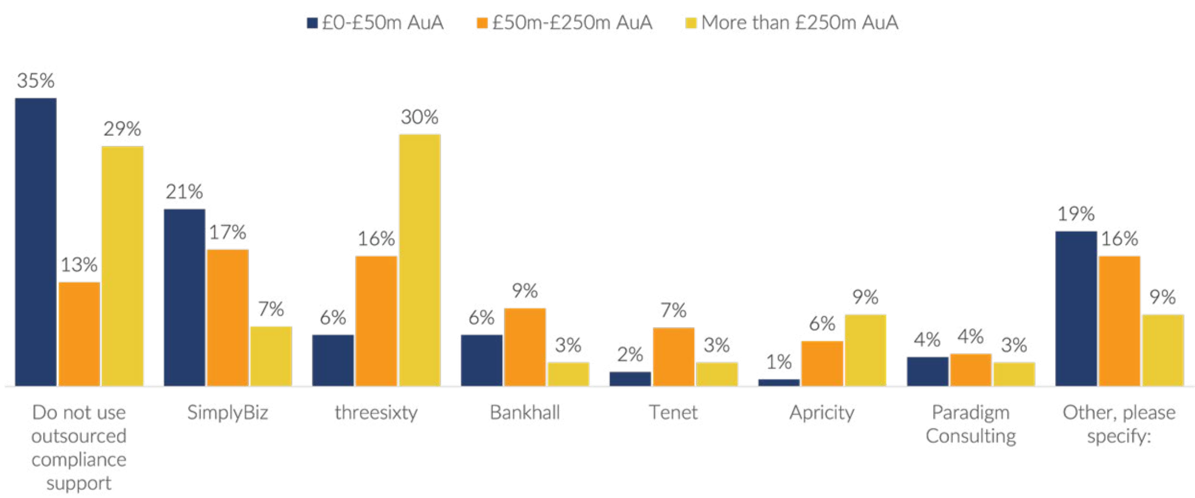
Given its substantial share of annual revenue, we explore compliance costs in more detail.

Two-thirds of smaller advice firms use an outsourced compliance provider, rising to 70% of firms with more than £250m of assets under advice. Many smaller firms are appointed representatives, relying on their network for compliance support. They don't typically use a compliance support provider.

SimplyBiz and threesixty are the most used outsourced compliance providers. SimplyBiz is more likely to be the provider of choice for smaller firms and threesixty for the larger firms, as measured by assets under advice.

> *"The rising costs of regulation and consumer duty has caused the advice gap to widen."*

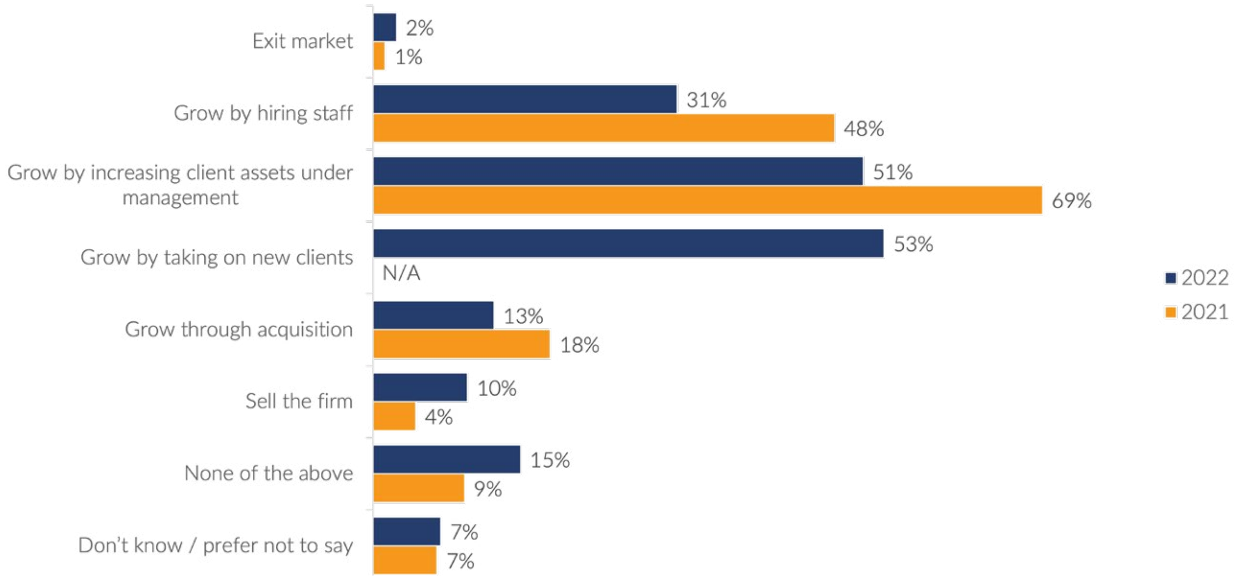
Figure 10: Compliance support providers



1.7 Business plans

The number of firms looking to sell or exit the market has increased significantly compared to last year. The share that say they will grow by increasing assets has declined. This year we offered a new option to distinguish between those planning to expand their client base rather than increase assets for existing clients, and this would account for the fall.

Figure 11: Over the next 18 months, does your firm intend to do any of the following?



2 The Client

In this section, we turn our attention to clients. We first look at the age range of advised clients and then at other commonalities among the client bank. Clients with vulnerabilities are an important group within virtually all advice firms' clients and we look at firms' approach to working with vulnerable clients.

Client processes are in the spotlight over the coming year with the new Consumer Duty rules and here we establish some baselines on preparedness and attitudes to the new framework.

NextWealth will publish research with advisers and consumers about the Consumer Duty. Get in touch for details.

2.1 Age distribution

It is well established that the majority of advised clients are over 55. Given the appetite for retirement advice that is not surprising. Nonetheless, some firms are turning their attention to younger clients and experimenting with business models and tech-enabled approaches to attract the next generation, and to improve engagement with a wider demographic.

In 2021 we established that a third of financial advice professionals are actively looking to work with younger clients. Figure 12 shows that these strategies may be beginning to show results, with a shifting age profile that includes a higher proportion of under 45s; 20% compared to 12% in 2021. Last year 70% of advised clients were over 55, and this year that falls to 60%.

Female advisers are more likely to have a younger client base with 37% of their clients under 55 compared to 34% for male advisers.

Figure 12: Age of clients

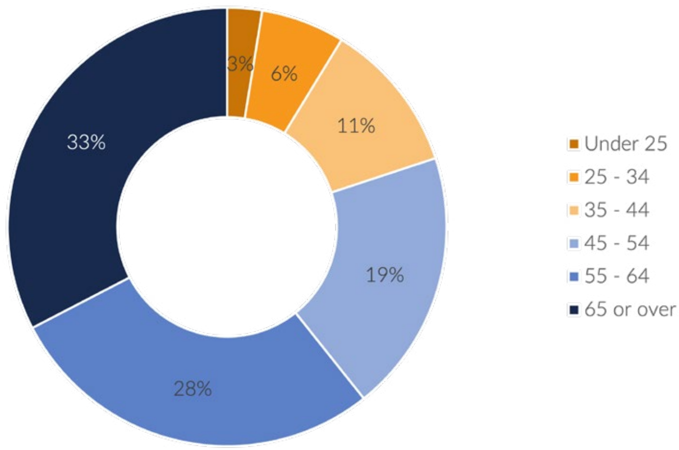


Figure 13: Age of clients by adviser gender

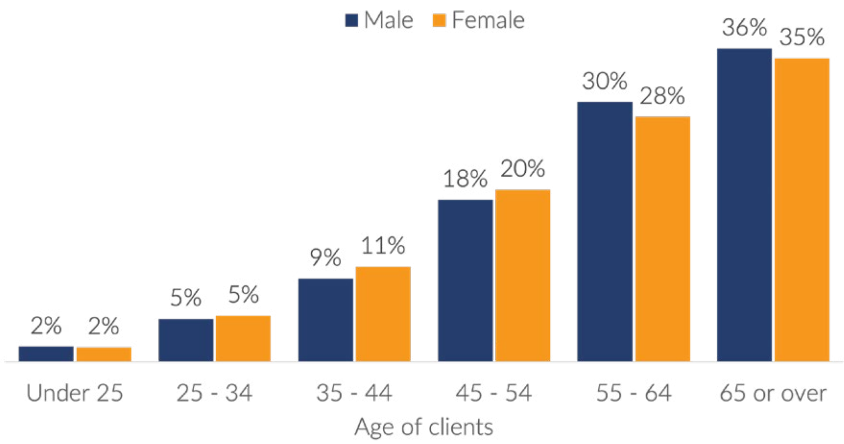
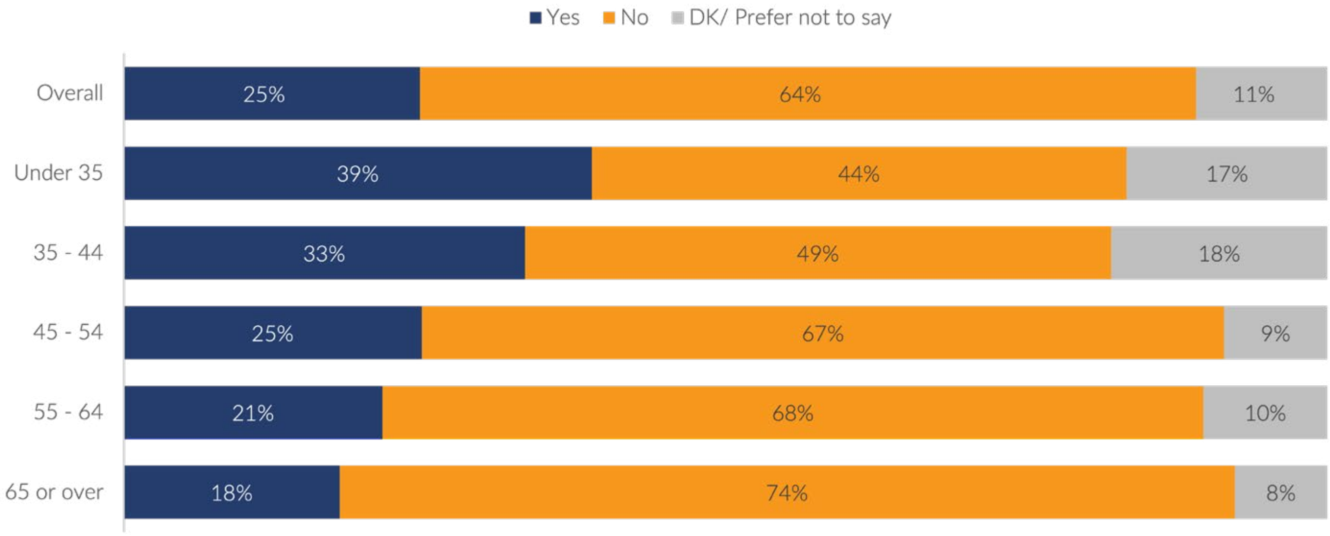


Figure 14: Are you actively looking to attract younger clients? By age of adviser



One adviser said his firm is hiring younger advisers to work with younger clients:

> *"We have recruited young advisers and introduce these advisers to our older clients' children and also encourage these advisers to speak to younger clients and show them the importance of regular investing"*

2.2 Client profile

Client segmentation can be an important step for advice firms in designing a service proposition that meets particular types of needs or preferences, as well as to sharpen their marketing strategy around certain niches.

Other firms consider their client bank too varied to categorise. Just over half (51%) of respondents to this survey fall into this camp, finding no common factors between clients.

For those who do identify commonalities among their client base, the most likely is life stage (cited by nearly one fifth of respondents), for example those who primarily work with pre- and at-retirement clients.

2.3 Clients with vulnerabilities

Clients with vulnerabilities are considered to be those who, due to their personal circumstances, are especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care.

This year's new Consumer Duty rules clarify that firms need to "consider the range of needs in their target market, including characteristics of vulnerability, and factor this into how they design and sell products and services and support their customers". This is set out in further detail by the FCA for instance with regard to consumer support and consumer understanding.

Our report last year found that most financial advice professionals felt confident to say that their firm has an agreed process for working with vulnerable clients, however two areas in particular were highlighted for improvement. Those were: support needed from providers in producing client-friendly materials, and in client service.

Advice firms are confident in their agreed process for working with vulnerable clients.

44% of respondents last year said they would like to see improvement in making information easier to understand for vulnerable customers, and this remains the priority for financial advice professionals in 2022, topping the list for 42%. Firms are still waiting for better customer service that supports the needs of vulnerable customers (named by 28% of respondents), and close to a third of respondents would also like more clarity around the definition of vulnerability. Clear communication and good service is always important but under the new Consumer Duty, these two areas are called out specifically. Providers will need to step up to support advisers and their clients with vulnerabilities.

Respondents would like to see improvements in providers' handling of vulnerabilities.

"We assess every client for vulnerability on an annual basis (and would change our approach to them during the year if anything changed). All staff are trained regarding this. We have a consistent approach."

"We consider all prospective and existing clients through the 'lens' of vulnerability to ensure we have a heightened awareness of any circumstances that may create vulnerability. We have a robust policy that is regularly reviewed and training is repeated annually for all team members. Also, the professional development plans for each team members includes professional qualifications in how to deal with the technicalities and soft skills required to provide a safe pair of hands for people in vulnerable circumstances."

"We are frustrated by many providers 'online only' approach which doesn't properly provide for non-computer literate clients. These clients are left vulnerable by poor paperwork and lack of customer care."

"Providers need to understand and demonstrate how to treat vulnerable clients differently from non-vulnerable clients"

Figure 15: In which areas would you like to see improvement in meeting the needs of vulnerable clients?

> "We use IO's vulnerability boxes to ensure we capture whether a client is vulnerable or not, and what we have done to protect the client."
>
> "We don't currently digitise this process but we are looking into tools to help us with this."
>
> "We consider that most (if not all) clients will be in a vulnerable situation at some point. As such our procedures aim to give all clients the service they need, at whatever stage they are at, and subject to their physical and emotional state at the time."
>
> "Most vulnerable clients for us are linked to age/illness so we now try to engage younger family members as early as possible."
>
> "We are currently trying to define what is a vulnerable client. It is very subjective at times."

2.4 Consumer Duty

The Consumer Duty rules were finalised in July 2022 with a 12-month implementation period. The expectation from the regulator is that the rules will drive a cultural shift in the industry to something much more firmly oriented to delivering good financial outcomes for clients. The wide-ranging rules extend into: how advice firms consider the needs of their target market; how products and services are designed; customer communication and support; approaches to assessing suitability and how firms define and articulate value and fees charged for advice and products.

Advice firms we had spoken to in the run up to the July statement had largely been awaiting clarification before undertaking any major process or business changes, although most were aware that some new processes or at least evidencing of processes would be required.

At the point of conducting this survey in August 2022, 42% of respondents felt "moderately knowledgeable" on the detail of the new regulation. Just over a third (36%) describe their level of knowledge as slight. Given that the rules were only finalised in the month prior, this is not surprising.

Financial advisers are relying on compliance providers and the FCA for information on Consumer Duty.

A minority of 15% of financial advice professionals are concerned that the Consumer Duty will have a negative impact on their business. From earlier conversations with advice firms, this may be due to the additional regulatory burden and fears of homogenising and restricting advice in order to simplify how clients are categorised and their needs are served.

> "Our fee structure will be reviewed as part of our Consumer Duty obligations and if deemed necessary changes may be made."

Figure 16: Which of the following statements describes your knowledge of the new Consumer Duty regulation from the FCA?

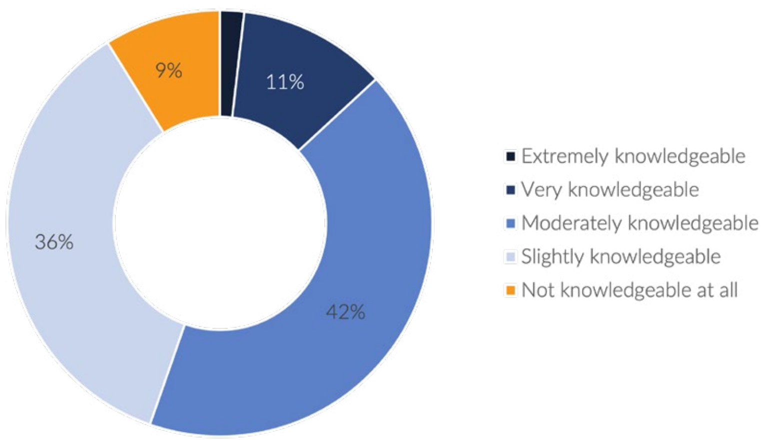


Figure 17: Where are you getting information on Consumer Duty?

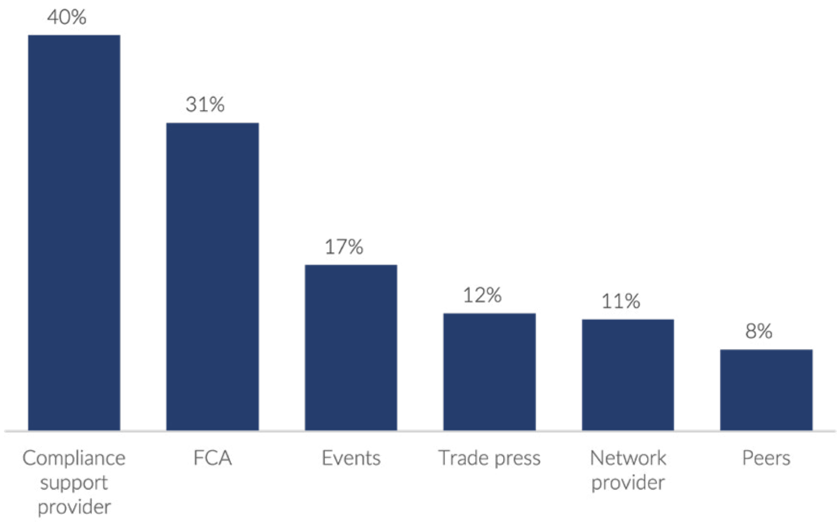
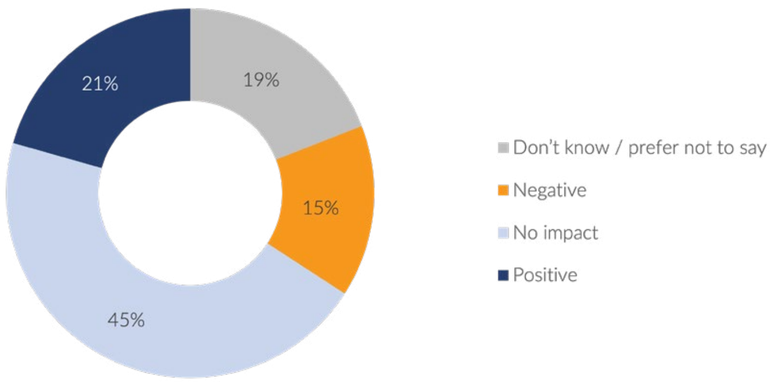


Figure 18: Overall, do you think Consumer Duty will have a positive or negative impact on your business?



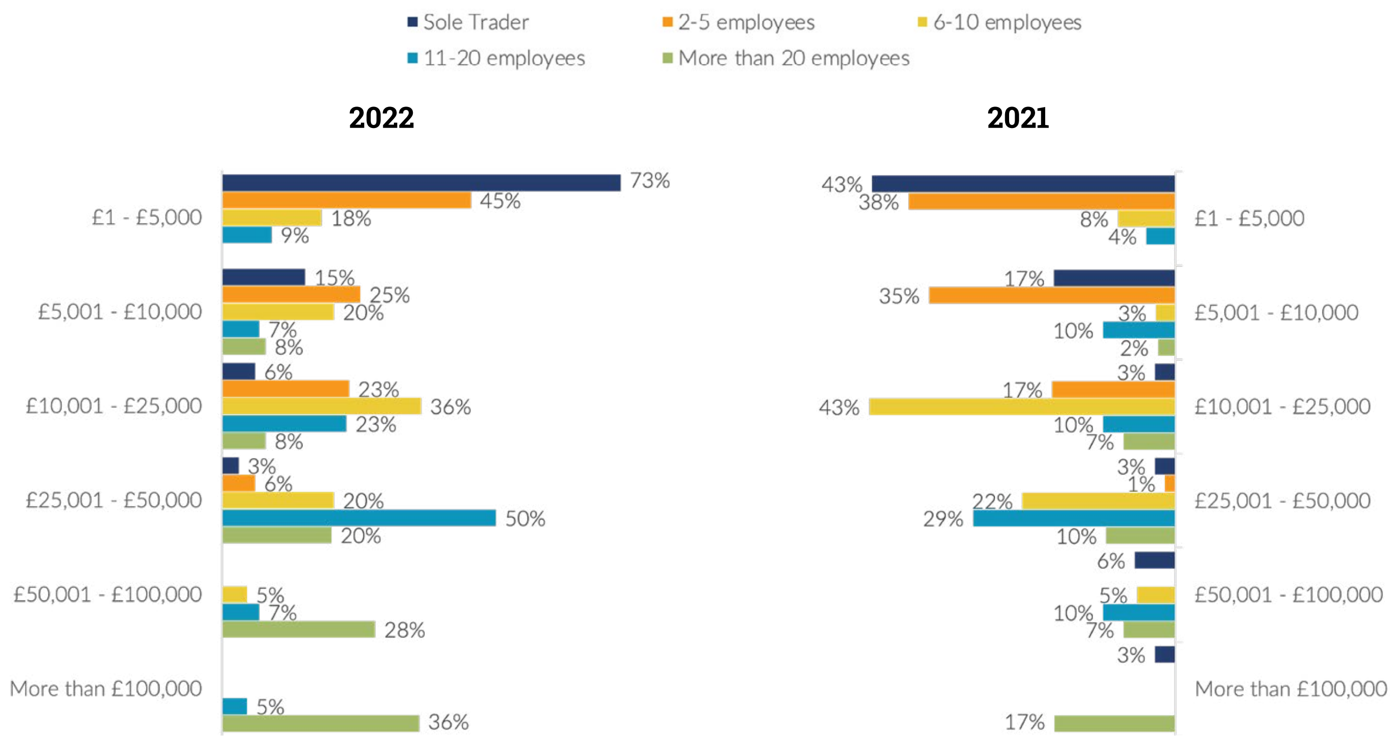
3 Adviser Tech Stack

In this section, we look at the technology supporting financial advice businesses. Further detail is available within the Adviser Tech Stack: Adviser Review report.

3.1 Tech spend

As we saw in section 1.5, advice firms spend an average of 9% of their revenue annually on the tech to run their businesses and deliver advice to clients. For around a third of respondents, that equates to up to £5,000 a year. A fifth of firms spend more than £25,000 annually.

Figure 19: Tech spend by size of firm



3.2 Changes to tech

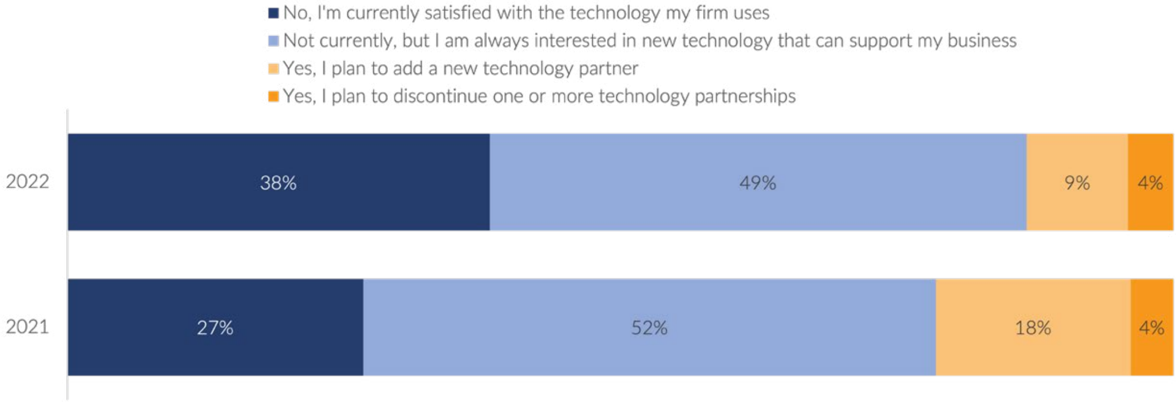
9% of firms have definite plans to add a new technology partner to replace or enhance an element of their tech stack in the coming year. A further half of respondents say they are open to new tech that will improve the business, but are not currently planning any changes.

Covid spurred investment in technology – the slowdown reflects a return to business as usual.

While advisers are broadly satisfied with the tech their firm uses, NextWealth's latest Adviser Tech Stack report reveals that reviews and ratings for tech providers are down for all categories of tech except risk profiling.

> *"We are looking at tech that can reduce initial advice costs to attract the younger generation"*
>
> *"It's important to us to think about utilising technology to provide targeted, cost efficient and engaging and educational services to clients with lower and less complex needs."*

Figure 20: Do you intend to make any changes to the technology your firm uses in the next 12 months?



3.3 Client review process

A fifth of financial advice professionals have introduced specific new tech in the last year to address a specific part of the advice process – the preparation of client reviews and reports.

Figure 21 reveals that the lengthiest step for most firms in the process of preparing for client review meetings is the report preparation. Gathering updated information from clients is the most time-consuming activity for a fifth of advice firms and nearly a third say the biggest drain on time is collecting data from providers.

Two thirds of respondents say their firm has not yet calculated the average cost to the business of preparing for a client's review. Those who have looked at the numbers report an average cost to the firm of £658 per client per review.

	Average
2022	£ 658
2021	£ 729

> *"Technology solutions need to band together to create a straight through processing map so the best tech solutions can all transfer information seamlessly which will significantly reduce the time taken to implement and review advice."*

Figure 21: What is the lengthiest step in the annual review / planning meeting process?

Average time to prepare client's annual review is 5.5 hours

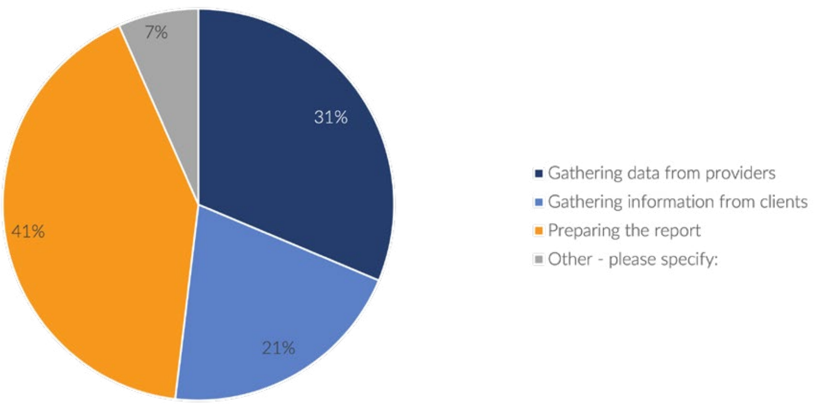
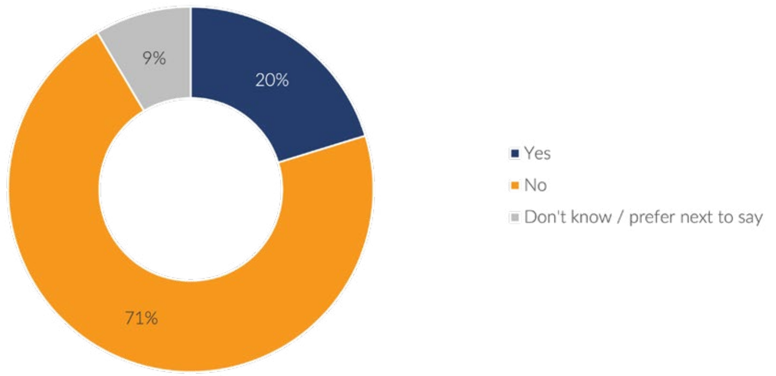


Figure 22: Have you introduced any technology or tools to automate aspects of the process of preparing client reviews and reports in the last year?



Among those that said yes, most are using a tool from an existing tech partner (intelliflo office, Iress, CashCalc, FE, Dynamic Planner and moneyinfo). Others have introduced tech to address this challenge specifically, typically bespoke solutions or Fastrak.

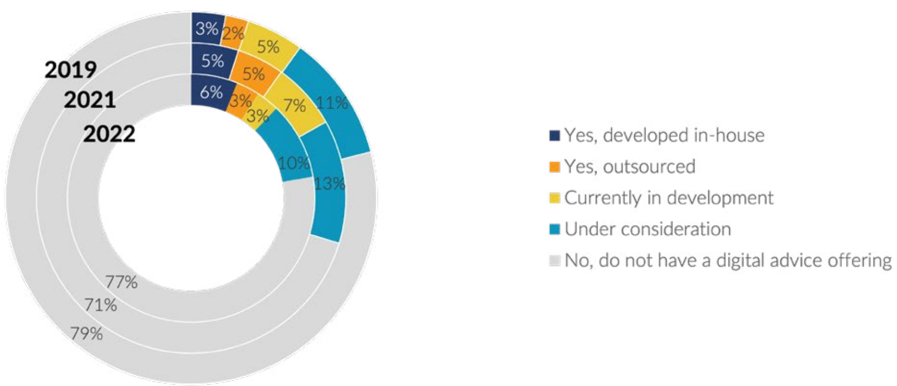
3.4 Digital advice

Since 2019, we have monitored the share of financial advice firms considering or launching digital advice offerings to their clients. Currently 9% offer or refer their clients to a digital advice proposition, which represents no real change from last year. A further 10% have it under consideration, down slightly from last year.

Financial advice professionals in large, restricted businesses are far more likely to say they offer or refer clients to a digital advice offering.

We think this cooling of enthusiasm might be a result of a return to normal post-Covid. Businesses digitised rapidly through Covid and many had plans to build digital advice journeys for clients. With a return to business as usual, these plans have in some cases have been shelved. We also hear that while plans to offer digital advice have slowed, some firms are looking at new models to reach more clients.

Figure 23: Offer or refer clients to a digital advice offering



4 Fees and Charges

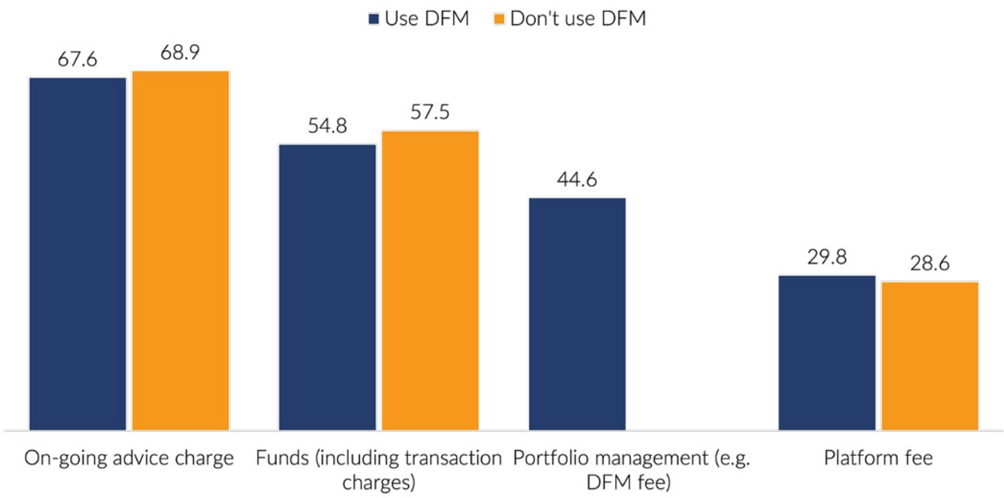
4.1 Average fees

While costs don't equate to value, a key part of any value assessment is understanding how costs compare to peers and competitors. NextWealth has established benchmarks for the total cost of investing for advised clients and the cost for on-going advice as well as fees for funds, platform, and portfolio management.

We asked financial advice professionals the average basis point fee paid by clients for each component.

The average cost of on-going advice is 68bps; representing the largest share of total client costs. Platform fees represent the smallest share at 29bps. The following chart shows the average bps fee paid for each of the four categories, segmented by whether the adviser uses a discretionary fund manager for portfolio management. Note, there are no portfolio management fees for those that do not use a DFM and the adviser might be using an in-house DFM.

Figure 24: What is the Av. Basis point fee (bps) paid by your clients for each? By Use of DFM



Clients of restricted advice firms pay on average higher charges for funds, portfolio management and platforms. We also noticed some clear regional differences. Clients of advisers in London pay most for advice (80bps for on-going advice) and least for funds (40bps). Clients of advisers in the North West of England and Northern Ireland pay least for advice (60bps).

Platform fees vary considerably depending on the type of platform used. Fees are lowest for firms using fully outsourced platforms, with no branding or customisation options, and are highest for vertically integrated propositions where the platform is fully customised and regulatory permissions are handled in-house.

4.2 Fee models

81% of financial advisers charge clients based on a percentage of client assets either all of the time or most of the time. Over a third use a tiered charging model.

Fixed fees and one-off charges have their place in the charging structure. Respondents are most likely to select the "sometimes" option to describe their use of these types of fees, perhaps for specific parts of their advice proposition. We often hear from advisers that they are constrained in their charging model if they work with platforms that don't offer flexibility on the charging model. For example, some platforms are unable to support tiered fee structure. We think there will be pressure from Consumer Duty on platforms to improve functionality to support more fee models.

Subscription-based financial planning, where clients pay a subscription fee or retainer, is starting to be trialled by a small number of firms. 87% of respondents have never used this model.

Respondents to this year's survey are less likely to say their firm is exploring changes to their current fee structure.

Figure 25: How often do you use the following fee structures?

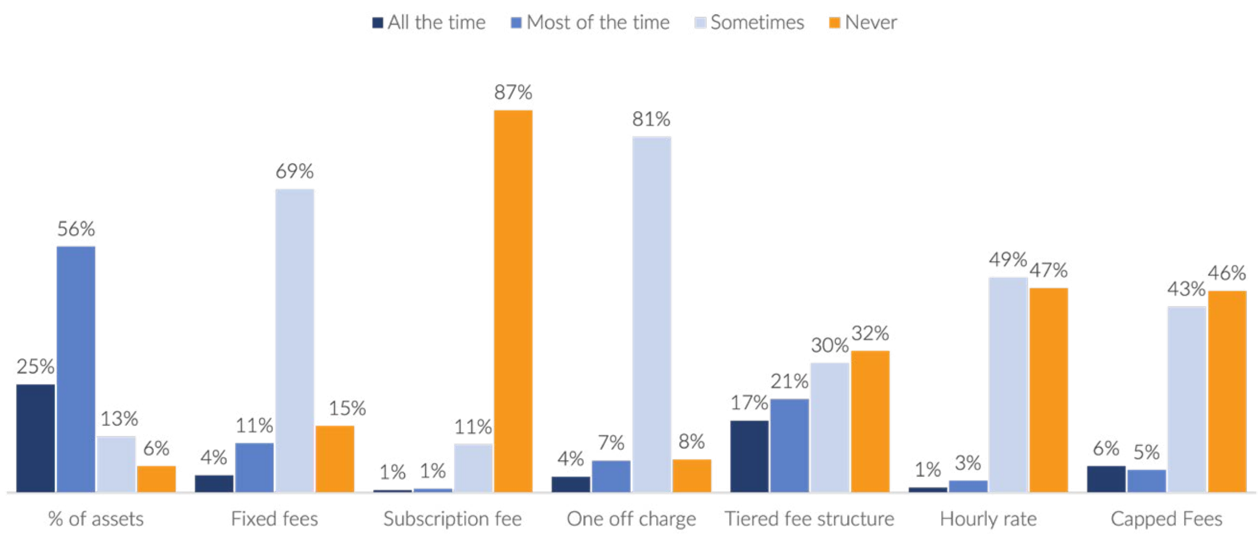
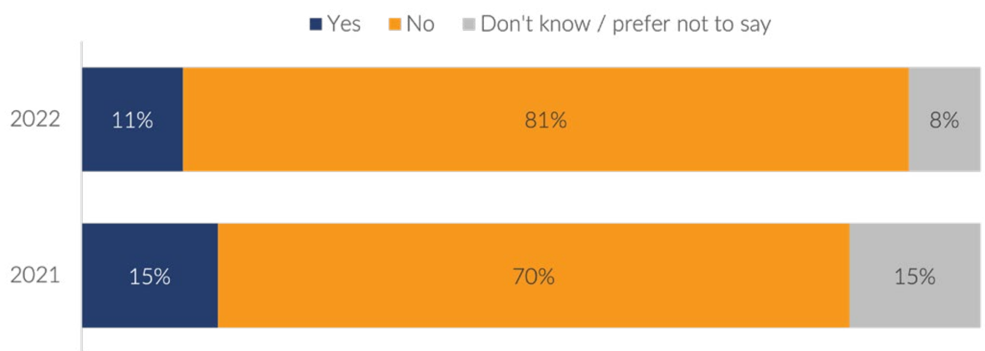


Figure 26: Do you plan on making changes to your fee structure in the next 12 months?



5 Investment Strategy

As in previous years, multi-asset and multi-manager funds are the most used investment strategies 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 28, a fifth of respondents plan to increase their use of outsourced MPS.

Close to half (47%) of respondents this year are building their own portfolios for clients, up from 35% in 2021. We believe a significant share of this group will be operating from centrally-built models in large consolidated advice firms.

We asked financial advice professionals which DFM's they use and the results are presented in Figure 29.

Figure 27: Which of the following investment strategies do you use for new client money?

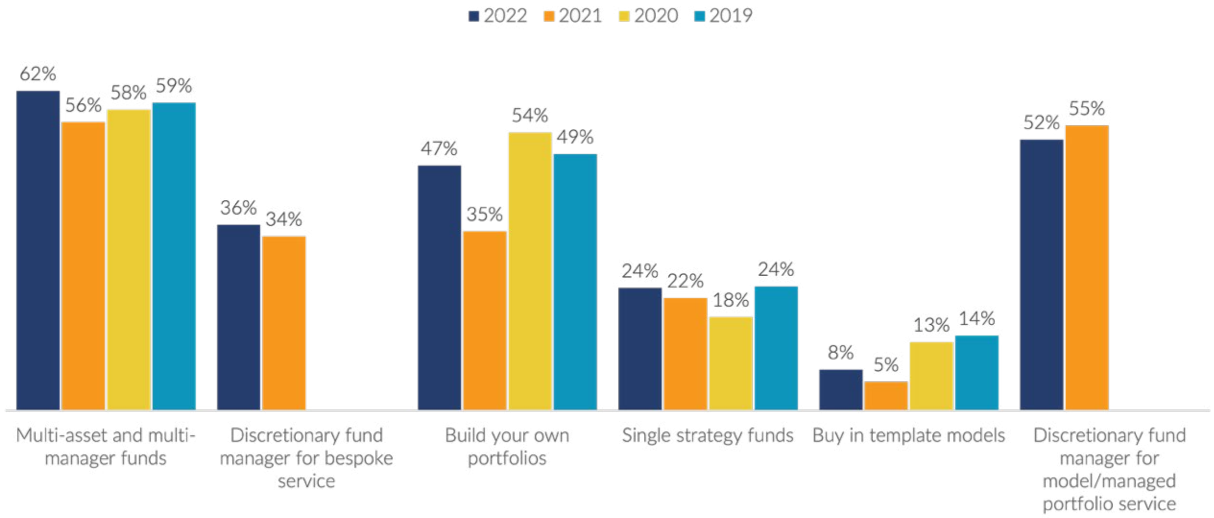


Figure 28: Do you expect to change your usage of investment strategies in the future?

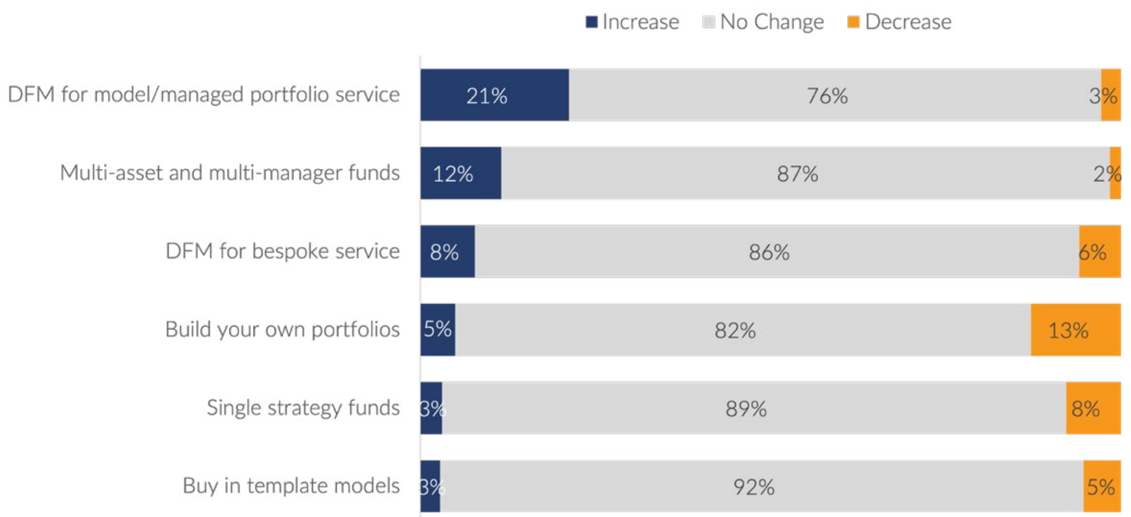
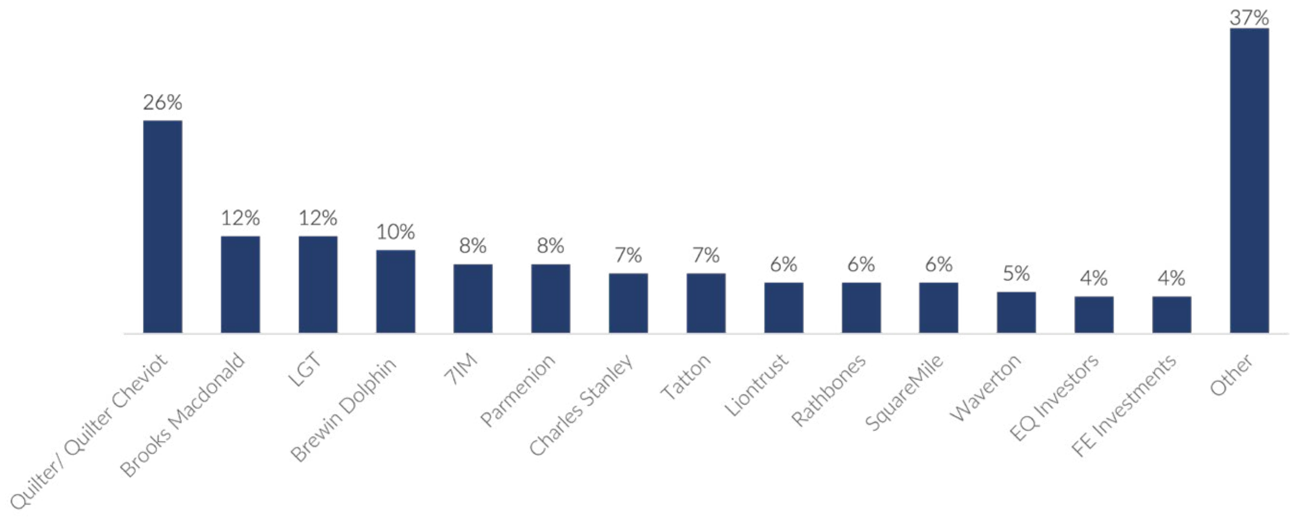


Figure 29: You said outsource to a discretionary fund manager (DFM) for model/managed portfolios. Which DFM(s) do you use?



5.1 Sustainable Investing

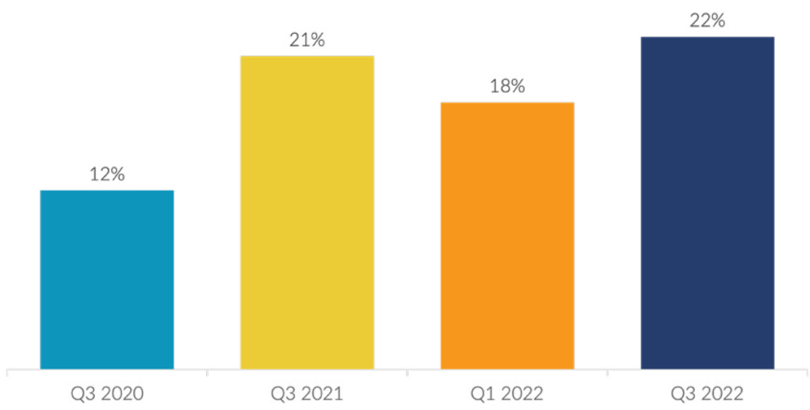
Financial advice professionals report that the percentage of conversations in which the client raises the question of sustainable investing continues to climb, reaching 22% this year, up from a fifth last year and 17% in 2020.

An average of 22% of client assets are invested in ESG, ethical, sustainable of impact funds or portfolios, a very slight increase from last year.

However, the percentage of respondents who are anticipating an increase in allocation to ESG funds over the coming year has contracted.

To find out more about how financial advice businesses are incorporating ESG into client fact finds and investment propositions, refer to NextWealth's Sustainable Investing Tracker Study.

Figure 30: Approximately what percentage of your client assets under advice are in ESG, ethical, impact or sustainable funds / portfolios?



6 Business Risks and Challenges

This year's top 4 challenges faced by advice firms are unchanged year-on-year.

As in previous years, regulatory disruption remains the most important risk, closely followed by compliance costs including PI renewal (at number two) and FCSC levies in third place.

The prevalence of digital fraud and scams during Covid bumped cyber security up the list of business risks last year, and the threat is still perceived as a key business risk priority in 2022.

Consumer Duty is a new addition to the survey list this year and on average is considered the fifth most important challenge for advice businesses. Some consider the likely impact of Consumer Duty to be as wide-ranging as the Retail Distribution Review and we explore this further in a dedicated research project. To find out more get in touch.

Competition from lower cost entrants to advice is more concerning for sole traders and small-medium size advice businesses with 6-10 advisers than for other groups in our survey.

Table 1: Business risk to your firm over the next 18 months

	2022 rank	YoY change	Ranking by size of firm - number of advisers			
			1 adviser	2-5 advisers	6-10 advisers	More than 10 advisers
Regulatory disruption	1	-	1	1	2	2
PI renewal	2	-	3	3	1	1
FSCS Levy	3	-	2	2	2	4
Cyber security	4	-	4	4	5	3
Consumer Duty	5	N/A	5	5	4	5
Demographic changes and retiring clients	6	+ 1	6	6	6	6
Finding new clients	7	- 2	8	7	8	7
Consumer financial wellness and mental health	8	+ 1	9	8	9	10
Low cost entrants	9	- 1	7	9	7	8
Rise in number of vulnerable clients	10	-	10	10	10	9
Consolidation and private equity investment in financial advice businesses	11	-	11	11	11	11

7 Advice Market Segments

In this section we introduce a new 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, as with advisers' clients, some 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. Turnkey advisers
2. Build to grow firms
3. Succession searchers
4. Investment advisers
5. Investment outsourcers

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.

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; on average these firms spend £7,834 less than the industry average
- Most charge clients based on a percentage of assets; these firms are less likely to experiment with different fee models
- Cyber security is the second highest business concern for these firms
- Less likely than the industry average to be planning to add more staff in the coming 12 months

Build to grow firms

Classified as firms staffed by younger advisers, with 10 or fewer employees and plans to grow by increasing assets or hiring staff

- High adopters of all types of advice tech and keen to use tech to improve the client experience and employee job satisfaction
- 43% of these firms in our sample spend more than £10,000 per year on technology
- Half of firms are currently planning to hire new staff in the coming 12 months
- More likely to be actively seeking younger clients and more likely than the industry average to have a Diversity & Inclusion policy to improve representation in the firm

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

- These firms typically charge lower fees than the wider industry; ongoing advice fee is 61bps compared with 68bps on average; fund fees are 7 bps lower than average
- Some of this group are generating high annual reviews, making them attractive to potential buyers
- FSCS levies are of more concern to this group than other segments
- Low appetite for changing tech partners ahead of exit
- Less likely to have plans to hire staff
- Less likely to be actively seeking younger clients, and service more clients over 65 years than the industry average

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. They spend three times more on tech than average.
- These firms typically charge a higher than average ongoing advice fee, reflecting the resource and tech required to run their investment proposition in house
- Portfolio management fees are correspondingly the lowest of all the segments
- The most likely group to have active recruitment plans; 79% expect to add staff, almost twice the industry average

Investment outsourcers

Mid-size advisers, these firms are classified by their use of discretionary investment managers for models or bespoke portfolios

- With an annual tech spend of more than double the industry average, these firms prioritise integrated tech solutions and slick digital onboarding of clients
- Higher client fees than the industry average
- More likely than average to be actively recruiting; 80% expect to add staff, compared to the industry average of 40%
- More likely than the industry average to be working with clients who have between £250-£500m to invest
- These firms are actively seeking younger clients and are the segment most likely to have a Equality, Diversity & Inclusion policy in place

Respondent Profile

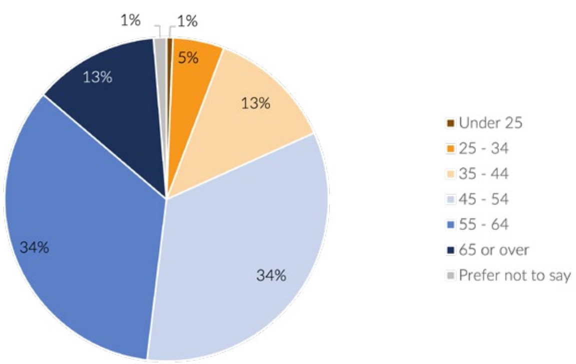
The Personal Finance Society and NextWealth have combined forces to publish this benchmark report to allow financial advice professionals to compare their firm with those of their peers.

The results in this report are based on a survey of 327 financial advice professionals conducted between 12 July and 11 August 2022.

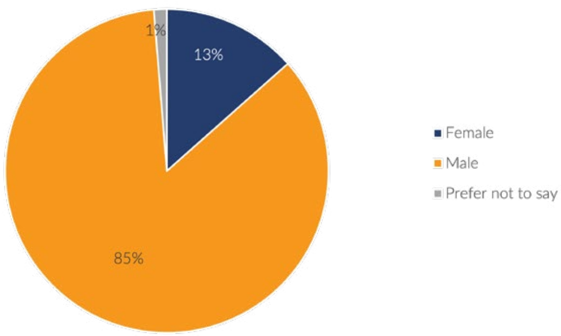
Employees of financial advice businesses answered questions about the size of their business, their investment proposition, fees and charges, technology infrastructure, growth, recruitment and clients.

Note that we use the term financial advice professionals to denote respondents to the survey.

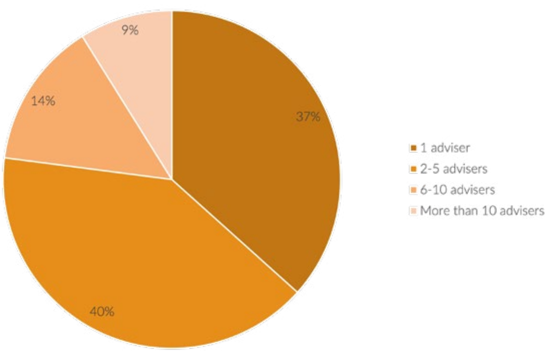
Age



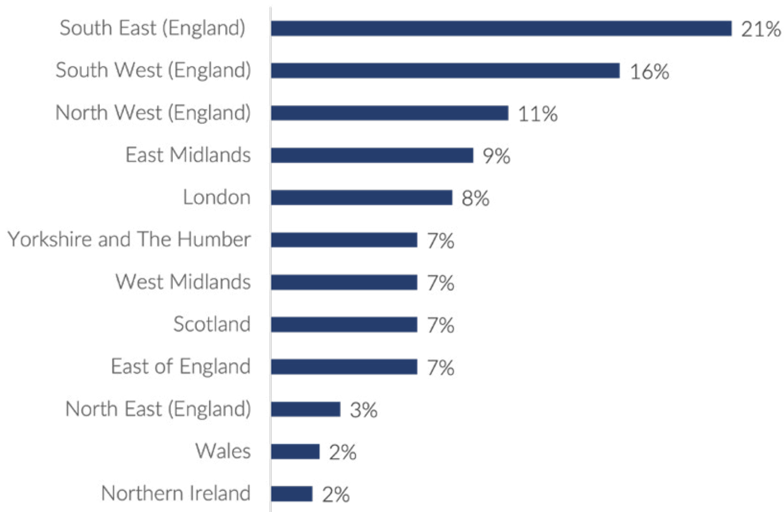
Gender



Firm Size



Region



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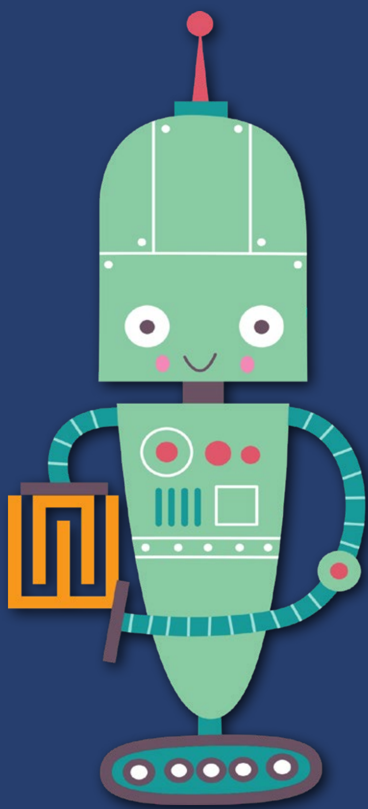

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Our research reports, including the regular Advice Tech Stack updates, are possible only with the perspectives of forward-thinking practitioners like you.

The NextWealth research panel helps define the drivers of change in our industry. To share your views on advice tech, and other industry shifts and trends via online surveys and one-to-one interviews, email us at enquiries@nextwealth.co.uk to join the panel.

All panellists receive digital copies of our research reports for taking part in our surveys. We will invite you to contribute your views a maximum of four times per year and there is no obligation to participate. Your details will not be shared with any third party.

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