AKG

Research Paper 2023

Future of Advice – State of Flux

IN ASSOCIATION WITH:

canada life

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AKG

CONTENTS

BACKGROUND TO THE PAPER

Intermediary distribution is the lifeblood of most financial services companies assessed by AKG. A key part of our work, in assessing the financial strength of these companies, involves keeping our finger on the pulse of developments and considering the future shape of the intermediary distribution market.

All parties with a stake in proceedings need to target strong and sustainable business models and a crucial element of this is the requirement to identify and understand market dynamics.

AKG first wrote about this theme in our July 2020 industry research paper, 'Future of Advice - Beneath & Beyond', which was dominated by the impact of COVID-19 on the industry, and it's something we've monitored closely since.

We are delighted to now revisit this theme via the publication of our latest research paper, 'Future of Advice – State of Flux'.

In keeping with AKG's approach to such papers content is again informed by insight gained from fresh market research, in this case comprising three separate but complementary exercises undertaken with consumer and adviser audiences.

The aim of the paper is to support understanding of where the advice market currently stands and how and why it might evolve over the next few years. We are in the main exploring the near future here, i.e. the next two to three years, although longer-term issues are also considered.

We want this output to be of practical use, outlining key challenges and opportunities, and subsequently establishing a platform from which key themes can continue to be discussed and debated post-publication.

1.1 // MARKET RESEARCH EXERCISES

Comprised of three elements:

Consumer research (quantitative) – This online survey was conducted on AKG's behalf by Opinium. The research field dates were 22-25 August 2023. The research sample was 2000 UK adults, weighted to be nationally representative.

A list of the questions posed to consumers via this survey is included in the Appendix.

Adviser research (quantitative) – This online survey was conducted on AKG's behalf by Pureprofile. The research field dates were 22-25 August 2023. The research sample was 100 advisers.

A list of the questions posed to consumers via this survey is included in the Appendix

Adviser research (qualitative) – This element involved facilitation of a series of online/telephone interviews which were conducted on AKG's behalf by Frank Fletcher of Widewater Consulting in the period between early July and early August 2023.

Using a discussion guide as a prompt, interviews typically lasted around 30 minutes and were carried out on a confidential basis.

Subject areas covered included exploration of views on key opportunity areas and major challenges/barriers, advice business development plans/ideas, views on the way the industry is evolving (especially around M&A activity), regulatory impacts, economics/viability of advice delivery, role of technology, provider service expectations, and a glance at the future and (closing) the advice gap.

AKG targeted participants operating in a range of roles across a variety of advice/planning firm types to ensure a breadth of perspectives was collected.

Such advice/planning firm types targeted included for example network/service providers, national and regional advice firms, consolidator businesses, corporate or workplace advice firms (EBCs) and disrupter/online advice firms. The sample also included vertically integrated advice firms and an emerging subset of this group that might be termed as value chain aggregators. This latter category includes firms which complement their core advice business with other elements of the value chain like DFM services, platform, Fintech etc, while stopping short of being fully vertically integrated.

This list was not exhaustive and it should be recognised that given the evolution of the advice sector the art of defining firm types is becoming more challenging and more crossover exists between firm types, approaches and propositions.

Even in describing our research methodology this cross-over of advice firm types and proposition can be seen as a contributing factor to advice market 'state of flux'.

A total of 19 interviews was carried out with 22 individuals representing a diverse range of firms involved across the advice sector. Respondents have been segmented as follows:

- 2 network/service providers
- 3 employee benefits consultants with workplace-based businesses
- 4 disruptors/consolidators operating from a non-traditional base
- 4 vertically integrated/value chain aggregator firms
- 6 firms of financial planners/wealth managers

Whilst interviews were carried out confidentially, AKG can and does utilise anonymised verbatim quotes from participants. These bring additional colour to the research findings and are referenced throughout the paper. For reader purposes interview participant types are identified as follows:

N = Network/service provider
E = EBC/workplace based
C = Consolidators/disruptors
W = Wealth managers/IFAs
V = Vertically integrated/value chain miners (firms complementing advice business with other selected value chain elements

1.2 // SPONSORS

This research paper has been sponsored by Canada Life and Charles Stanley.

AKG would like to thank both companies for their support with the project and we look forward to continuing discussions with them, and the wider market, on this fascinating theme.

Contextual comments from key representatives at each sponsor are also included in this paper.

EXECUTIVE SUMMARY

Our Executive Summary is presented as a series of thematic points, many of which combine to create the 'state of flux' described in the paper's title. Everyone is evidently busy dealing with important shorter-term issues which in turn is making a clear longer-term prognosis of the future of advice landscape harder to predict. AKG's previous FoA paper was dominated by COVID-19 factors and associated industry impact/responses. To some extent current fortunes are still being heavily impacted by external forces in the form of geopolitical factors, inflationary challenges and the cost of living crisis (ultimately the hangover from COVID-19). Add in a healthy dose of regulatory focus and challenge in the form of Consumer Duty, and ongoing review of retirement income advice, and it is clear to see why a state of flux exists. But many of the crucial requirements for advice market development, despite some pockets of progressive activity, remain as outlined in 2020, including the need for concrete initiatives to better define the borders between information, guidance and advice, and serious contemplation of measures which can help to help bridge the advice gap in the UK. Alongside these is the continued requirement for better integration and progressive use of technology across the advice value chain.

Challenging backdrop inescapable – There is no getting away from the fact that rising inflation and the cost of living crisis, allied with regulatory change and challenge in the form of Consumer Duty and the ongoing review of retirement advice, are creating significant headwinds for the strategic development and momentum of advice firms.

Challenging economics of advice – This is an increasingly concerning factor for many. Hence the drive to try to achieve economies of scale through consolidation or value chain mining. Regulation is an important element of the growing cost burden in resource as well as monetary terms. There is also pressure being felt on the income side of the profit and loss account. A feature of the findings this time around that has not been encountered to any material extent previously is the notion of advisers 'sacking' clients because they can no longer afford economically to service their needs.

Advice gap – The advice gap is set to widen before there is any realistic prospect of improvement. There seem to be more questions than answers. Theoretically it is important for the industry but in reality whose responsibility is it to narrow the gap? Adviser firms generally have enough on their plates already with the day-to-day operation of their business and so do not necessarily see a responsibility here.

Advice/guidance definition – The industry needs further clarity from the regulator on definition and borders between the two. Until this is done there will remain a stalemate for many who will be reluctant to invest further resource and money into the development of solutions without firmly defined parameters.

Communicating the benefits of financial advice – The industry needs to do a better job of communicating and marketing the benefits and value of financial advice. Those consumers with an existing advised relationship in place recognise the benefits such access to support provides. The industry can use such positive sentiment to develop and deliver key marketing messaging to existing and prospective clients.

Financial education and tone of voice – The requirement for improvements in financial education initiatives for the UK population is enduring and this is across age groups and demographics. The better informed we can make people – whether they choose to engage with advice or not – the more likely we are to achieve the overarching objective of achieving positive customer outcomes. That said, the way in which the financial services industry speaks to its customers – existing or new – should still aspire to have a better more considered tone of voice. We shouldn't underestimate their knowledge or undermine their circumstances.

Workplace an 'incubator' for solutions – Employers and the workplace will play a vital role in bridging the information/guidance/advice gap in future years. Technology is also a major feature of the development of workplace services for scheme members. Major progress has been made in recent years, but the challenge here is employee engagement and take up.

Practical technology deployments required – When it comes to technology in financial services it has long been lauded as the cavalry coming over the hill to solve all ills, but the reality is this hasn't always proven to be the case. But enhanced application of technology is crucial if the advice industry is to create the desired operational cost efficiencies to thrive in future. And it will play a key role if fully automated or hybrid advice solutions are to gain proper traction in future. However, it is felt that technology delivered hand in hand with human support is likely to be the preferred method of delivery.

M&A – The pace of M&A activity in the adviser sector is showing no signs of slowing down and is on the agenda for a range of advice firm types and sizes. Part fuelled by exit strategies of those retiring from the industry and of course generally related to upscaling and growth of businesses this consolidation dominates industry activity. But beyond the ongoing announcements of completed deals it's the post-M&A development work which saps resource and tests aspirational business models. Furthermore, in light of Consumer Duty focus the FCA will want to see that all businesses continue to place the customer at the heart of their proposition as they expand.

Developing family and intergen relationships – There are understandably expressed concerns about the development of strategies to acquire 'brand new' next generation clients to advice firms. Whilst the rich wave of baby boomer business has been easy to surf it won't last forever. More creative new business generation strategies will need to be developed in the long-term, but over the short to mid-term advisers need to work harder at tapping into intergenerational and multi-generational advice opportunities by further extending existing client relationships.

Revisiting transactional relationships – The RDR drove growth in the retained client servicing model, but many prospective clients for the industry will not want or need an ongoing annual relationship with an adviser. Affordability is likely to be just one of the factors here but ultimately some will want to dip into help and support as and when they need it. Advice firms should therefore (re)consider the development of more transactional services where this can be delivered cost effectively.

Interaction driven by major life events – A decent proportion of consumers indicate that major life events, such as buying a house or retirement, would make them more likely to seek financial advice. This needs to be acknowledged by those targeting new client acquisition opportunities. For many of us as consumers, waking up and seeking financial advice or financial products, is simply not a daily occurrence, rather behaviour that is likely to be driven by a major life event or circumstance.

Financial wellbeing strategies – Also in the workplace, the concept of financial wellbeing is gaining increasing traction and the beauty of this development is that it potentially brings greater access to and engagement with younger generations often grappling with a wider range of financial issues than would preoccupy current older clients and their advisers (debt for example, rather than which wrapper to use for maximum tax advantage). Alongside (or indeed as part of) a financial wellbeing proposition, the concept of money coaching is also becoming established and some firms are beginning to promote this as part of a more hybrid approach to reaching the market.

Adaptability and agility pre-requisites for success – Those advice firms and providers seeking sustainable traction for their propositions and businesses in future will need to continue to demonstrate the ability to be adaptable and agile given the challenging headwinds. Many have proven the ability to do so when challenged by the impact of COVID-19 on operations and servicing but a new set of challenges awaits and so they will need to do so again to emerge from the state of flux.

AKG

CONSUMER LANDSCAPE I ASCERTAINING KEY BELIEFS & KNOWLEDGE

All consumers surveyed by AKG were asked a series of questions designed to ascertain some high-level beliefs, knowledge and positioning.

Findings provide an interesting general perspective as we begin to consider how the financial services industry might better understand and engage with consumers.

- 55% of those surveyed – 14% strongly agree/41% agree – feel they are comfortable educating themselves in all areas of finance
- 53% of those surveyed – 12% strongly agree/41% agree – feel they have a solid understanding of most areas of personal finance
- 54% of those surveyed – 17% strongly agree/37% agree –are increasingly concerned about the risk to their finances from major shocks such as the rising cost of living
- 54% of those surveyed feel they will need to educate themselves/ expand their knowledge as they get older
- 52% think systems, e.g., pension system, will become more complicated in the future and exceed my understanding of personal finance

"The added pressure on household finances from inflationary forces highlights the growing need for clients to make their money work harder as they seek to beat inflation over the long-term. Advisers are likely to see continued pressure on asset flows as clients' drawdown on investments and seek to bridge the gap between their income and rising household costs. Whilst ongoing advice provides support managing this ongoing uncertainty, the costs for some are prohibitive. The paper highlights the positive way the industry is responding, with new advice models emerging to provide consumer choice. But I expect to see this evolve further in response to changing clients' needs."

Sean Osborne – Group Head of Sales at Charles Stanley

	I am comfortable educating myself in all areas of finance	I have a solid understanding of most areas of personal finance	I am increasingly concerned about the risk to my finances from major shocks such as the rising cost of living	I worry that I do not know enough about money and feel a little confused	I will need to educate myself/expand my knowledge as I get older	I think systems, e.g., pension system, will become more complicated in the future and exceed my understanding of personal finance
Strongly agree	14%	12%	17%	10%	14%	20%
Agree	41%	41%	37%	25%	39%	32%
Neither agree nor disagree	30%	31%	31%	30%	33%	36%
Disagree	11%	12%	11%	24%	10%	10%
Strongly disagree	3%	4%	3%	12%	3%	2%
NET: Agree	55%	53%	54%	34%	54%	52%
NET: Disagree	14%	16%	15%	36%	13%	12%

CONSUMER LANDSCAPE 2 'THE ENGAGED'

4.1 // CONSUMER ENGAGEMENT WITH ADVICE

A key question in AKG's survey sought to gauge consumer engagement with advice.

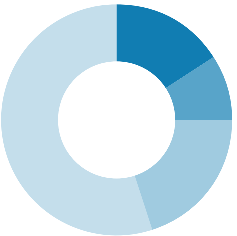
One-quarter (25%) of those surveyed have seen a financial adviser in the last five years, split as follows:

16% of those surveyed have seen a financial adviser alone to discuss financial planning in the past five years, and 9% have seen a financial adviser but done so together with their partner/spouse.

One fifth (20%) of those surveyed have seen a financial adviser, but not in the last 5 years.

Just over one-half of the consumer sample (55%) have never seen a financial adviser to discuss financial planning.

Have you sought advice on your financial planning (including for a mortgage) from an adviser in the last 5 years?



- Yes, I have seen a financial adviser alone to discuss financial planning in the past five years - 16%
- Yes, I have seen a financial adviser with my partner / spouse to discuss financial planning together in the past five years - 9%
- No, I have seen a financial advisor but not in the last five years - 20%
- No, I have never seen a financial adviser to discuss financial planning - 55%

Source: Consumer Research

4.2 // FOR WHAT REASONS ARE CONSUMERS SEEKING ADVICE

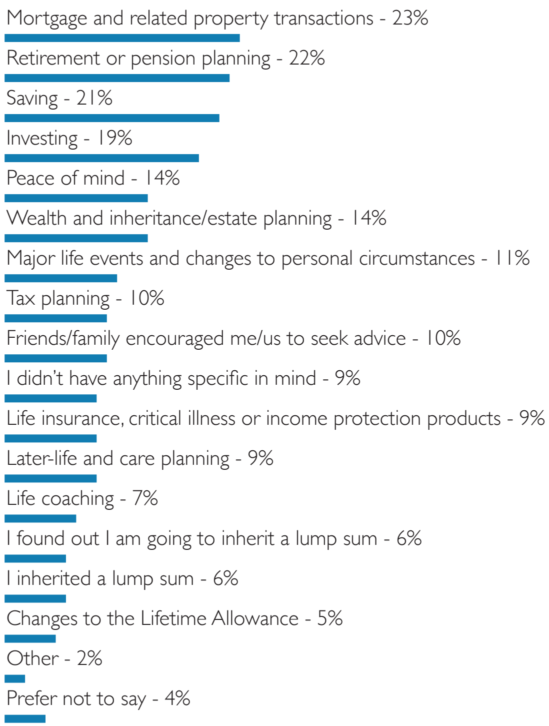
For those consumers who had sought advice on their financial planning in the last 5 years, we wanted to find out why this was. The top six factors selected by consumers from the options provided when asked for what reason/need they had sought advice on their financial planning were:

- Mortgage and related property transactions (23%)
- Retirement or pension planning (22%)
- Saving (21%)
- Investing (19%)
- Peace of mind (14%)
- Wealth and inheritance/estate planning (14%)

Beyond this top six, other factors of interest selected by consumers included: Major life events and changes to personal circumstances (11%); Tax planning (10%); Friends/family encouraged me/us to seek advice (10%); Life insurance, critical illness or income protection products (9%); Later-life and care planning (9%); Life coaching (7%).

Continuing the inheritance theme, 6% found out they are going to inherit a lump sum and 6% inherited a lump sum.

You mentioned you sought advice on your financial planning in the last 5 years, why was this? Please select all options that apply.



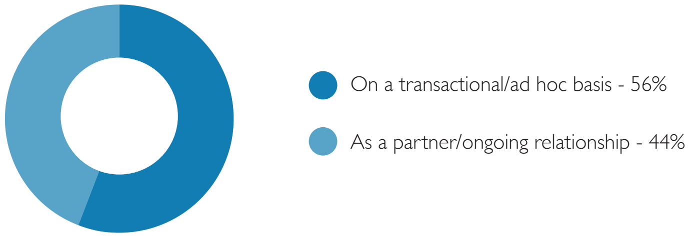
Source: Consumer Research

4.3 // ADVICE INTERACTION BASIS

Those consumers who had sought advice on their financial planning in the last 5 years were also asked to confirm how they engage with their financial adviser. This was well balanced between:

- On a transactional/ad hoc basis (56%)
- As a partner/ongoing relationship (44%)

How do you engage with your financial adviser?



Source: Consumer Research

4.4 // WHAT'S VALUED ABOUT ADVISER RELATIONSHIP

For the subset of consumers who engage with an adviser on an ongoing basis we asked what they value about the relationship. The top six factors selected from the options provided were:

- Access to someone human who completely understands my financial situation (19%)
- Peace of mind over financial decisions (19%)
- Knowledge that they are regulated (18%)
- Complete trust that someone has my best interests at heart (16%)
- Knowledge that they have relevant qualifications (15%)
- Their services are value for money (15%)

Beyond this top six, some other factors of interest in terms of perceived value were Speed or efficiency when circumstances in markets change and will advise me quickly (14%); Access to ongoing support (12%); Range of expert support across different financial sectors (11%).

What, if anything, do you value about your relationship with your adviser/advice firm? Please select the top three options that apply.

Access to someone human who completely understands my financial situation - 19%
Peace of mind over financial decisions - 19%
Knowledge that they are regulated - 18%
Complete trust that someone has my best interests at heart - 16%
Knowledge that they have relevant qualifications - 15%
Their services are value for money - 15%
Speed or efficiency when circumstances in markets change and will advise me quickly - 14%
Access to ongoing support - 12%
Range of expert support across different financial sectors - 11%
The wide range of services offered - 9%
Access to better rates/deals - 9%
They make me money - 9%
Access to bespoke investment opportunities - 9%
Transactional support - 6%
Life coaching/support from someone I trust - 5%
Validation/support for my own decisions - 5%
Someone to rely on in crisis, such as the rising cost of living - 5%
None of the above - 8%

Source: Consumer Research

"As an industry we need to do a much better job of communicating and marketing both the benefits and value of financial advice. Why would a customer seek mortgage advice but be confident enough to choose the right path to retirement without advice? We need to be bold and challenge the current status quo, while also recognising that to serve a wider customer group, we need to embrace technology alongside attracting more advisers into the profession"

Tom Evans - Managing Director, Retirement at Canada Life

CONSUMER LANDSCAPE 3 'THE DISENGAGED'

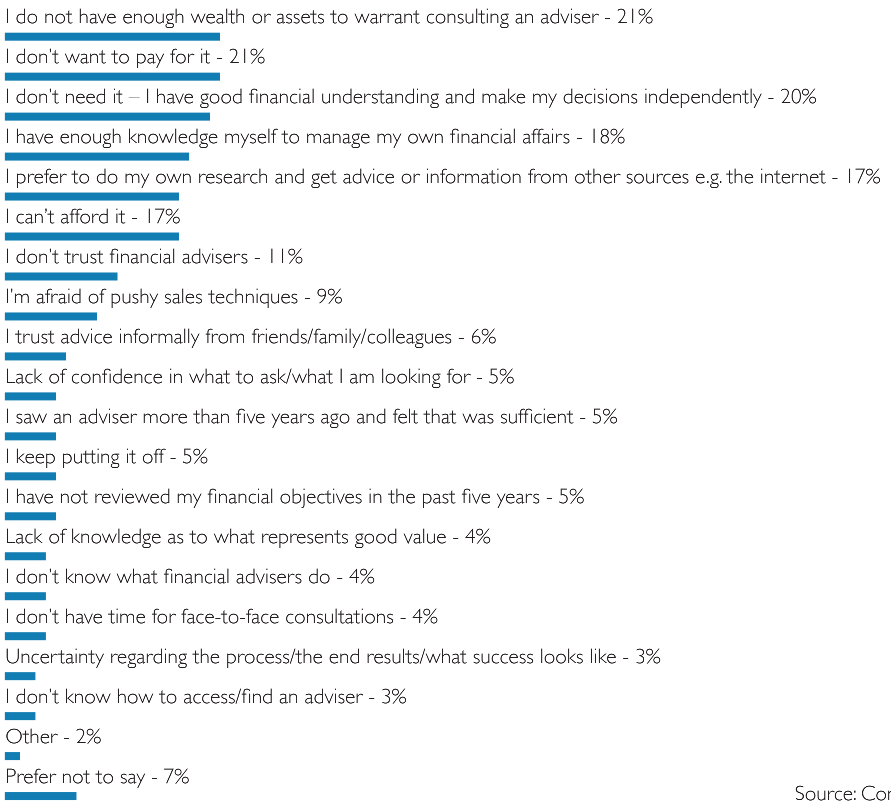
5.1 // REASONS FOR NOT ENGAGING WITH ADVICE

Those consumers who had not consulted a financial adviser in the past five years were asked why this is the case. From the list provided the top six reasons selected were:

- I do not have enough wealth or assets to warrant consulting an adviser (21%)
- I don't want to pay for it (21%)
- I don't need it, I have good financial understanding and make my decisions independently (20%)
- I have enough knowledge myself to manage my own financial affairs (18%)
- I prefer to do my own research and get advice or information from other sources e.g. the internet (17%)
- I can't afford it (17%)

Beyond the top six, some other factors of potential interest which were selected included: I don't trust financial advisers (11%); I'm afraid of pushy sales techniques (9%); I trust advice informally from friends/family/colleagues (6%).

You mentioned you have not consulted a financial adviser in the past five years, why is this? Please select the top three factors that apply.



Source: Consumer Research

5.2 // FACTORS WHICH WOULD MAKE YOU MORE LIKELY TO ENGAGE WITH ADVICE

All consumers were asked what factors, if any, would make them likely to seek financial advice (assuming the advice was free, or that they had enough to pay for the relevant advice).

For 23%, nothing would make them get financial advice.

But there were factors/circumstances which might make some consumers more likely to seek financial advice, broken down here into themed categories, and providing insight to the industry on likely touchpoints for relationship development opportunities.

Personal financial events/shocks

- Receiving an unexpected lump sum (14%)
- Major personal financial shocks such as unexpected unemployment or redundancy, death of a partner/ spouse (8%)
- Other personal shocks, including health problems and family circumstances (7%)
- Realising I hadn't planned enough and needed help (7%)
- Major external financial shocks such as the rising cost of living/high inflation/increasing interest rates (6%)

Inheritance related

- Receiving an inheritance (15%)
- For advice on inheritance planning (10%)

Property related

- When applying for a mortgage/remortgage (14%)
- For advice on buying buy-to-let property (6%)

Ageing/retirement/care planning related

- For ongoing advice on pension planning (11%)
- On retirement/deciding on retirement planning (14%)
- Age/getting older (14%)
- For advice on funding care (7%)

Investment related

- For ongoing advice on my investments (10%)
- When making investment decisions on an ad-hoc basis (6%)

5.3 // THINGS ADVISERS COULD DO TO MAKE IT MORE LIKELY FOR YOU TO SEEK FINANCIAL ADVICE

Another question posed to all consumers as we consider how to make engagement with advice more appealing and accessible in future is, what could advisers do to make it more likely for consumers to seek financial advice?

The top three suggestions selected by respondents were:

20%
felt that offering a government-backed advice service would make it more likely for you to seek financial advice

19%
felt that fixed fees for consultation would help

14%
felt being able to conduct consultations online, and 10% being able to arrange video consultations, would make it more likely for them to seek financial advice

Also of interest beyond the top three selected were:

13%
felt that an ability to consolidate all their finances/ accounts online in one place would make it more likely for them to seek financial advice

11%
felt partnering with their employer to offer advice would be useful

11%
encouraged use of technology by financial advice providers

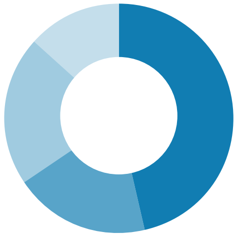
But 44% were not for turning and felt this question was not applicable, i.e. advisers couldn't do anything to make them more likely to seek advice.

5.4 // PREFERRED CHANNEL TO WORK WITH AN ADVISER

A subset of consumers were asked what is, or would be, their preferred channel to work with a financial adviser. The most popular option was for face-to-face meetings (46%).

But there was also some appetite for working remotely via technological solutions (19%) and for hybrid solutions that combine face to face meetings with technological solutions (21%).

What is / would be your preferred channel to work with a financial adviser?



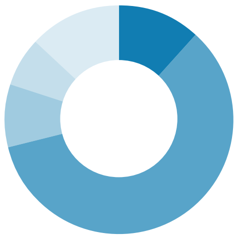
- Face to face meetings - 46%
- Remotely via technological solutions - 19%
- A hybrid solution that combines face to face meetings with technological solutions - 21%
- I don't know - 13%

Source: Consumer Research

5.5 // REGRETS NOT SEEKING FINANCIAL ADVICE OVER MAJOR FINANCIAL DECISIONS

All consumers were asked if they regret not seeking financial advice over any major financial decisions previously made. Over one-tenth (12%) said they did have some regrets, but just under two-thirds said they did not have any regrets (60%).

Do you regret not seeking financial advice over any major financial decisions you have made?

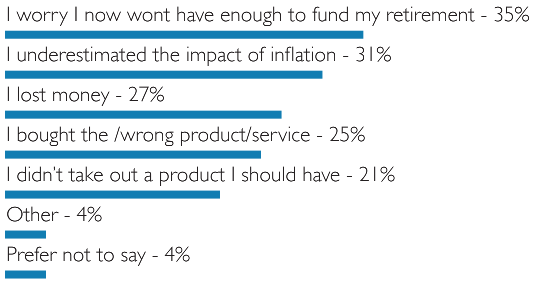


- Yes - 12%
- No - 60%
- Don't know - 9%
- N/A – I have always consulted a financial adviser when making major decisions - 7%
- N/A – I have not made any major financial decisions - 13%

Source: Consumer Research

The subset of those who did have regrets was subsequently asked to select reasons why this might be the case.

You mentioned you regret not seeking financial advice for a major financial decision, why is this? Please select all options that apply



Source: Consumer Research

Furthermore, this subset of consumers who did have regrets was also asked to select what decision(s) they would have sought advice on.

- Savings/investment advice (35%)
- Pension advice (32%)
- General financial planning (31%)
- Mortgage advice (26%)
- Inheritance tax and/or wills (23%)
- Minimising your tax liability/tax return (20%)
- Protection insurance advice (17%)

ADVISER LANDSCAPE I
MARKET STATUS, CHALLENGES & OPPORTUNITIES

6.1 // STATE OF FLUX - ADVICE MARKET STATUS (ADVICE FIRM INTERVIEWS)

Sentiment from advice firm interviews suggests the advice market is in a state of flux and as a result the landscape is changing significantly.

As part of this it appears distinctions between independent and restricted advice are becoming more blurred, with recognition increasing that advice can be independent even if the range of solutions is restricted in regulatory terms in one way or another.

There appears to be more introspection from interview participants now than has been encountered in previous AKG research exercises. Quite often those advice firms interviewed are likely to focus on 'the market', whereas this time there is greater focus on 'how the market operates and is evolving'.

There are admittedly major short-term factors at work – including the cost of living crisis, the FCA's introduction of the Consumer Duty and its ongoing thematic review of retirement income advice– but longer term economic, social, geo-political and regulatory factors are also in play. These feature heavily in discussion, along with concerns about how the market can operate profitably and effectively for the benefit of the population as a whole.

This at a time when margins are being squeezed and downward pressure is being felt on fees, alongside a consumer market which is not used to paying for advice, in the way it does for legal or accounting advice for example.

Many still see the advice market as having a cottage industry mentality when it needs to be evolving into a bigger business philosophy.

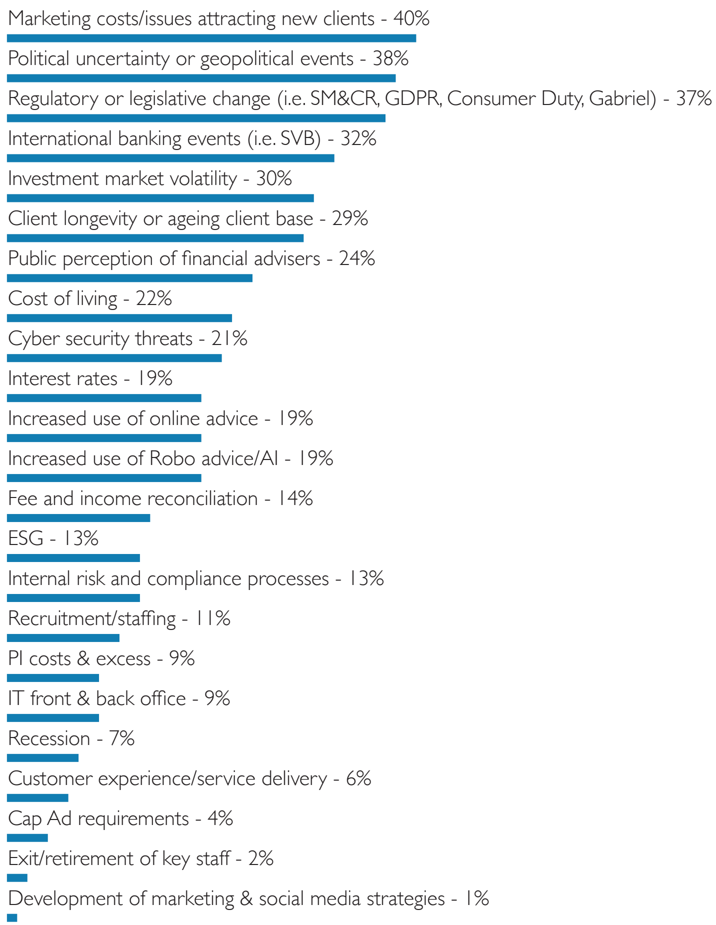
Another sobering thought is the number of worthy, exciting (and expensive) technological initiatives, developments and strategies which are faltering or have even falling by the wayside. These exemplify the gap created by current circumstances between the identification of opportunity areas and the capability to exploit them.

6.2 // WHAT IS CONCERNING ADVISERS? (ADVISER SURVEY)

Via the online survey, advisers were asked which issues (external and internal) give most cause for concern relating to the ongoing operation of their business. The top five issues selected from the list provided are as follows:

- Marketing costs/issues attracting new clients (40%)
- Political uncertainty or geopolitical events (38%)
- Regulatory or legislative change (37%)
- International banking events (32%)
- Investment market volatility (30%)

Which of the following external and internal issues give you most cause for concern relating to the ongoing operation of your adviser business?



Source: Adviser Research

6.3 // ADVICE MARKET OPPORTUNITIES (ADVICE FIRM INTERVIEWS)

High-level business opportunities seem to be framed by what type of advice firm is being considered and relate to where the advice firm is positioned in the market:

- Consolidators see more opportunity in consolidation
- Vertical integrators/value chain miners see more opportunity in the quest to build scale, margin and profitability
- Disruptors see technology adoption and rewiring the way the market operates as the way forward
- Traditional IFAs/wealth managers, at the individual firm level, see the opportunity through the eyes of their HNW, family client base and see gradual incremental growth in this area as the way forward
- Workplace-based advisers see opportunity in financial wellbeing services and building relationships with the workforce of their corporate client base
- Networks and service providers believe they can help deliver some economies to their members and client companies through centralisation of key underlying support services

As far as more specific planning and development opportunities are concerned, most positive prospects relate to:

- Intergenerational business
- Multi-generational business (serving extended family client units)
- Technology
- Consolidation to build economies of scale, brand and margin
- Development of financial wellbeing services including money coaching
- Development of decumulation and other later life business
- Redefinition of advice/guidance boundaries
- Development of hybrid advice/distribution

"I believe there is a huge opportunity for adviser relationships to take centre stage in engaging the next generation through intergenerational planning. Acquiring new clients is expensive and, as the paper highlights, is a key concern for 40% of firms. To counter this, we are seeing more firms focus on working with their existing client base and engaging across the generations addressing everything from proposition, to how they communicate to make services more attractive to younger generations. This is not only providing better client outcomes but is good business."

Sean Osborne – Group Head of Sales at Charles Stanley

Many advisers are busy with 'today's work' and not actually looking for new opportunities.

All those interviewed do recognise the advice gap, but few see it as an opportunity for their firms in particular – they see it more as an abstract societal issue. There is little mention of the advice gap providing real exploitable potential. Indeed challenges discussed are currently seen as making matters worse rather than helping – fees, lack of engagement, little in the way of incentive to address the gap at the individual firm level and, above all, the regulatory burdens and barriers to providing good coherent service throughout life.

6.3.1 Verbatim comments – Advice market opportunities in their words

"No matter what the advice gap, at the individual adviser level, there is always enough to be done for existing and referred clients. The advice gap is not felt at the adviser level." N

"The workplace offers some potential as do schemes like help to buy but a factor that matters here is demographic change. The concept of a career (in the same place) is insanity for many young people. How they think is different. Everything is on the phone." N

"Technology will help especially AI as it develops. But we are a long way from having machine advisers." N

"Lower end client requirements will need to be addressed but it will require further progress in redefining the advice landscape." N

"Intergen/Nextgen and multigen (family units) are the main areas of opportunity but they each come with different challenges." N

"Financial wellbeing as a concept and approach to financial education is gaining significant traction. It leads on to how individuals can improve their financial health." E

"Higher value clients are well catered for. Robo or hybrid advice is good for those who are deterred by the cost of advice. It is the middle group who need help because they are put off by jargon." E

"People in the middle ground need stronger guidance/hybrid advice. Most providers can do this but usage and awareness are often very low. There is a big challenge around member education." E

"There is a need for advice in the workplace not least relating to difficult decisions at retirement. More employers and providers are getting nervous. Increasingly they want to help with advice or guidance and with the employer paying for advice." E

"Financial wellbeing is an opportunity area but engagement is the key especially for younger generations who often want to do things via an app rather than a person and also immediately." C

"Clients who have spent a long time building assets on a D2C basis often reach a point when they realise that advice is essential and has a value. As more of these approach or enter retirement, the demand for advice will increase." C

"The most obvious opportunity at present is to grow by acquisition complemented by organic growth as the business expands. Building the name and attracting new clients by referral and direct marketing. Intergen is a big opportunity." C

"The big opportunity will emerge when the boundaries between information, guidance and advice are resolved in a client-friendly rather than complex industry-jargony way." C

"Companies brave enough to embrace technology and take more risk will be winners." C

"New clients will come through the guidance journey through behavioural nudges to take action. Technology will be key." C

"If someone could crack the issue of automating advice in a trusted way, they would make a lot of money." W

"We have to find ways of making the advice journey cheaper, for example by creating efficiencies in the process. There is no customer appetite for robo and face to face is more important (though these days not necessarily in the same room). To make journeys cheaper, we may have to consider having lower levels of qualification for some types of product advice – do simple products really need the same level of protection as more complex ones? Perhaps assisted robo might be where we see ourselves." W

"Acquiring new customers at the younger end of the demographic spectrum for example through links with estate agents/mortgage markets and traditional retail savings providers." W

"We see two main areas of opportunity in the future – high net worth clients/family units with complex needs offering multi-generational personalised integrated service at one end and at the other, addressing the advice gap. This however requires attention well beyond the capability and capacity of any IFA firm to solve. It is a matter of future financial and educational strategy." W

"There is so much opportunity with the advice gap. Retirement planning is a big opportunity area especially since pension freedoms. Technology and the way we do business is an opportunity area in its own right – but it is also a challenge and a risk." W

"There is a need for more specialisms – people/services focused on specific areas with the knowledge and resource to make them efficient. The nuts and bolts are becoming more automated so there is an opportunity to focus on expertise." W

6.4 // ADVICE MARKET CHALLENGES (ADVICE FIRM INTERVIEWS)

Most advisers recognise the main industry challenges in an abstract sense, but often feel that at an individual level, they have enough clients, enough strong relationships and a comfortable enough work/life balance for them to be shielded from many of their impacts.

The headline industry challenges fall primarily under the headings of capacity, economics, financial capability and regulation.

Capacity – Advisers are thinking less about the overall advice gap than ensuring they have an adequate throughput of advisory capabilities into their own business. Older advisers are retiring and historical routes to replenish capacity (bancassurance and direct sales forces) no longer exist. The academy concept is gaining some momentum but not universally embraced although paraplanner development is one option frequently used.

Economics – An increasingly concerning factor for many. Hence the drive to target economies of scale through consolidation or value chain mining. Regulation is an important factor behind the growing cost burden in resource as well as monetary terms. There is also pressure on the income side of the profit and loss account.

An emerging feature from some interviews that has not been encountered to any material extent in previous research is the notion of advisers 'sacking' clients because they can no longer make a business case to service their needs. Plus, under the Consumer Duty their fees may be deemed excessive.

Financial capability – This is one of the main drivers of the advice gap issue and undermines the ability of the advice industry to economically serve huge swathes of the population who might actually benefit from advice.

Finding younger prospective customers is a significant challenge and the industry is not yet well set up for dealing with new young customers through digital/technological means. Once they have been found (perhaps through the workplace), engaging with them may prove even more challenging.

"Levels of financial literacy in the UK are poor, with studies suggesting we lag other developed countries. This may well reflect just how difficult the UK financial system is to navigate. Alongside that, consumers have had to grapple with huge changes in the UK economy, and significant regulatory change. The better informed we can make people, whether they choose to engage with regulated advice or not, the better equipped they will be to make decisions around their long-term financial futures. One area of focus should be to explore the opportunities the workplace presents."

Tom Evans - Managing Director, Retirement at Canada Life

Regulation – Viewed as essential but overburdensome and expensive at times. There are questions about what is regulated and how and whether there are opportunities to take a step back on some elements and reconsider them. The big one as far as advisers are concerned is the definition of advice, guidance and information.

The Consumer Duty is seen as necessary and a useful codification of what good customer service should represent. But concerns exist about the costly and burdensome nature of administration, demonstration of compliance and the associated amount of time and resource required. All these costs ultimately pass on to consumers, thereby potentially fuelling the advice gap even further in the short term.

In summary, this analysis suggests that the biggest threats at present are:

- To advisers at the firm level – economics of advice delivery
- To the industry – capacity and the advice gap, economics, the flow of advice resources, industry structure and regulation

6.4.1 Verbatim comments – Advice market challenges in their words

"The ability of clients to afford advice; even if advisers can find ways of becoming more efficient, they will be unlikely to reduce their charges." N

"There is an advice gap. There is greater need for advice than ever so advisers will be able to cherry pick and the advice gap will remain or even grow." N

"What to do about the younger generation especially in terms of communications and engagement." N

"Consumer duty, the whole regulatory overlay, margin pressures from rising costs and pressure on advice fees." E

"Lack of education - even though most providers have all the tools they need; engagement is the challenge. And jargon – who knows what drawdown income calculator is or what it does? Who knows what an annuity income calculator does?" E

"Regulatory burden and cost, PI cover, the cost of delivering advice." E

"Aging adviser workforce – almost three quarters are potentially approaching retirement age (or past it)." C

"Engaging with younger demographics. Intergen addresses some of the market but only a minority. The majority of younger potential clients are on their own." C

"The need to create efficiencies throughout the whole advice value chain – this is why there is so much consolidation and why technology is becoming increasingly crucial. The compliance burden only adds to the problem." C

"Adviser retirement rates are going to outstrip recruitment rates for a long time to come. More and more consumers will be disenfranchised until new lower cost models are developed." C

"Consistency of approach across a range of advisers is a challenge for consolidators." C

"Pace of regulatory change is unrelenting. For example the current thematic review of retirement income advice." C

"We have been through a rigorous programme of client suitability assessments. This produced the conclusion that up to 20% of our clients were not getting as much value for money as they should. We cannot afford to reduce our fee levels because of the costs of doing the work. As a result we have shed the lowest value 20% of our client base and in a conventional sense, these clients are by no means lower net worth." W

"Regulation adds 0.3% to the annual cost of providing advice. More complex products do not help. We need a regime of different regulation for different product types depending on complexity and potential risk." W

"Recruiting/retaining quality advisers." W

"Fees – for younger customers with smaller asset bases, fees mean advice is out of reach. There are ways of getting guidance and some employers will help and workplace platforms have a role to play giving access to guidance services." W

"Regulation is something of a double-edged sword. Its aim is to protect but it often makes efficient financial advice, fact finding and documenting which all take a lot of time very challenging." W

"The biggest challenges include regulatory pressure and, in particular, the consumer duty. It is increasing costs massively. This is not a good look in the current economic climate. Someone has to pay the cost." V

6.5 // REGULATION

The regulatory backdrop is another contributory factor to the advice market state of flux. Already coming through in main industry challenges, mixed views on regulation are clear from advice firm interviews. They understand the need for a strong regulatory framework but its complexity, reach and the bureaucracy it brings are creating serious headwinds for the advice industry. Plus there are already market and economic challenges and a yawning advice gap which seems to be getting wider rather than narrower.
Three major themes come through in adviser sentiment on regulation:

- The Consumer Duty is recognised as a positive and sensible addition to the regulatory landscape – indeed, many think it should already be business as usual for advice firms – but there are concerns about how it relates to other regulation, along with the challenges, costs and resources required to demonstrate ongoing compliance
- The risk of regulatory overload causing complexity, duplication, inconsistency, scope for interpretation and unnecessary burdens at individual product level for simple products like ISAs. All adding to costs and difficulties in delivering services to middle and lower market customers
- The challenges relating to information, guidance and advice and the way in which they, too, inhibit market development

Technology, new routes to market and understanding of the consumer perspective on advice all need to be factored in when looking at the regulatory landscape for the future.

6.5.1 Verbatim comments - Regulation In their words

"Advice businesses think they have dealt with the Consumer Duty but we feel many will still fall foul of the regulation." N

"The Consumer Duty is a bit of a mixed bag. Some positives like the vulnerable customer regime but a lot of negatives in terms of administration, form filling, costs and resource use." C

"Consumer Duty is putting pricing under the microscope. Fair pricing means looking at what is entailed at each level of our proposition and then working out how to deliver smarter service competitively with better use of structured data." C

"The regulator's ambition ultimately is for the market to be more outcome driven rather than simply seeking to avoid harm although in the short term avoiding harm would be a very good outcome." C

"We have an overzealous regulator. Auto-enrolment is light touch therefore things like ISAs should also be light touch." W

"We believe we do everything that is required under the Consumer Duty. Our challenge is in demonstrating it." W

"The FCA is a good financial regulator but co-ordinating the various different strands of their work is difficult and it can add greatly to regulatory costs and burden that is ultimately paid for by the client." W

"We like the Consumer Duty. It has not materially affected the way we provide service but it has helped us to articulate value by putting the client at the heart of everything." W

"Consumer Duty has been all good as far as we are concerned. It has helped us to gain greater clarity about the cost of advice. In terms of pricing, ongoing advice is the same but we have made changes around initial services." W

"On consumer duty, we feel we are in a good place but it is the start of a journey. We are reviewing client segments in relation to pricing. Clients with lower value asset bases are becoming more of a problem unless they can rely more on digital that F2F." W

"We have had to look at charging structures and look at achieving consistent client outcomes over a period of time. Through vertical integration, we look to reduce costs where we can we have capped platform fees to ensure good rates and terms." V

ADVISER LANDSCAPE 2
BUSINESS REALITIES & STRATEGIES

7.1 // BUSINESS PLANS AND STRATEGIES/M&A ACTIVITY (ADVICE FIRM INTERVIEWS)

Planning and expectations are heavily dependent on where individual firms currently sit in the market. Consolidators expect to continue to consolidate, vertical integrators and value chain miners expect to continue to seek further opportunities for economies of scale or increasing margin. Traditional IFAs and wealth managers expect to continue to develop their businesses incrementally with little wholesale change to their strategy. But all this activity contributes to the advice market state of flux.

Much current business planning revolves around client management and, for some firms with older advisers, exit strategy development.

Client management is particularly interesting when challenges for consolidators are considered. They are seeking to drive consistency and increase the value from a disparate range of advice firms and their different client bases. Consolidation is felt likely to work best if client service is the core focus and ensuring longer consistency of approach will be crucial – especially in the context of the requirements of the Consumer Duty. These challenges should not be underestimated in the view of many interview participants.

Nevertheless, the search to build scale, achieve targeted economies of scale and access the required capital base from which to build good technological solutions is ever more important for advice firms. Building trust and client relationships are central to all strong advice firms, but the consensus is that while at the individual firm level, it might still work, the wider sector, should leave behind its cottage industry mentality. Brand, scale, reach, diverse routes to market and technology infrastructure will need to be the new foundations.

In this context, the consensus is that M&A activity is both inevitable and to be desired. And it is expected to continue apace. However, in the view of many advice firms it needs to be 'the right sort' of consolidation. meaning mergers that place client outcomes at the heart of the new business, providing better, more competitively priced and consistent service. Many feel that models eschewing client centricity and seeking to extract value rather than build value are likely to fail in the long term. In this sense, the Consumer Duty requirements are aligned and heading in the right direction.

Of further note on the consolidation and scale themes, some consolidators are viewed as too small scale to operate well in the new world and hence further consolidation among consolidators themselves is highly likely. Some also feel that the prices some consolidators have been willing to pay have been high and these will fall back as the best prospects have been devoured and those remaining may look less attractive.

Scale and size are the real drivers and hence vertical integration/value chain mining may become at least as attractive a proposition as M&A.

7.1.1 Verbatim comments – Business plans and strategies/M&A activity in their words:

"Cost is driving consolidation; smaller adviser firms are disappearing. For real effectiveness, a firm needs advisers with at least 100 clients each and at least 30 advisers. In reality these days they are competing with providers with big/strong brands. There will be much more vertical integration in the market." E

"M&A activity is an opportunity as well as a threat – if valuation prices stay high. The market needs further consolidation. There will be more vertical integration and advisers with access to their own platforms." E

"Old style advice relied upon people. We now need increasingly to rely on technology supplemented by people." C

"Looking to use more technology. At present the advice journey for a modest lump sum can be 1 hour 10 minutes. Using technology, the same journey could be completed in 10 minutes." C

"We are looking at subscription-style pricing that would cover things like ongoing reviews." C

"We expect to see much more consolidation in the search for economies of scale, use of tools and building a credible brand." W

"Our aim is to be a national brand within five years. Consolidation through M&A is an important aid to developing the market alongside development of own services. I have nothing against either M&A or vertical integration as long as the client's best interests are at the heart of any strategic development." W

"M&A can be both good and bad. Life is too challenging for the traditional one-man band, but acquisitive firms are sometimes seen as being about pile it high, sell it cheap, rather than client service." W

"Increasing focus at one end on ultra-high net worth and intergenerational business but alongside that developing corporate business targeting SMEs/entrepreneurs." W

"There is a trend in the market towards quality firms and it likely that smaller consolidators will themselves need to consolidate further in the near future." W

"The biggest challenge confronting all advice firms is the unit cost of advice. Our calculations suggest that taking into account all of the inputs of adviser, paraplanner, administration/record keeping etc a 0.5% ad valorem advice charge produces an advice break-even point at around £180,000 portfolio value. We are more flexible than that in reality because we believe in lifetime value – but it is nevertheless a sobering statistic. To some extent, existing clients do subsidise new ones." V

"Technology has to be fully integrated into all sales and relationship processes." V

"Organic growth is difficult. We are investing heavily in infrastructure and our operating platform. Acquisition is one way forward and we see increasing likelihood of consolidation of consolidators. The cost of finance will hurt smaller firms. We have to achieve consistent client outcomes and value for money; this will almost certainly need greater scale." V

7.2 // ECONOMICS/VIABILITY OF ADVICE (ADVICE FIRM INTERVIEWS)

There is little doubt certain parts of the advice industry are becoming increasingly economically unviable. There is an almost universal view that size matters; hence the growing importance of consolidators, provider-owned vertical integrators and value chain miners. The days of the one-man band high street adviser appear numbered. The required toolkit typically needs size and deep pockets:

- Technology
- Regulatory compliance
- Reach
- Brand
- Economies of scale (though for some consolidators bringing together disparate firms of advisers all with their own historical ways of doing things there is a risk of serious diseconomies of scale)

Margins are being squeezed by ever increasing costs (of regulation and technology with its long payback period) and scrutiny of fees and fee bases for different customer segments.

On the economics and viability of the advice market, except among established wealth managers, big IFAs, vertically integrated firms and larger consolidators, there is much caution and concern. Even among consolidators there is a growing view they themselves may need further scale and, given the requirements of the Consumer Duty on value and fees, even wealth managers are looking closely at the affordability and fair value of the services they provide.

7.2.1 Verbatim comments – Economics/viability of advice in their words

"With the growing regulatory requirements and record keeping, time gets in the way of maximising client service. The role of technology is becoming ever increasingly important." N

"One thing that often gets overlooked is that many of the 'starter' products and services are taken out of the client development equation. Mortgage business is separate. Protection is either linked to this or available through the workplace. Pensions are looked after through auto-enrolment; capacity for other regular savings is limited and again sometimes available through the workplace." E

"Costs are driving consolidation. The big question is whether the FCA will come down on fees. Flat fees may attract new clients especially early accumulators this might favour a flat fee model. Smaller firms are highly vulnerable." E

"Online and hybrid advice can help keep costs down; collecting data and crunching online also helps with efficiency. Technology is already making some difference but advice is still increasingly expensive." E

"There are different cohorts of clients and we can't provide appropriate services for all of them. With the Consumer Duty, firms have to look at the client bank and their propositions closely." C

"Acquisition allows firms quickly to scale up and ensure proper integration of related services to provide a holistic advice proposition." C

"What big consolidators are trying to do is build national brands. The big question is what is the customer outcome. If the consolidation is client-centric, there should be huge benefits in terms of service and outcomes. If the consolidation is more driven by the aim of extracting value from the business, the needs of the client are not necessarily put first. Either way, economies of scale, efficiency and better service are the objectives." C

"The economics of advice are now such that it is not viable to provide services to anyone with less than £300k in investable assets unless they are prepared to pay our fees." C

"Technology is the only way to reduce cost to service. For us at the moment it may cost say £900 to service a client. This needs to fall to £300 per year; the only way down is through technology." C

"There is a heavy cost to complying with the regulatory burden and that has to be paid for – one of the reasons fee levels are too high for smaller investors." W

"With the consumer duty and the concept of fair value, you can't advise someone with £20,000 to invest and you certainly can't make money from a portfolio of less than £100k." W

"Costs and declining margins are forcing some advisers either out of the market or into the arms of consolidators. This does not help the advice gap. One problem is the amount of red tape and the time and resource to address this. Also, the layers of sign off and administration are making the situation worse." W

"With different parts of the market gradually being served in other ways, potential for financial planners is becoming more constrained – pensions through the workplace, protection also through the workplace or in conjunction with the mortgage market – even the mortgage market itself have all been market development opportunities in the past; as has simple saving business (ISAs for example) where it is seldom economic to provide advice services – except as a favour to exiting clients. Advice is becoming increasingly unviable." W

"The subscription pricing model may work in the advice sector." W

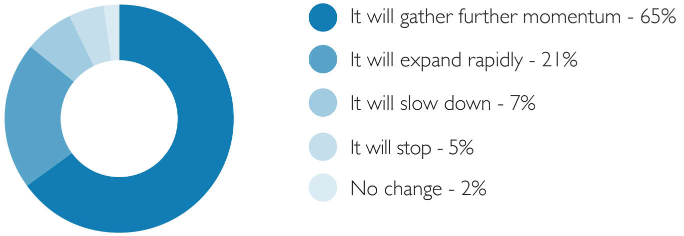
"M&A for its own sake is not enough. Consolidators need to develop strong consistent brand across their organisations. At the moment it is not always happening." V

FUTURE OUTLOOK – BUSINESS FACTORS AND ADVICE MARKET SHAPE

8.1 // MERGERS AND ACQUISITIONS (ADVISER SURVEY)

AKG's survey sought predictions on the outlook for M&A activity in the adviser market over the next 2 to 3 years. It is clear from the findings here (and in keeping with sentiment from advice firm interviews) this is showing no signs of slowing down - 65% predict it will gather further momentum and 21% that it will expand rapidly.

What are your predictions for M&A activity in the adviser market over the next 2 to 3 years?



Source: Adviser Research

M&A activity seen as another factor contributing to advice market 'state of flux'.

8.2 // COMPETITION FOR BUSINESS (ADVISER SURVEY)

The survey sought to gauge, in terms of potential competitors, where advisers see the biggest threats to the future success and sustainability of their business coming from over the next 2 to 3 years.

Interestingly barely anyone completing the survey didn't see any threats to them in the advice market with findings suggesting competition would be provided by a range of advice firms and proposition types. It feels like this perspective has shifted over the past couple of years.

In terms of potential competitors, where do you see the biggest threats to the future success and sustainability of your adviser business coming from over the next 2 to 3 years?

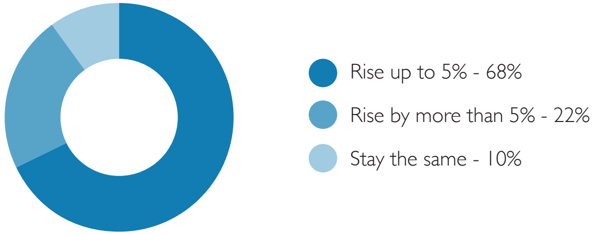
Source: Adviser Research

Broadening competition of advice firm/proposition type seen as another contributing factor to advice market 'state of flux'.

8.3 // ADVISER NUMBER PREDICTIONS (ADVISER SURVEY)

Via the adviser survey AKG sought predictions on the trajectory of financial adviser numbers in the UK over the next 2 to 3 years.

Over the next 2 to 3 years do you think the total number of financial advisers in the UK will…



Source: Adviser Research

Despite general acknowledgement via the interviews of adviser exit strategy planning and concerns around bringing new blood into the advice market, these findings paint a slightly more positive picture of potential adviser numbers over the next 2 to 3 years with the majority of those surveyed expecting a rise in numbers.

8.3.1 Why do you think the number of financial advisers will change as you suggested?
The survey also asked why they felt the number of financial advisers will change as they'd predicted, with the following top five reasons being selected.

The top reason selected was better technology application making advice work more attractive.

33.3% Better technology application making advice work more attractive
16.7% Numbers of advisers leaving/retiring
14.4% Improved professionalism and reputation making advice work more attractive
8.9% Adviser academy development/growth
7.8% Shrinking number of DA firms/M&A activity

8.4 // WHAT CAN BE DONE TO ATTRACT NEW ADVISERS INTO THE INDUSTRY?

The survey requested respondents to agree or disagree with a range of statements about the ways in which different stakeholders can work to attract new advisers into the industry.

- 84% agree - There needs to be a coordinated approach by industry trade bodies and financial service providers to attract more advisers into the industry
- 75% agree - The Government should consider sponsoring and supporting a sustained initiative to help recruit advisers into the industry
- 71% agree - Financial services industry, including providers, advice firms and trade bodies need to develop their own programmes to attract candidates from outside the financial services industry, including second careerists
- 66% agree - Advice firms should expand their apprenticeship programmes to attract and train potential future financial advisers
- 58% agree - More should be done by schools and universities to educate and inform students about a career in the financial advice industry

8.5 // FACTORS DRIVING ADVISER EXPANSION PLANS (ADVISER SURVEY)

Exploring advice firm expansion plans, AKG's survey asked for the main driver where firms are planning to expand staff and presence, including advisers, to service more clients in the next 2 to 3 years.

The top five drivers for expansion were selected as follows:

68% Ability to create cost efficiencies through deployment of technology/AI
50% Growth ambitions of our firm
50% Widened offering of advice services/types
49% Intergenerational/estate planning opportunities
39% Demand of existing clients

8.6 // DEVELOPMENTS/IMPROVEMENTS REQUIRED FOR BUSINESSES TO PROSPER (ADVISER SURVEY)

Looking ahead at future plans, AKG asked what fundamental developments or improvements advisers felt are needed to enable businesses to prosper in the next 2 to 3 years.

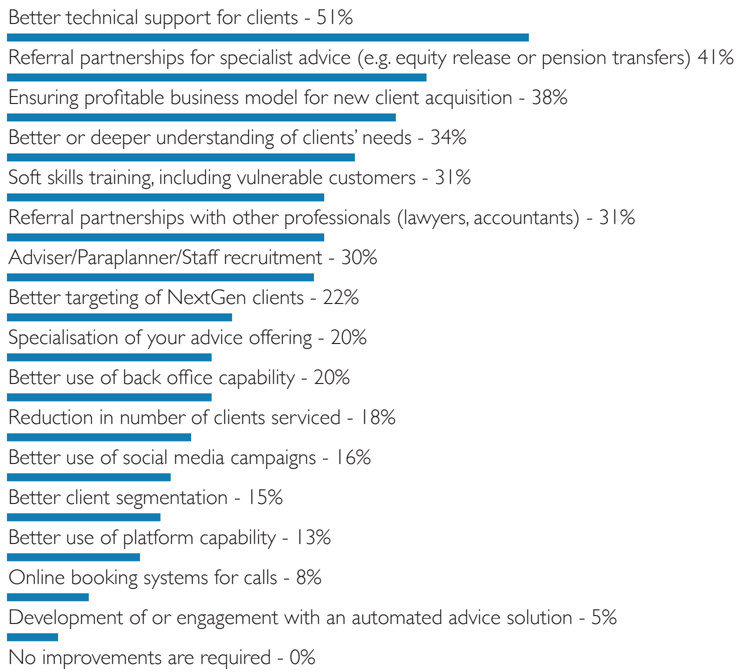
Better technical support for clients (51%) came through as the most selected area for development/ improvement.

It was Interesting to see a focus on tapping into strategic referral partnerships - Referral partnerships for specialist advice (e.g. equity release or pension transfers) (41%); Referral partnerships with other professionals (lawyers, accountants) (31%).

An acknowledgement of the requirement to develop new client acquisition strategies was also seen - Ensuring profitable business model for new client acquisition (38%) and Better targeting of NextGen clients (22%) were required improvements for some.

And there was some focus on development of softer skills and client relationship nurturing - Better or deeper understanding of clients' needs (34%); Soft skills training, including vulnerable customers (31%). Finally, Adviser/Paraplanner/Staff recruitment (30%) was selected as an area for improvement by some.

What fundamental developments/improvements are needed to enable your business to prosper in the next 2 to 3 years?



Source: Adviser Research

FUTURE OUTLOOK – BUSINESS RELATIONSHIPS

9.1 // ROLE OF PROVIDERS (ADVICE FIRM INTERVIEWS)

Sentiment from advice firm interviews reveals an evolution of relationships with and requirements from providers, also indicating a potential decline in the reliance on provider inputs. The trend towards consolidation and vertical integration seemingly brings more capability (and preference) for some advice firms to rely on their own resources and skills. Scale also brings negotiating power to the table for larger firms with some inevitably targeting development of more strategic relationships with providers.

However, advice firms still expect strong ongoing support from providers in several areas – but suggest it is not always as forthcoming or as good as they expect:

- Good efficient application processes
- Timely, accurate and efficient administration and paperwork
- Timely and easy release of funds on redemption, maturity or transfer of funds (one of the biggest bugbears it would seem)
- Technical support when needed
- Good local business development or telephone support

Larger provider firms are generally seen by many as being more helpful and responsive, but the growing impression here is that larger, consolidated and vertically integrated firms are becoming less reliant on provider support than has been the case in the past.

9.1.1 Verbatim comments – Role of providers in their words

"We look for providers who can offer a good online journey, using Intelligent Office we aim for straight through processing. With a platform this will be very important. At the moment there is still a lot of double or even triple keying." E

"Ease of input and efficiency of use are main drivers at present." E

"In the workplace providers are doing more. In the end they are actually looking to conserve the assets they are looking after in retirement. Members need a lot of help to stop them from doing the wrong things at retirement." E

"Platforms are key along with tools and support to ensure a smooth journey." C

"Providers need to be more willing to accept online forms. There are often significant delays in getting information from providers especially with new clients. They are inflexible in terms of time taken and inflexible about only using their own forms for example. Switching pension funds can also be an administrative nightmare." W

"We are quite autonomous and there is little we actually need from providers these days other than timely responses and service. What we would like them to have is good technical support; they need efficient problem solving customer service." W

"We look for help and support on technology, understanding processes – for example with medical processes. We just want the things we need hassle free and on things like SIPP and SSAS, good technical support." W

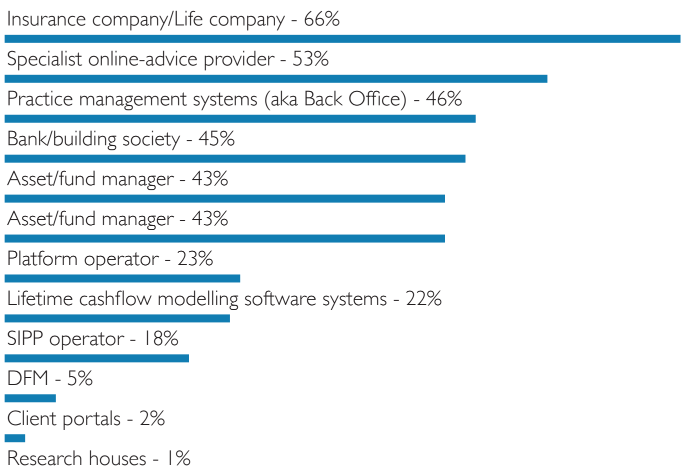
"All we need really is quality data and understanding of products and client needs. Big providers are generally better than smaller ones." V

9.2 // PROVIDER/OPERATOR RELATIONSHIPS (ADVISER SURVEY)

The adviser survey sought to ascertain which types of financial services provider/operator respondents see as benefiting most from opportunities to service advisers and their clients over the next 2 to 3 years.

The top five selected here were Insurance company/Life company (66%); Specialist online-advice provider (53%); Practice management systems (aka Back Office) (46%); Bank/building society (45%) and Asset/fund manager (43%).

Which types of financial services provider/operator do you see benefiting most from opportunities to service advisers and their clients over the next 2 to 3 years?



Source: Adviser Research

9.3 // REQUIRED EVOLUTION OF ADVISER RELATIONSHIP

Those consumers who had accessed advice in the past five years were asked in what ways they think their adviser relationship will need to adapt or change in the future. Providing some really useful insight on the potential evolution of adviser/client relationships, the top five factors selected from the options provided were:

- Increased communication and updates, involving more regular check-ins, performance reviews and adjustments as circumstances change (23%)
- Greater focus on financial education, including concepts and strategies to make more informed decisions (18%)
- Transition from traditional investment advice to holistic financial planning, which could include budgeting, debt management, estate planning (18%)
- Utilising technology, including AI, to provide real time insights into investments and overall financial health (16%)
- More ethical and sustainable investing opportunities (15%) / Become more competitively priced/facilitate lower charges (15%)

There was also a level of interest seen in expanding the relationship to include spouse/partner and/or family members (14%).

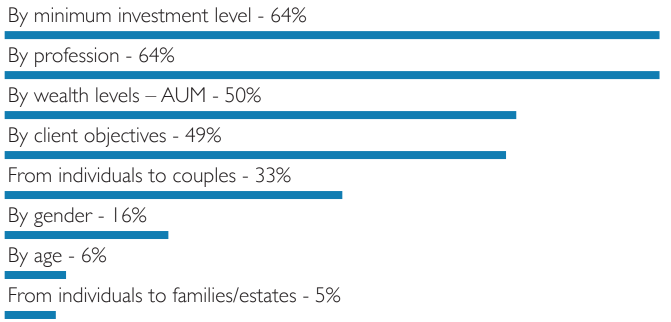
Whilst for some, the relationship doesn't need to change (33%).

9.4 // CHANGING PROFILE OF ADVICE FIRM CLIENT BASE

Looking at the make-up of their advice firm's client base, survey respondents were asked whether they see this profile changing over the next 2 to 3 years.

Many see the profile of their client base changing over the next 2 to 3 years by minimum investment level (64%) and by wealth levels – AUM (50%). This shift 'up market' feels inevitable given reported rising costs of advice provision.

Looking at the make-up of your advice firm's client base, do you see this profile changing over the next 2 to 3 years along any of the following lines?



Source: Adviser Research

FUTURE OUTLOOK – ROLE OF TECHNOLOGY & AI

10.1 // ROLE OF TECHNOLOGY (ADVICE FIRM INTERVIEWS)

In many ways technology is seen by the advice sector as the cavalry coming over the hill. Whilst not the whole solution, it will play the role as a crucial facilitator of solutions.

Acknowledged progress has been made in recent years in the use of technology in the back office – streamlining processes, making routine and repetitive tasks more efficient, enhancing CRM capability and even now extending beyond record keeping and into more directly client facing functions like report writing and analysis.

But those advice firms interviewed see much more progress to come and it's another area which can be viewed as being in a state of flux. And technology will also have an important role to play in development and delivery of hybrid advice strategies.

However, there are limitations. Recent market developments in the form of struggling technological initiatives in the front office give weight to the commonly expressed adviser views that technology can only complement rather than fully replace human intervention in the advice process.

Technology can help to lead the consumer to the solution but it cannot always achieve full engagement and take-up for non-mandatory products and services. Moreover, successful technology initiatives require scale, reach, long term commitment, deep pockets and extensive adviser and client bases for maximum effectiveness.

10.1.1 Verbatim comments - Role of technology in their words

"Technology in its various guises can solve a lot of the problems advisers face." N

"Technology needs to help achieve minimal inputs and avoid rekeying." N

"Technology alone is not the answer. You have to have a sense of trust about whether the advice is well informed and sound. Even an online annuity journey includes a phone call. Drawdown advice is a hybrid process. Pure online does not yet work; people want to talk to someone." E

"Having said that, newer younger clients may become increasingly comfortable with doing things online." E

"Most clients these days are comfortable talking over the phone but less comfortable dealing digitally." E

"Perhaps the biggest opportunity will come from developing a digital service that has a human touch. AI is not a standalone solution." C

"Technology in the front office is evolving and continues to need to do so. Today's young clients are the Facebook generation. The next cohort coming through thinks that even Facebook is outdated. The new 'right solutions' will be hosted on common tech platforms." C

"Advice needs a human touch. There are issues around the definition of advice; verbal advice using technology to deliver remotely will work given an element of self-service, but you need a lot of scale for robo to work." C

"It is going to be essential for advisers to embrace technology – for example get clients to fill in fact finds and maintain them; that would save £300 of adviser time each year." W

"AI could have a role to play in making advice more affordable for lower value savers – some advice is better than no advice for most people. There will always be a role for face to face however, even if not always in the same room. Family units are important." W

"Technology is important for example in providing a client portal, in report writing. There are systems to help but much more needs to be done." W

"Initial contacts have to have a big human input but a mix of virtual/F2F is possible. Ongoing review processes have much more potential for automation to help drive down costs in terms of understanding goals, decumulation needs – maybe with a fixed fee menu." W

"Technology can make processing easier – protection business is already highly automated and some simpler savings products can/will go the same way. Financial planning and cash flow modelling are going the same way. When you think about it, clients already have skeleton cash flow data in their bank accounts. This could be harnessed." W

"Larger firms and vertically integrated firms are in a better place to exploit the potential of technology than more traditional advice firms. They have scale and the ability to integrate more effectively." W

"Technology is essential. We need to get all client data in one place and so use technology to free up time. We need to rejuvenate the entrepreneurial spirit among advisers." V

"We are heavily tech-driven. Cost pressures are driving the need for intelligent use of AI for example for mundane reporting tasks, easier quicker processing, simple regular reports. But it all needs to be overlaid with a human touch." V

"Tech plays a part in making the distribution model more efficient, but the FCA has a role to play in regard to caveat emptor rules, the simplified advice/guidance regime and the operation of the PI market." V

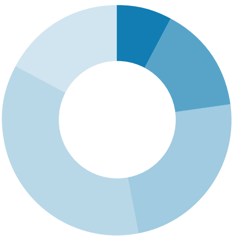
"Technology does not fill the gap but it does allow the adviser more time and space to provide advice services." V

"AI is not a silver bullet. It will help with document drafting, research and analysis but it cannot replace empathy or client focus." V

10.2 // CONSUMER PERSPECTIVE ON AI DERIVED ADVICE (CONSUMER SURVEY)

There has been much talk in recent times about developments in the capabilities of AI and its developing role in our lives and so we wanted to appraise potential appetite for advice derived from AI via the consumer survey, as well as gauging perceived impact of AI via the adviser survey.

Consumers were asked for their perspective on AI, specifically whether they would be comfortable receiving and acting on advice derived from AI.



- Yes, I would act on the advice given - 8%
- Yes, but would need to verify the advice given - 15%
- Not yet but potentially if/when the technology is more proven - 24%
- Would never be comfortable receiving and acting on advice derived from Artificial Intelligence - 36%
- Don't know - 17%

Source: Consumer Research

In total, just under one-quarter (23%) of those surveyed by AKG said they would be comfortable to some extent receiving and acting on advice derived from AI – broken down further as:

- Yes, I would act on the advice given (8%)
- Yes, but would need to verify the advice given (15%)

And a similar proportion (24%) said, not yet but potentially if/when the technology is more proven.

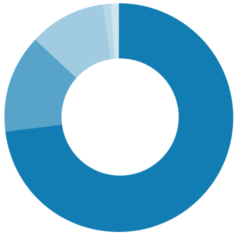
Over one-third (36%) said they would never be comfortable receiving and acting on advice derived from Artificial Intelligence and 17% didn't know how they felt about it.

10.3 // ROLE/IMPACT OF ARTIFICIAL INTELLIGENCE IN FINANCIAL SERVICES (ADVISER SURVEY)

AKG sought high-level perspective from adviser survey respondents on the role/impact of AI on consumers/ advice firms when it comes to finance/money matters over the next 2 to 3 years.

This was overwhelming seen by the majority of advisers as having a positive impact - Some positive (73%); Major positive (14%) – with seemingly limited negative sentiment.

What role/impact do you expect Artificial Intelligence will have on consumers/advice firms when it comes to finance/money matters over the next 2 to 3 years?



- Some positive - 73%
- Major positive - 14%
- No change - 11%
- Some negative - 1%
- Not sure - 1%
- Major negative - 0%

Source: Adviser Research

THE FUTURE & THE ADVICE GAP

It is generally felt by those advice firms interviewed that longer term prospects are better than short term. Current focus seems to be more on survival or dealing with internal issues like costs, regulation and organisation than on market potential. A state of flux exists as described throughout the paper.

Yet long term, there remains much to be excited about:

- There is an advice gap to be filled, but it is growing and is being fuelled to some extent by rising costs (not least regulatory costs) and diminishing client appetite to pay for advice
- Technology is helping to reduce the cost of access to the market through D2C and other initiatives, including hybrid advice models, especially through workplace schemes
- Financial wellbeing services do have potential to reach parts of the market other services might struggle to achieve

But to be in a position where these longer term opportunities can be realised there are a lot of hurdles to be addressed.

- Advisers do not necessarily see 'the advice gap' as their problem to solve so long as individual firms are operating as they wish to
- The regulatory burden acts as a brake on business development not least because of the cost and resource implications for firms that ultimately have to be passed on to their clients
- There are other barriers especially in the boundaries of advice, guidance and information and the huge disconnect between how regulators and consumers see and interpret these nuances
- Trust and brand (more commonly associated with size and reach) will be more necessary than ever and they are quite commonly lacking in today's market

There are clear needs for concerted and higher level action in regard to things like financial capability, advice and the need for a more integrated and customer friendly approach to financial education. Financial advice firms are a key part of the solution here but they are neither the drivers nor the curators of what needs to be done.

Over the longer term there can be a clearer route to a positive future in which the advice system becomes less dysfunctional and is populated by a wide range of advice firms and initiatives that work cost efficiently to the benefit of the client.

11.1.1 Verbatim comments – The future and the advice gap in their words:

"There is not in my view an advice gap – there is a willingness or ability to pay gap. The market needs a different model of advice." N

"Will it be Amazon or maybe Zuckerburg that crack it? There will be advice but not necessarily face to face in person. The market is all about trust – that has always been the adviser's strength. But you can trust a brand and with younger generations that is increasingly the case." N

"Get education right." N

"So much depends on the FCA. What they decide about things like limited or targeted advice will be crucial. As will how they view AI. An AI service could easily deliver specific advice at key points at lower cost. Ultimately reducing regulatory oversight may be driven by government rather than regulation." E

"The challenge for Fintech is joining everything up. The future boils down to education and where is the responsibility for that?" E

"We are starting to see some younger members (or their employers), paying for some advice. There are also more digital channels that younger members are happy to engage with. AI has some interesting implications. But there is always going to be a need for a human to sign off – to check the homework." E

"Clients are changing dramatically. We now have the mobile phone generation – using technology for gambling, bitcoin and instant transactions for example. It is very difficult to see how they will transition to advice service, when or of what type. Ultimately, however, they will experience one or more of the main calls to action – mortgage, saving and/or retirement planning." W

"What is guidance; what is advice? There is a disconnect between the two. Ultimately, what does the word advice mean – it is different thing to different people." W

"We are a long way from filling the advice gap. Technology needs to come more to the fore. There needs to be government funding to help ensure people understand simple things like budgeting." W

"Workplace pensions may act as a foundation for developing advice. Digital services may also be capable of development into more broadly based advice. The key is engagement and uptake which remain stubbornly low." W

"The future is about huge consolidation, technology and solving all the problems around cost to serve." V

APPENDIX

12.1 // ADVISER SURVEY QUESTIONS

Q1. Which of the following external and internal issues give you most cause for concern relating to the ongoing operation of your adviser business? (please select all that apply)

Q2. In terms of potential competitors, where do you see the biggest threats to the future success and sustainability of your adviser business coming from over the next 2 to 3 years? (please select all that apply)

Q3. What fundamental developments/improvements are needed to enable your business to prosper in the next 2 to 3 years'? (please select all that apply)

Q4. Which types of financial services provider/operator do you see benefiting most from opportunities to service advisers and their clients over the next 2 to 3 years? (please select all that apply)

Q5. What are the most important criteria for you as an adviser when selecting/retaining financial services providers/operators as long-term partners for your business? (please select top five)

Q6. What are your predictions for M&A activity in the adviser market over the next 2 to 3 years?

Q7. Over the next 2 to 3 years do you think the total number of financial advisers in the UK will…

Q8. Why do you think the number of financial advisers will change as you suggested?

Q9. If your firm is planning to expand its staff and presence, including advisers, to service more clients in the next 2 to 3 years, what is the main driver of this? (please select all options which apply)

Q10. What do you believe should be done to attract new advisers into the industry? (please state whether you agree, disagree or don't know in relation to the following statements)

Q11. Will ESG considerations, either driven by clients or presented to clients by advisers, form more of the common advice journey/conversation for your firm over the next 2 to 3 years?

Q12. Looking at the make-up of your advice firm's client base, do you see this profile changing over the next 2 to 3 years along any of the following lines? (please select all options which apply)

Q13. What type of new clients are you targeting in the next 2-3 years? And what might their minimum entrance requirements be? (please select all options which apply)

Q14. What role/impact do you expect Artificial Intelligence will have on consumers/advice firms when it comes to finance/money matters over the next 2 to 3 years?

12.2 // CONSUMER SURVEY QUESTIONS

Q1. Have you sought advice on your financial planning (including for a mortgage) from an adviser in the last 5 years?

Q2. You mentioned you sought advice on your financial planning in the last 5 years, why was this? Please select all options that apply.

Q3. How do you engage with your financial adviser?

Q4. What, if anything, do you value about your relationship with your adviser/advice firm? Please select the top three options that apply.

Q5. In what ways, if any, do you think your relationship with your financial adviser will need to adapt or change in the future? Please select all options that apply.

Q6. You mentioned you have not consulted a financial adviser in the past five years, why is this? Please select the top three factors that apply.

Q7. What factors, if any, would make you likely to seek financial advice? Please answer assuming the advice was free, or that you had enough to pay for the relevant advice. Please select all options

Q8. What, if anything, could advisers do to make it more likely for you to seek financial advice? Please select all options that apply

Q9. What is / would be your preferred channel to work with a financial adviser?

Q10. Summary - Thinking about your own financial know-how and personal finance knowledge, how far do you agree or disagree with each of the following statements?

Q11. Do you regret not seeking financial advice over any major financial decisions you have made?

Q12. You mentioned you regret not seeking financial advice for a major financial decision, why is this? Please select all options that apply

Q13. You mention you regret not taking financial advice for a major financial decision, what is the decision you would have sought advice on? Please select all that apply.

Q14. Would you be comfortable receiving and acting on advice derived from Artificial Intelligence (AI)?

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12.3 // VERBATIM COMMENTS FROM INTERVIEWS CONTINUED

12.3.1 Verbatim comments – Advice market opportunities in their words
"Accumulation moving into decumulation – getting harder to address because of the costs of advice. And then LTC and equity release." E

"Asset consolidation post retirement is a good opportunity area." E

"Financial wellbeing services can provide help all the way down the age range, not least relating to debt concerns. They can embrace family issues (which sometimes lead to absence issues)." E

"The current generation of retirees still often benefit from the returns from a final salary pension and, in effect, they often have excess income. The next and following generations are less likely to have excess income. Their financial needs will be smaller in scale but no less complex than previous generations and yet will not achieve the same benefit from paying advice fees." C

"Consumer duty is an opportunity to improve quality of advice. The world is more volatile and uncertain and the need for advice continues to grow." W

"The age distribution of the population, product and financial needs complexity, regulatory issues, tax issues, estate planning – they are all there and in increasing amounts." W

"Guidance and a decision tree approach are a threat and an opportunity - our job is working with people." W

"Acquisitions. There is a need for smaller firms to grow and the cost of capital is high." V

12.3.2 Verbatim comments – Advice market challenges in their words
"Time". N

"The threat of more rather than less regulation is an ever present danger." E

"We're Ok; why should we get involved in addressing the advice gap, which is certainly getting worse – not our problem 'closed eye syndrome'." C

"Inflation, low growth, the power of compounding. Also the current generation of clients and advisers is aging." V

"It is difficult to service younger clients with simple needs who do not save enough." V

12.3.3 Verbatim comments - Regulation In their words
"Regulatory change is not having a huge impact in my view overall – much of the advice process is just common sense." N

"The consumer duty has not meant radical change but we do now need to think more about value for money." N

"Seems a bit more joined up these days. The consumer duty seems to have the right focus." E

"We've had to change a few things on the website about help, support, guidance." E

"For a well-run business the Consumer Duty should be little more than a checklist." C

"I think the culture of the industry has changed – advisers now accept they have to embrace what is in reality an opportunity." W

"On the Consumer Duty, I feel there has been a bit of an over-reaction to what is a good principle. Admittedly there is still too much room for interpretation which can lead to bad outcomes." V

12.3.4 Verbatim comments – Business plans and strategies/M&A activity in their words:
"The SJP model is a good one". N

"We don't want to be sales driven; we like to think of our business as a support network. Planning is critical; it is not just about product." W

"PI is still an issue, as is recruitment and retention." V

"More of the same. We need to get bigger and more efficient. We need to be careful about how clients are onboarded. They generally benefit initially from lower charges – a testament to the benefits of scale." V

12.3.5 Verbatim comments – Economics/viability of advice in their words
"If a company like Vanguard can't make the advice process work in the UK, there is not much hope for others." W

"Firms will need to adapt or specialise." W

"Size matters. For example, we believe that having our own platform is paramount. But you need to be a certain size to make this work commercially." V

"Could small firms slip under the regulatory radar?" V

"Advice needs a stronger brand than it currently has." W

"With the ever-increasing cost of regulation, we can only operate if processes like CRM are more automated." V

12.3.6 Verbatim comments - Role of technology in their words
"More firms are operating remotely. Technology is needed to reduce the amount of time advisers have to spend on administration. Maybe we can facilitate clients doing their own fact finds but they would not be so detailed." N

"Technology benefits larger players – they can afford to buy into Fintech." E

"Case studies from providers could be modified to change wording for different target audiences. Take up and engagement can be influenced by taking a step back and looking at terminology." E

"Relationships and data are the only things that matter in this business." V

"With vertical integration you can control more of the value chain and that is vital." V

12.3.7 Verbatim comments – Role of providers in their words

"Royal London see themselves as intermediary-led and in the workplace, though they are potentially competitors, they are also strong collaborators and business flows both ways as relevant." E

12.3.8 Verbatim comments – The future and the advice gap in their words:

"The Consumer Duty has forced providers to look at the level of support they offer. Providers do a lot for free - right up to transactions. L&G is a good example. It is about getting members to engage and for that you need a strong and trusted brand." E

"Size, scale and brand will be the keys. Consolidators will themselves need to consolidate to achieve scale." W

"Investment in an advice brand may be necessary long term. But ultimately it is all about like-minded people building relationships." W

"Developing new young blood through our academy is a core part of our strategy first developing the paraplanning process. We are established now and it is working." C

"It is not or shouldn't be the role of individual firms of advisers to feel they ought to be filling the advice gap. That issue belongs to the legislators and the regulators to expedite and facilitate. Meantime, Vanguard self-service is growing quite nicely. Firms like Hargreaves Lansdown and AJ Bell are doing well in their areas, pensions are auto-enrolment and then you have GIAs and ISAs. But self-service without help guidance, advice or whatever, can and will go wrong." W

"The FCA often lacks clarity. It might be better to have some tramlines. For basic advice relating to savings and debt, technology should be playing a greater role (as it does in the protection market for example). Decision trees should be able to help. Financial education should be the start." V

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