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FINANCIAL ADVICE BUSINESS BENCHMARKING

A joint report on financial advice businesses from NextWealth and the PFS

LETTER FROM THE PFS

As we all know, the advice sector in the UK is subject to constant change, whether that be through evolution or regulatory reform. Operating as a small firm can sometimes seem like a lonely existence, making it difficult to benchmark your business against peers. This is one of the reasons that over 24,000 Personal Finance Society members a year meet through regional and specialist events. Networking, sharing experiences and business relevant good practice is an essential component of being part of a professional community.

As well as regulatory change, the pace of technological advancement is, and continues to be, daunting but the opportunities for automating processes to streamline practices and deliver enhanced service to clients are boundless. Such change however can be expensive and integration difficult without the benefit of others who have been there and done it on a scale small firms can relate to.

Working with NextWealth on this initiative presented us with a great opportunity to provide members with a resource that they can use to practically benchmark how and where their firm fits with the broader market. Whether that benchmarking acts as a springboard to further improve client outcomes or become best in class is entirely up to you.

Keith Richards
Chief Executive Officer
Personal Finance Society

FINANCIAL ADVICE BUSINESS BENCHMARKS

20% female

87% independent

16% discretionary permissions

45-54 average age

80% directly authorised

44% have or are working toward Chartered Status

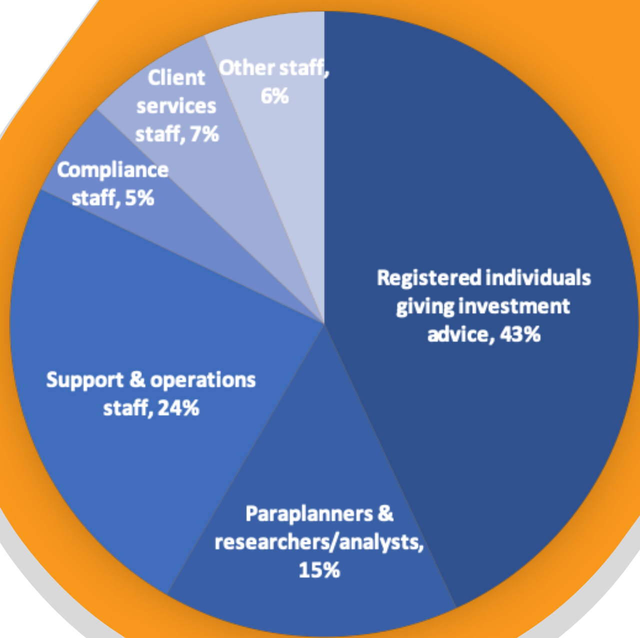
Average client portfolio

£100k - £250k	34%
£250k - £500k	36%

62% of financial planners have **more** active clients than last year

8 Median number of staff

Staff by function



Recruitment

39% of financial advice businesses have *recruited in the past year.*

9% of financial advice businesses are *currently recruiting.*

Investment Proposition

60% use multi asset funds

53% build model portfolios

44% partner with discretionary managers

97% use active solutions, for 68% of client portfolios

82% use ESG solutions, for 7% of client assets

2.3 average number of discretionary managers

Top discretionary managers

1. Brewin Dolphin
2. Brooks Macdonald
3. LGT Vestra

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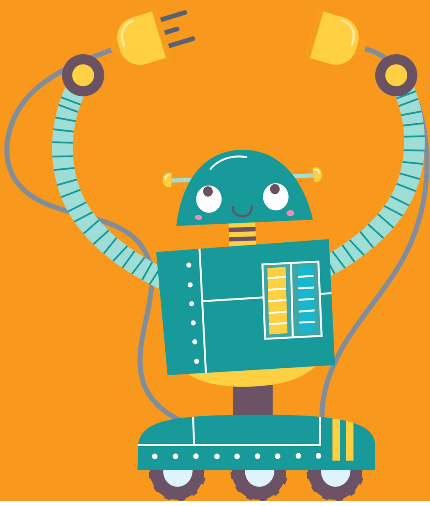
FINANCIAL ADVICE BUSINESS BENCHMARKS



TECHNOLOGY SOLUTIONS USED WITHIN ADVICE FIRMS

88%
USE **BACK OFFICE SYSTEMS**

80%
USE **CASH FLOW MODELLING**

78%
USE **RISK PROFILING**

Top technology solution providers

(Ranked by willingness to recommend)

Back Office

1. Intelligent Office
2. Adviser Office
3. XPlan

Risk Profiling

1. FinaMetrica
2. Oxford Risk
3. Dynamic Planner

Cash flow modelling

1. Voyant
2. Prestwood : Truth
3. Cashcalc

Client Onboarding

3-4 weeks from 1st contact to 1st piece of advice

72% say getting information from providers is the lengthiest step

Average cost to onboard client **£1,543**

Marketing

<5% of turnover is spent on marketing

Spend is focussed on referral sources: website and client literature

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INTRODUCTION

The financial planning market is very fragmented. It is made up of hundreds of mostly small businesses. The Personal Finance Society and NextWealth have combined forces to publish this benchmarking report to allow financial planners to compare their firm with those of their peers.

The results are based on an online survey of 482 PFS members conducted between 11 and 24 July 2019. These planners answered questions about the size of their business, their investment proposition, their technology infrastructure, growth, recruitment, client acquisition and strategic planning.

The report is organised into seven sections:

We plan to update this report annually and welcome feedback and suggestions for what you'd like to see included next year. Please email us on enquiries@nextwealth.co.uk.

1/ PROFILE OF PLANNERS

The charts on the next two pages show the profile of financial planners who responded to our survey.

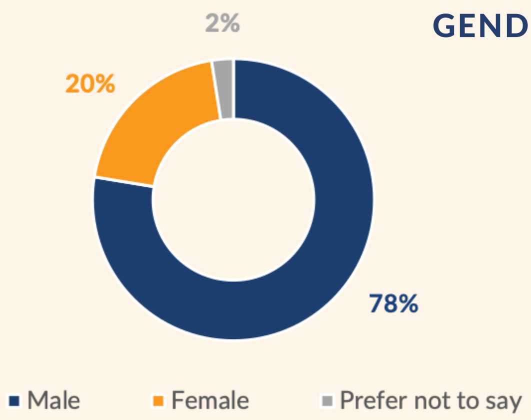
One fifth of financial planners are female. We found no meaningful difference in the gender of planners by size of firm (by employees or firm assets). However, we did find that female planners are slightly more likely to work in appointed representative firms and are likely to be younger (between the ages of 35 and 54).

Male financial planners are slightly more likely to have a higher level of assets under their personal advice than women but this may be a result of fewer years in business, given that female planners tend to be younger.

The average age of financial planners is between 45 and 54. Among all PFS members, the average age of financial planners is 49, younger than many might expect.

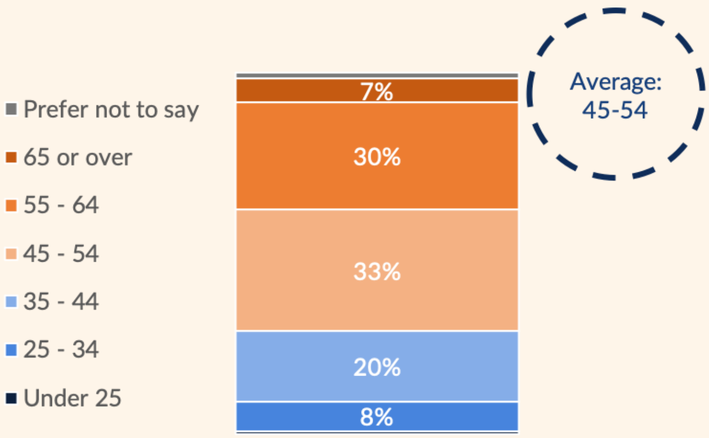
Note the split by age in Figure 2, with roughly one third of planners aged 55 to 64, one third between 45 and 54 and over one quarter under the age of 35. Recruitment of new planners is explored later in this report, in section 4.3, where the data show that younger financial planners are more likely to work in larger firms with a graduate training program.

FIGURE 1: GENDER



Base: n=482

FIGURE 2: AGE



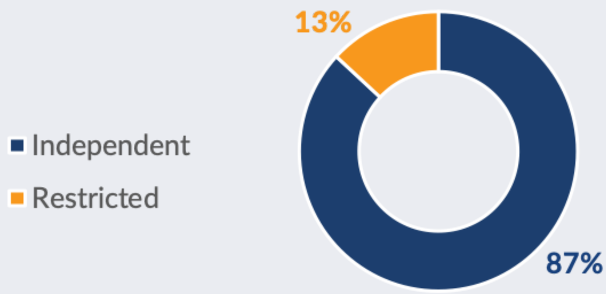
Base: n=482

Many commentators expect to see a rise in the proportion of restricted financial planners as large restricted advice businesses buy smaller firms and as the regulatory burden continues to mount. However, at the time of our survey, of the 482 planners who responded to our survey, just 13% work for restricted firms. In line with expectations, these restricted planners are more likely to be working for larger firms, with 20 or more staff.

Holding discretionary permissions continues to be the domain of larger firms. 16% of survey respondents work for a firm with discretionary permissions. Just 6% of firms with 6 or fewer staff have discretionary permissions, compared with 40% of firms with 30 or more employees.

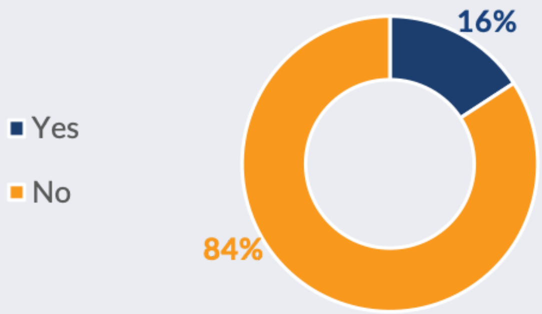
Just over a quarter (27%) of firms we surveyed have achieved Chartered status, and a further 17% are currently working towards this objective.

FIGURE 3: FIRM STATUS



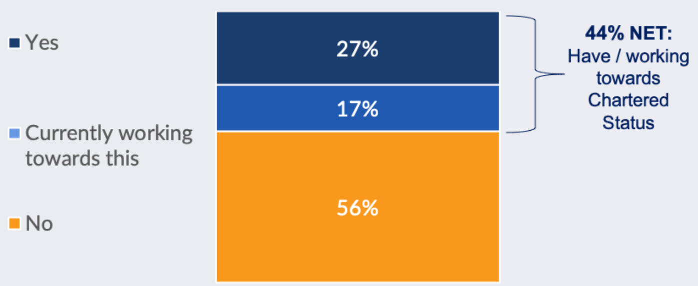
"What is the status of your firm?" Base: n=482

FIGURE 4: HOLD DISCRETIONARY PERMISSIONS



"Do you work for a firm that holds discretionary permissions?", Base: n=482

FIGURE 5: FIRMS WITH CHARTERED STATUS



"Has your firm been awarded Chartered status?" Base: n=482

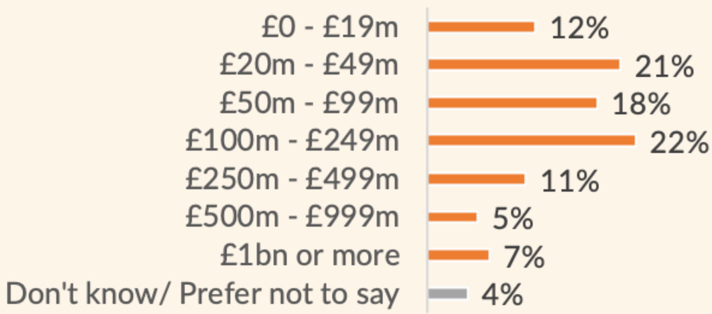
2/ PROFILE OF FIRMS

Financial advice businesses vary in size and make-up. This section considers the profile of firms, including size by AUA, charging models, authorisation and staffing.

Figure 6 demonstrates the wide mix of firms by size, as measured by assets under advice (AUA). There is a nearly even split of planners working for firms with £20m to £49, £50m to £99m and £100m to £249m.

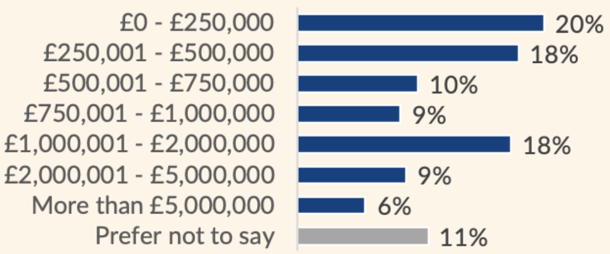
Most firms charge on a percentage of assets basis (91%) though nearly two thirds (62%) of respondents also offer fixed fees or project-based charging models.

FIGURE 6: ASSETS UNDER ADVICE, FIRM



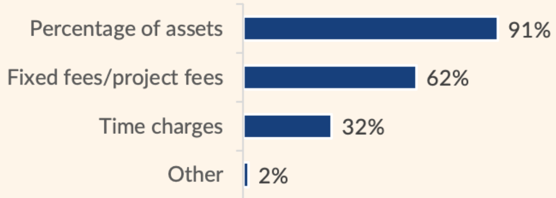
"What level of assets are currently held under your firm's advice?", Base: n=482

FIGURE 7: GROSS REVENUE IN THE PAST YEAR



"What is your firm's gross revenue for the last financial year?", Base: n=482

FIGURE 8: RETIREMENT AND INVESTMENT ADVICE CHARGING MODELS



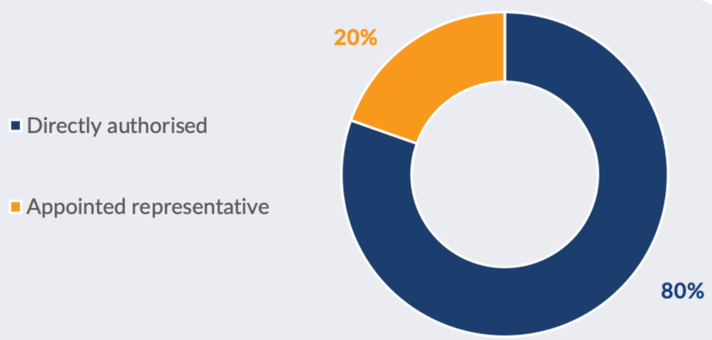
"For retirement and investment advice, which of the following models do you operate?", Base: n=482

The majority of firms (80%) are directly authorised. Among those that are appointed reps, the most commonly named (in order of number of mentions) are Intrinsic, TenetConnect, Best Practice, Openwork, St James's Place and Sense.

Financial planners that are appointed reps are more likely to be restricted; 35% of respondents who say they are restricted are appointed reps compared to 8% among directly authorised firms.

The survey results also reveal that appointed rep firms are more likely to be smaller. While 28% of directly authorised firms have less than 6 employees, that compares to 48% of appointed rep firms. The median number of employees for planners whom responded at directly authorised firms is nine compared with only five for appointed reps.

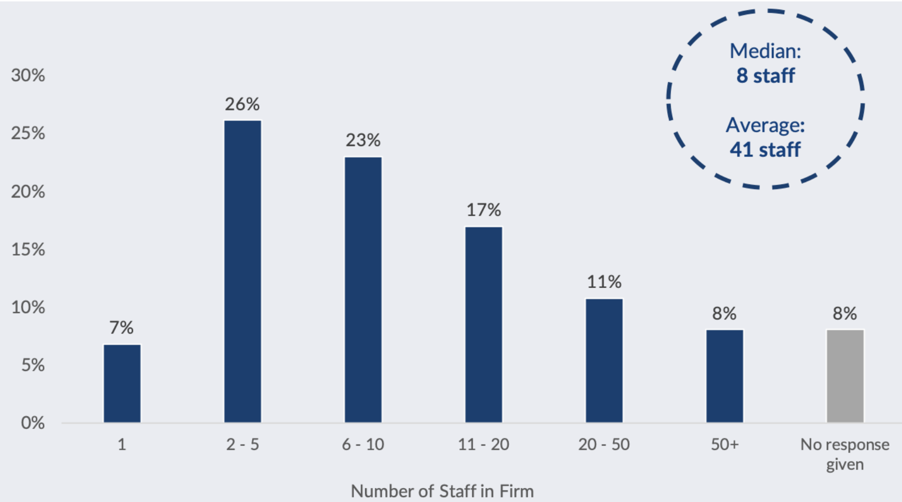
FIGURE 9: DIRECTLY AUTHORISED OR APPOINTED REPRESENTATIVE



"Do you work for a firm that is directly authorised by the FCA or is your firm an appointed representative?", Base: n=482

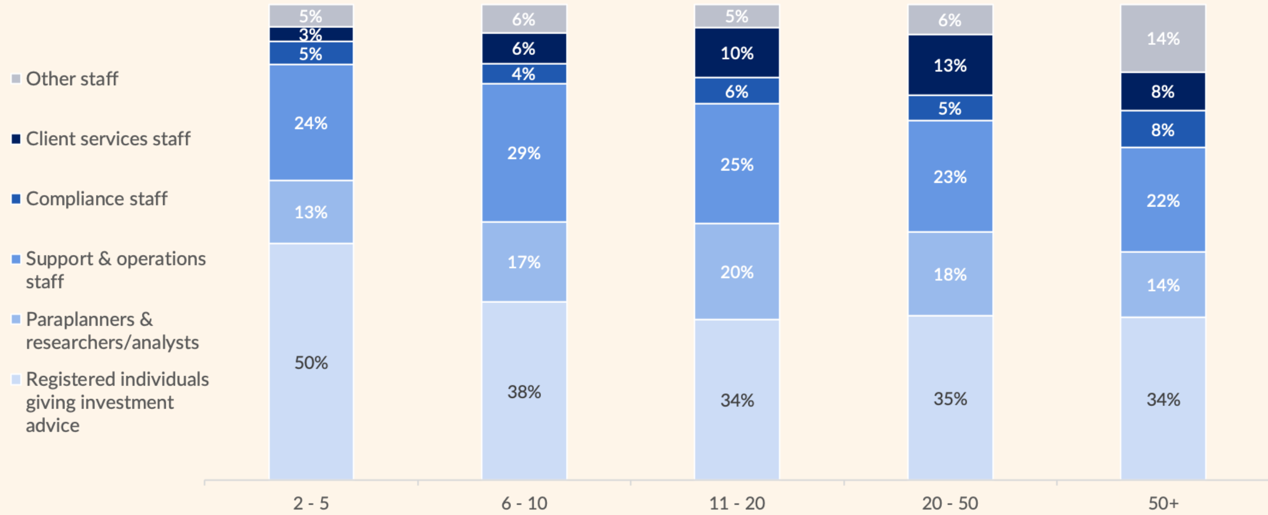
On average, financial planning businesses have 41 staff members. The average is skewed by a few large firms. The median (8) offers a more meaningful benchmark.

FIGURE 10: NUMBER OF STAFF IN FIRM



"How many staff does your firm have?", Base: n=482

FIGURE 11:
STAFF MIX BY FIRM SIZE



"Of the staff at your firm, what proportion are...?", Base: n=482

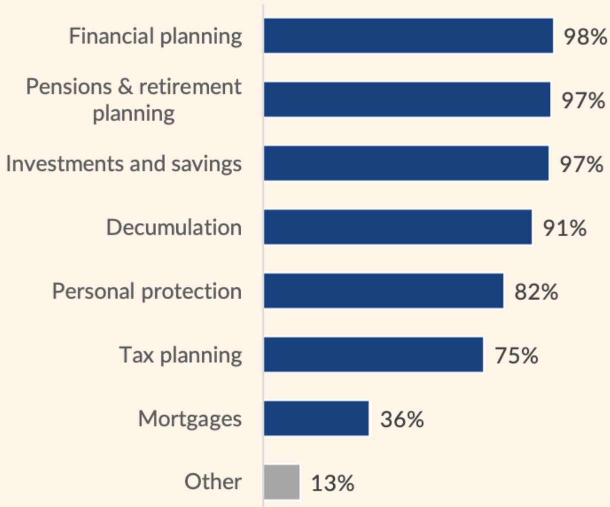
Figure 11 shows the ratio of staff by firm size.

- In firms with 10 or more staff, one third of staff are registered individuals giving advice.
- The share of client services staff is highest at firms with 11 to 50 employees.
- The share of employees in support or operations roles is surprisingly consistent – at about one quarter of staff.

Nearly all of the planners we surveyed offer financial planning and advice on pensions and retirement, investments and savings and decumulation. The large majority also advise on protection (82%) and tax planning (75%).

- Younger planners are less likely to advise on decumulation. Only 77% of financial planners under the age of 35 say they advise on decumulation compared to 92% of those aged 35 to 54 and 94% of those aged over 55.

FIGURE 12:
SERVICES OFFERED



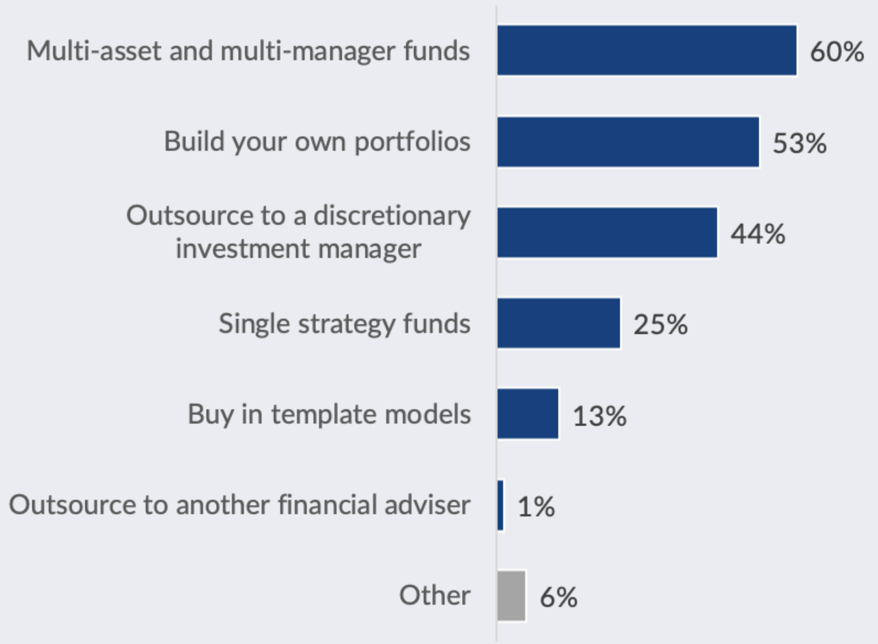
"What services does your firm offer regularly?", Base: n=482

3/ INVESTMENT PROPOSITION

Financial planners use a mix of investment approaches to meet the needs of clients. Financial planners continue to offer a personalised approach to advice and so we rarely come across firms that have adopted a single approach across a client bank. This section explores the business mix and investment strategies used by financial planners.

Multi-asset and multi manager funds are the most widely used investment strategy, used by 60% of financial planners for new clients. A NextWealth survey last year found that multi-asset funds, while most widely used, are used for 19% of client assets, less than for 'build your own models.'

FIGURE 13:
INVESTMENT STRATEGIES FOR NEW CLIENTS



"Are you...?", Base: n=482

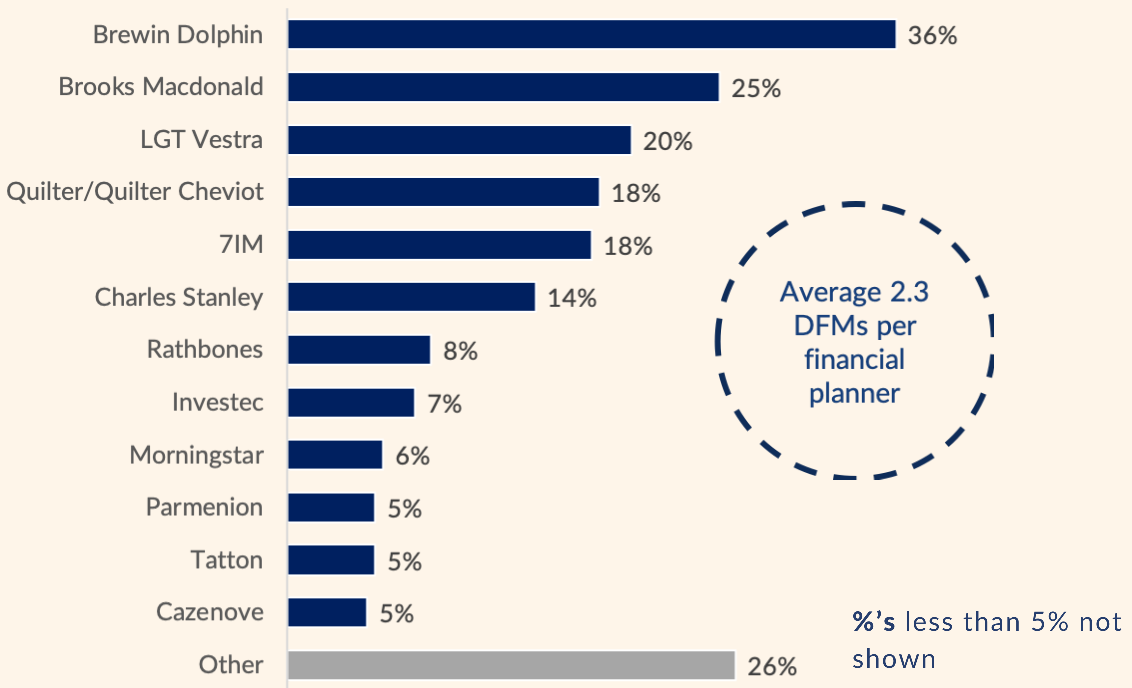
3.1 DISCRETIONARY MANAGERS USED BY PLANNERS WHO OUTSOURCE

Outsourcing to discretionary managers has gained popularity since the RDR and is used by nearly half (44%) of financial planner respondents. Figure 14 ranks discretionary managers by the number of advisers who say they use them. Financial planners that use discretionary managers tend to use more than one. On average, they use between two and three (2.3) discretionary managers. Some advisers use a large number of discretionary managers. Two respondents to our survey provided a long list followed by the comment "and many more."

"Other" is made up of a large number of discretionary managers with the majority being mentioned only once or twice. Those with more mentions:

- Waverton Investment Management
- Liontrust
- Tilney
- Bordier & Cie
- Canaccord
- Portfolio Metrix
- Smith and Williamson
- Square Mile

FIGURE 14:
OUTSOURCING – DISCRETIONARY MANAGERS USED



"Earlier, you mentioned that you buy in template models. From whom do you buy these?", Base: n=214

Active Advocates

Tend to be older and working for a restricted firm

- Planners over the age of 55 put an average of 6% more client assets in active solutions than advisers under the age 35.
- Restricted advisers put an average of 8% more client assets into active solutions.

3.2 USE OF ACTIVE VS PASSIVE SOLUTIONS

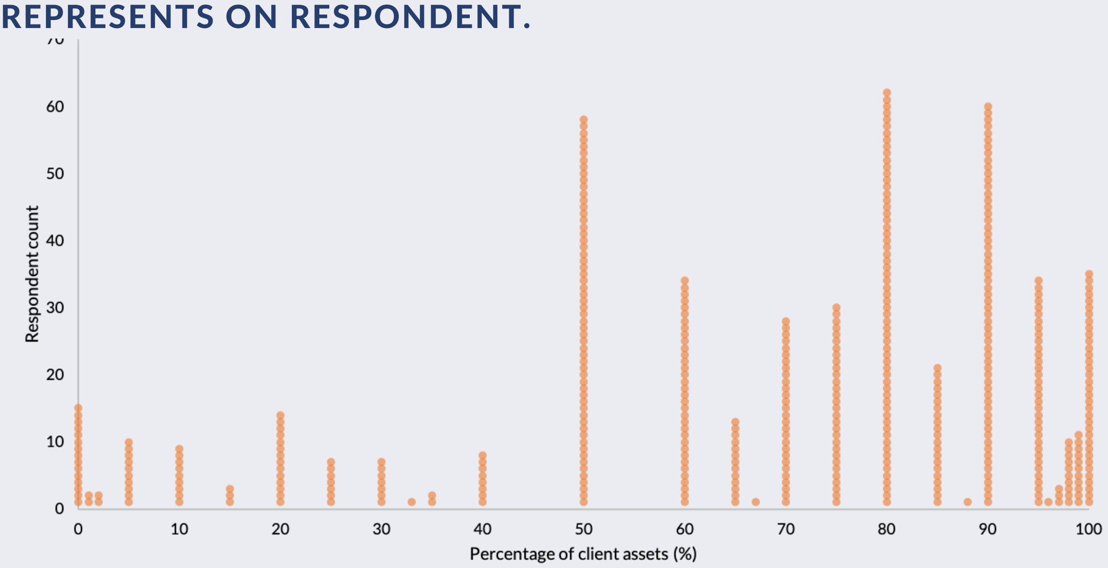
On average financial planners invest more than two thirds of client assets in active solutions.

- 68% of client assets are in active solutions and 32% are in passive solutions.
- Only 3% of financial planners say they have no client assets in active solutions; only 7% have no client assets in passive solutions.
- One in 10 financial planners has less than one quarter of client assets in active solutions. Nearly half (49%) have less than a quarter in passive solutions.

FIGURE 15: USE OF ACTIVE VS PASSIVE SOLUTIONS

“Which of the following investment strategies do you use for new client money?”, Base: n=482

FIGURE 16: SHARE OF CLIENT ASSETS IN ACTIVE SOLUTIONS. EACH DOT REPRESENTS ON RESPONDENT.

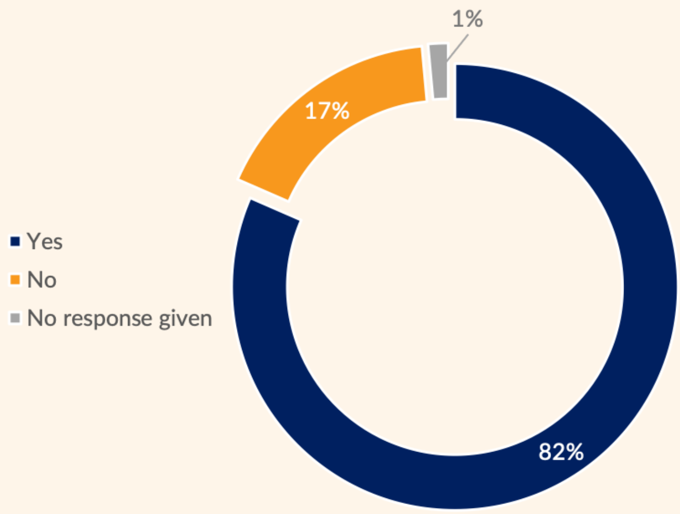


“Approximately what percentage of your clients’ investments are in the following solutions?”, Base: n=482

3.3 ETHICAL INVESTING

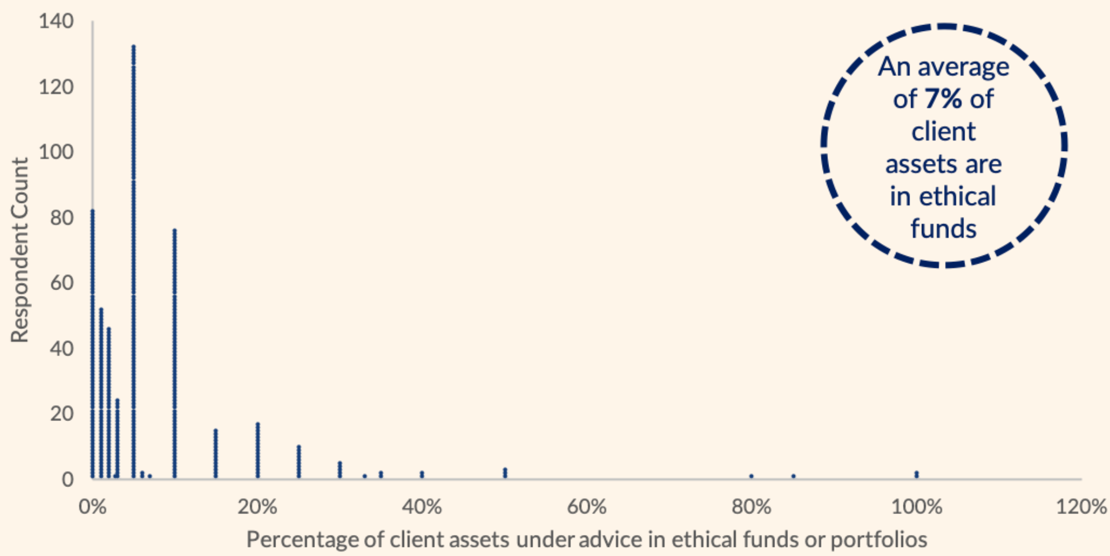
We asked financial planners three questions relating to ethical investing: whether they use ethical funds or portfolios, the share of assets in ethical funds or portfolios and whether ESG, sustainable or impact investing comes up in client conversations.

FIGURE 17: USE OF ETHICAL FUNDS OR PORTFOLIOS



“Makes use of ethical funds or portfolios”, Base: n=482

FIGURE 18: PERCENTAGE OF CLIENT ASSETS UNDER ADVICE IN ETHICAL FUNDS OR PORTFOLIOS



“Approximately what percentage of your clients’ assets under advice are in ethical funds or portfolios?”, Base: n=482

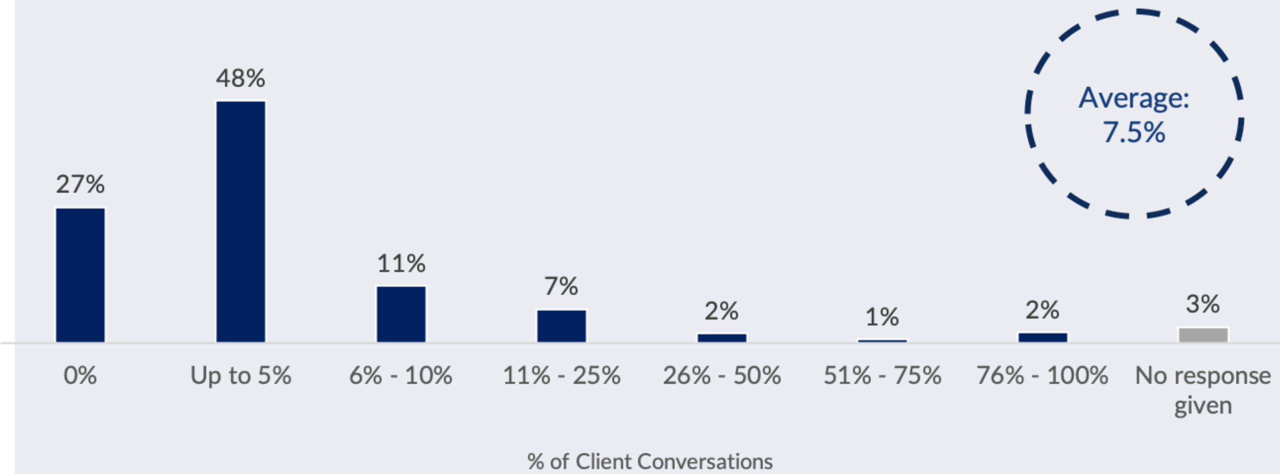
82% of respondents use ethical funds or portfolios for an average of 7% of client assets. Ethical investing comes up in less than one in 10 client conversations.

We often hear that ethical investing is of greater interest to younger generations and women. This report focuses on financial planners, rather than their clients. We did find that female planners and those over the age of 55 working at larger financial advice firms are most likely to be using or discussing ethical investing with clients.

- Financial planners over the age of 55 and working at larger firms are more likely to use ethical funds or portfolios. While 85% of respondents aged over 55 use ethical funds or portfolios the same is true for only 80% of 35 to 55-year-olds and only 77% of those under 35. Further, while 91% of planners at firms with 20 or more employees use ethical funds or portfolios the same is true for only 71% of those at firms with fewer than 20 employees.

- Female financial planners say that ESG, sustainable and impact investing comes up slightly more often in client conversations than for their male colleagues.

FIGURE 19: ESG, SUSTAINABLE AND IMPACT INVESTING



“In what percentage of your client conversations does the client raise the question of ESG/sustainable/impact investing?”, Base: n=482

4/ FUTURE OF THE BUSINESS
4.1 MARKETING SPEND

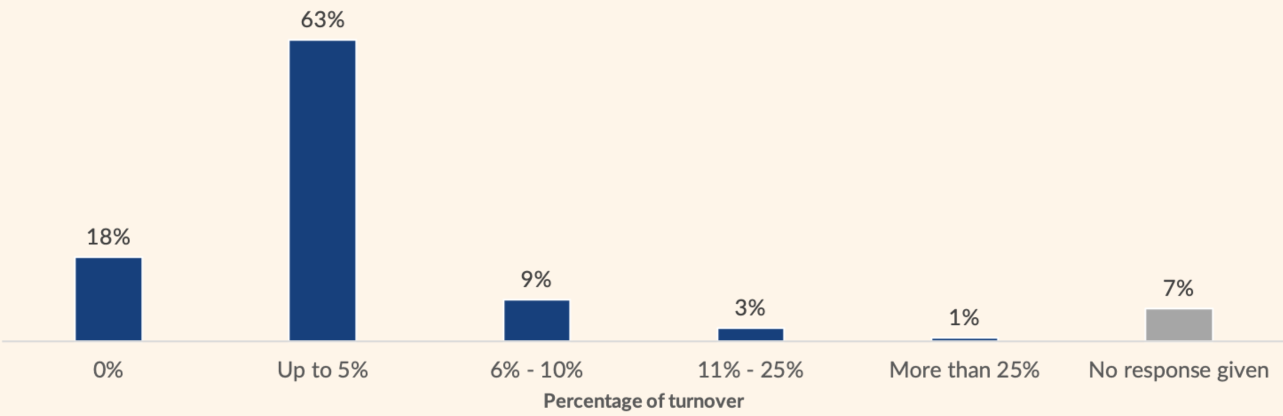
Most financial planning firms spend less than 5% of turnover on marketing. The following charts illustrate that new clients most often come from referrals from existing clients and professional connections. A few planners report success at generating web referrals.

The spend and allocation of spend line up perfectly with the referral sources – with financial planners putting most of their marketing resource to the website (35%) and client literature (23%).

Client referrals are still the main source for new business, as illustrated in figures 21 and 22. .

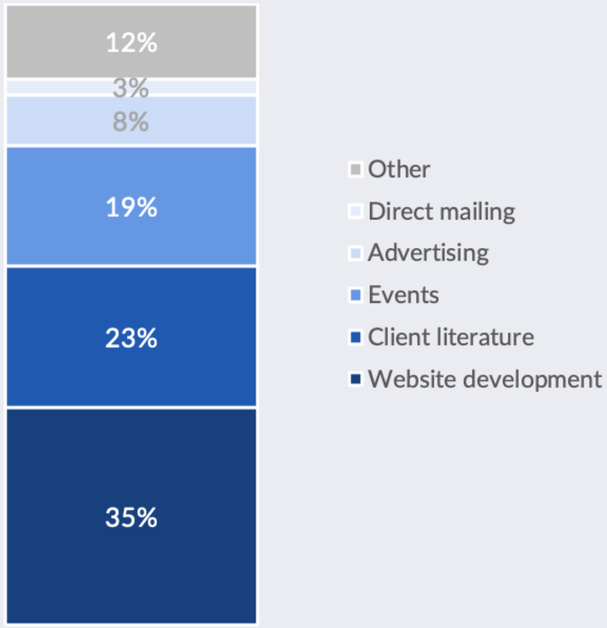
Less than 5% of turnover is spent on marketing

FIGURE 20: MARKETING SPEND AS A PERCENT OF TURNOVER



“Approximately what percentage of turnover was your firm’s marketing spend over the last 12 months?”, Base: n=482

FIGURE 21: LARGEST INVESTMENT OF THE MARKETING BUDGET THIS YEAR



"Where does your firm intend to invest the largest share of its marketing budget this year?", Base: n=399

FIGURE 22: BY WHICH CHANNEL ARE NEW CLIENTS MOST LIKELY TO FIND YOU?

"By which channel are new clients most likely to find you?", Base: n=482

4.3 RECRUITMENT AND TRAINING

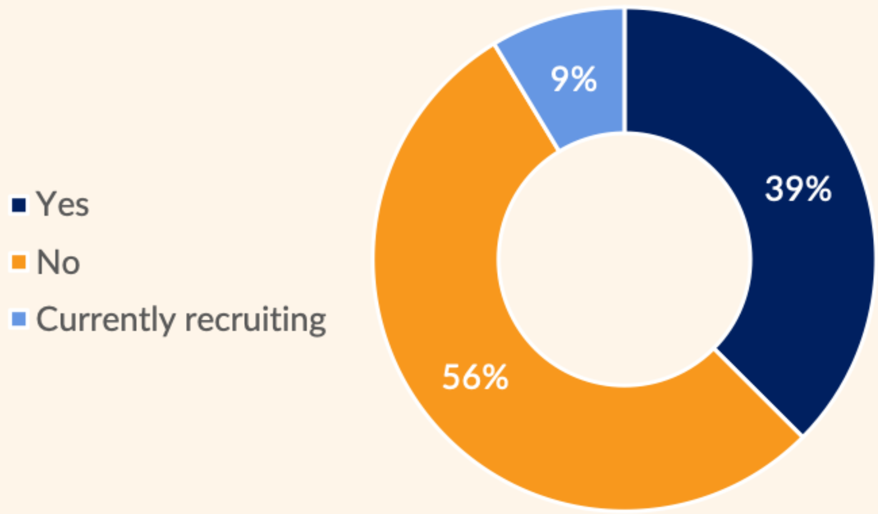
Larger restricted financial planning firms are more likely to have recruited financial planners in the past year.

- 48% of restricted firms surveyed have recruited in the last year compared with 35% of independent firms
- 88% of firms with more than 50 employees, and 79% of firms with more than 20 employees have recruited financial planners in the past 12 months.

Large restricted firms are hiring

48% of restricted firms and 88% of firms with 50 or more employees have recruited financial planners in the last year.

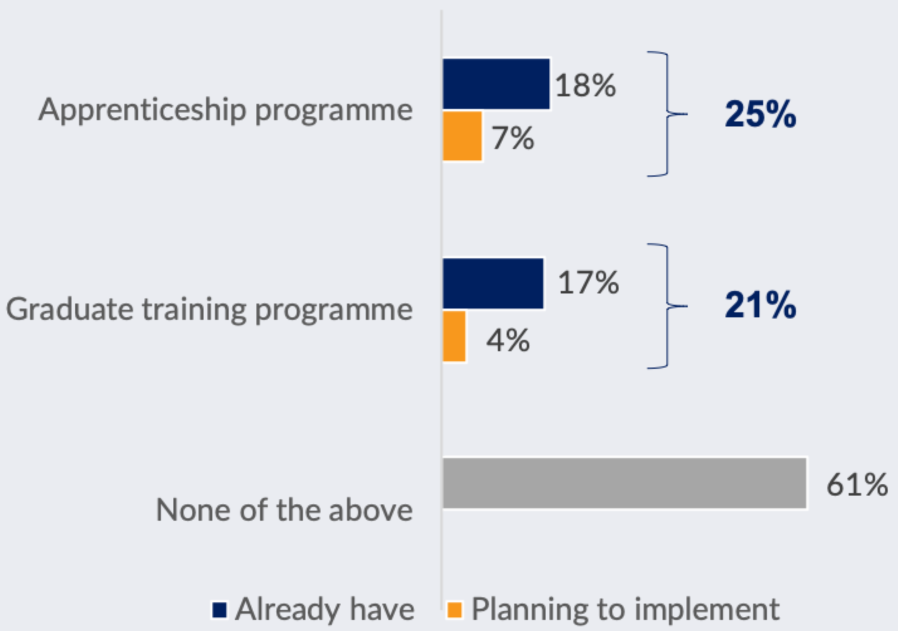
FIGURE 23: RECRUITMENT OF FINANCIAL PLANNERS IN THE LAST 12 MONTHS



"Has your firm recruited any new financial advisers or planners in the last 12 months?", Base: n=410

Perhaps unsurprisingly, planners under the age of 35 are almost twice as likely to work for a firm with an apprenticeship programme. Again, it is the bigger firms that are most likely to have apprenticeship and graduate training programmes.

FIGURE 24:
TRAINING AND APPRENTICESHIP PROGRAMME



"Does your firm have a graduate training program and/or apprenticeship programme?", Base: n=410

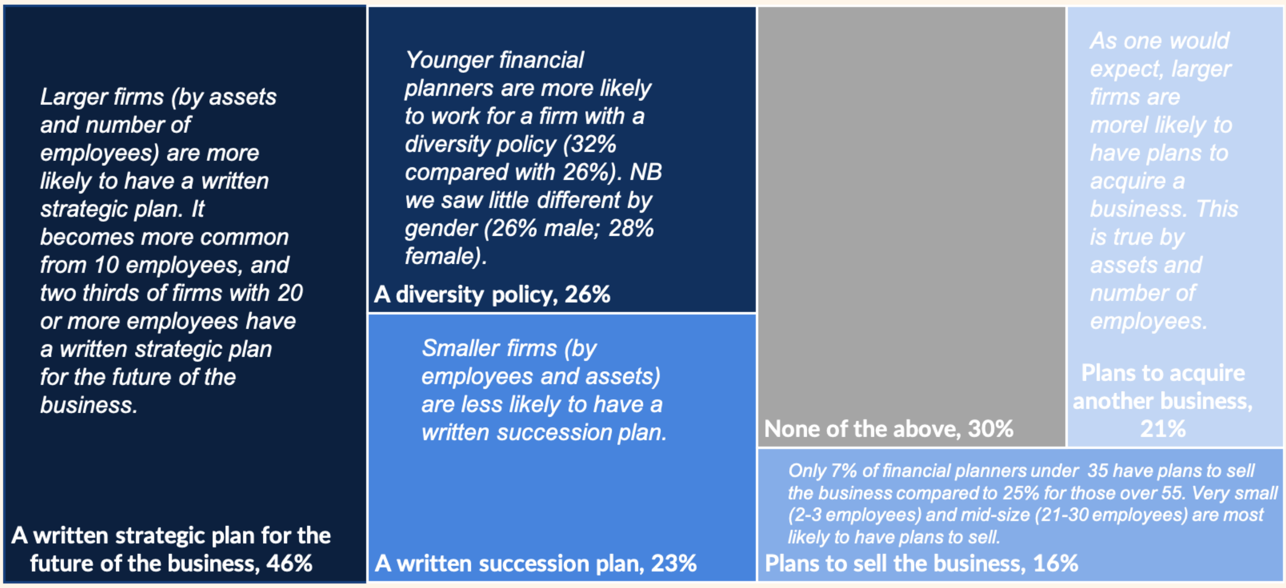
4.4 FUTURE BUSINESS PLANNING

With the constant pressure of adapting to regulatory and compliance changes, acquiring new clients, recruiting, training and retaining staff and streamlining business processes, it can be difficult for businesses to take a step back and consider the future. Effective planning and establishing a shared mindset for the future is an indicator of success, and so we asked respondents a series of questions around their business planning.

The highlights are illustrated below.

- Nearly half (46%) of respondents reported that their business has a written strategic plan for the future.
- Only 23% have a written succession plan (this drops to 16% for those working in small businesses with fewer than 6 staff). It is arguably in these smaller firms that a succession plan is most important, not just for the employees but also for customers.
- Larger firms are much more likely to have a diversity policy; 44% of businesses with 20 or more people have a diversity policy, versus 16% of firms with fewer than 6 staff.

FIGURE 25:
FIRMS FUTURE PLANS



"Does your firm have...?", n=482

5/ CUSTOMERS

Financial planners were asked about the number of active customers on their books compared with this point a year ago, to explore whether the impact of MiFID II and the length of time required to service each customer had resulted in a drop in active client numbers. Encouragingly, the survey results show that the opposite is true. Nearly two thirds (62%) of respondents are handling more active clients than last year, and 34% are servicing the same number. The results are consistent across firms of different sizes and with varying levels of assets under advice.

**FIGURE 26:
PERSONAL NUMBER OF ACTIVE CLIENTS**

"How does your personal number of active clients compare with this time last year?", Base: n=482

**FIGURE 27:
AVERAGE PORTFOLIO SIZE FOR CLIENTS**

"What is the average portfolio size for your clients?", Base: n=482

Average portfolio sizes are between £100k and £500k. Firms with fewer than 6 staff are most likely to be working with clients with portfolios of between £100k and £250k. Larger firms, with more than 20 staff are more likely to be servicing clients with between £250k and £500k.

And our survey confirms what financial planners know. Customers with smaller portfolios can and do have access to financial advice. One in five financial planners has an average client portfolio size of less than £100,000.

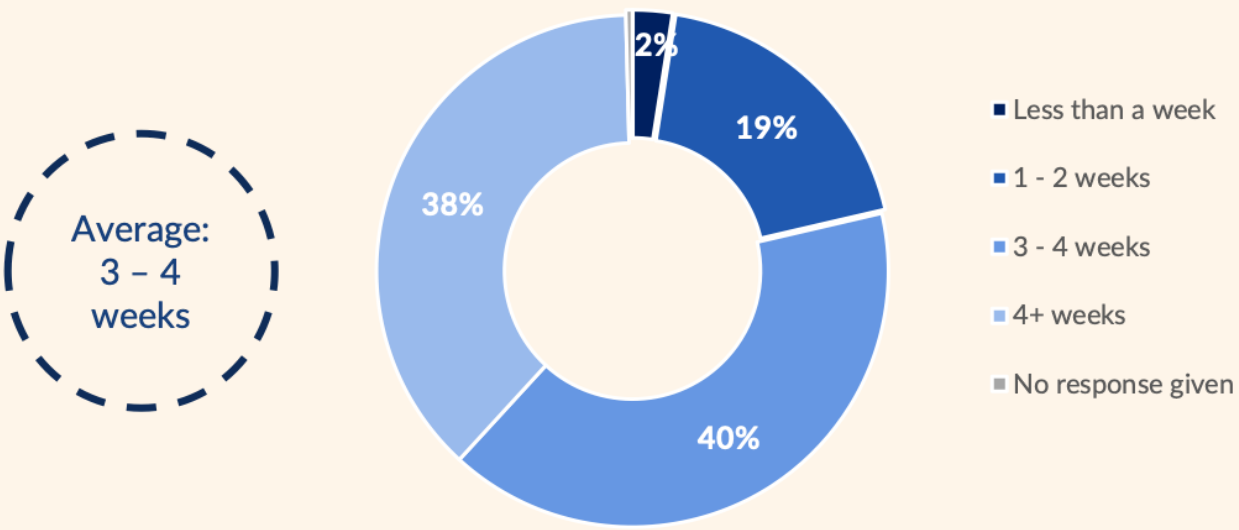
6/ CLIENT ONBOARDING

Downward pressure on fees is encouraging financial advice businesses of all sizes to maximise efficiency and streamline processes. This section takes a detailed look at client onboarding; the timescales and process between making first contact with a new client and delivering the first piece of financial advice.

On average, financial planners report that the time between making first contact with a client and delivering advice is between three and four weeks. For 38% of businesses though, four or more weeks elapse before a client is given advice, which doesn't indicate the sort of slick and prompt service to which we believe modern advice businesses aspire. "You never get a second chance to make a good first impression," as the old saying goes.

Interestingly, we didn't find much evidence of a relationship between onboarding times and size of the advice firm. It could be expected that larger firms, with more dedicated client service and admin staff, would manage a swifter turnaround than firms with a handful of advisers.

FIGURE 28:
TYPICAL TIME BETWEEN FIRST CONTACT AND DELIVERY



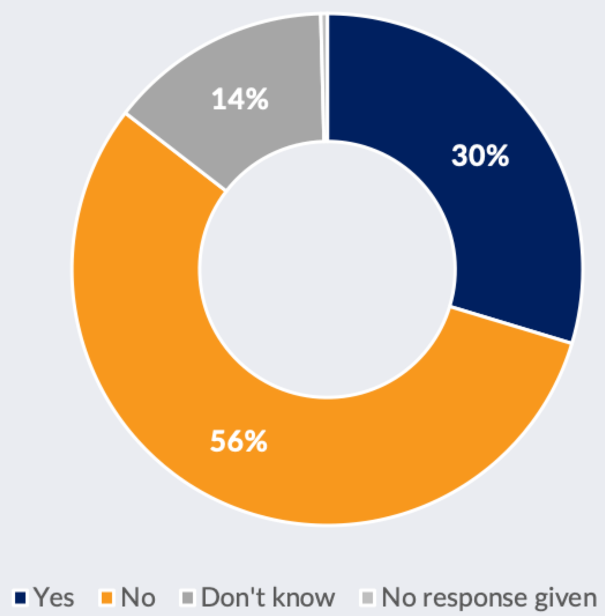
"What is the typical length of time between your first contact with a new client, and delivering the first piece of advice or first financial plan to that client?", Base: n=482

When we explored the individual steps in the client on-boarding process, it emerged that the biggest drag on delivering the first piece of advice to the client is not within the firm itself, but in waiting for product providers to release information on the client's existing policies. Nearly three quarters of respondents cite this as the lengthiest step. This represents an expensive delay for advice firms, with valuable resource having to be allocated to chasing providers for information.

FIGURE 29: LENGTHIEST STEP BETWEEN FIRST CONTACT, DELIVERING FIRST ADVICE/PLAN

"What do you typically find to be the lengthiest step in your client on-boarding process...?", Base: n=482

FIGURE 30: CALCULATED AVERAGE ON-BOARDING COST

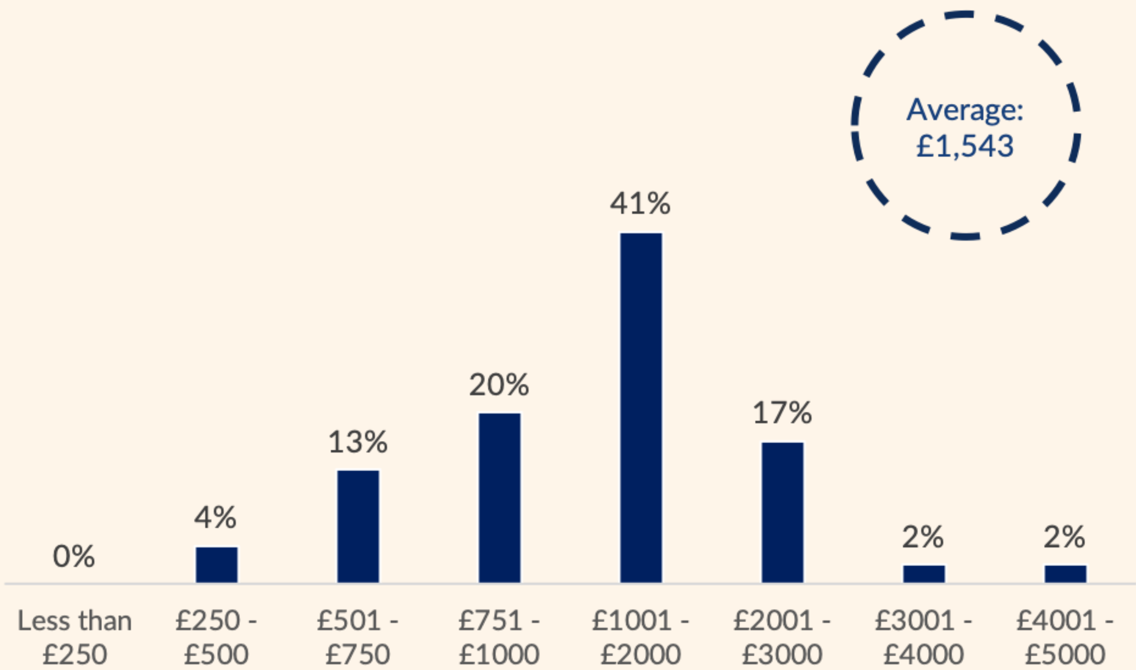


"Has your firm calculated the average onboarding cost for a new client?", Base: n=482

Given that client onboarding is a lengthy and expensive process, we asked respondents whether or not they had calculated the actual cost to the business of adding a new client. 30% of financial planners have done so, and their findings are detailed in Figure 31.

Among respondents who have calculated their on-boarding costs, the average cost to bring a new client into the business is just over £1,500.

FIGURE 31:
AVERAGE ON-BOARDING COST FOR A NEW CLIENT

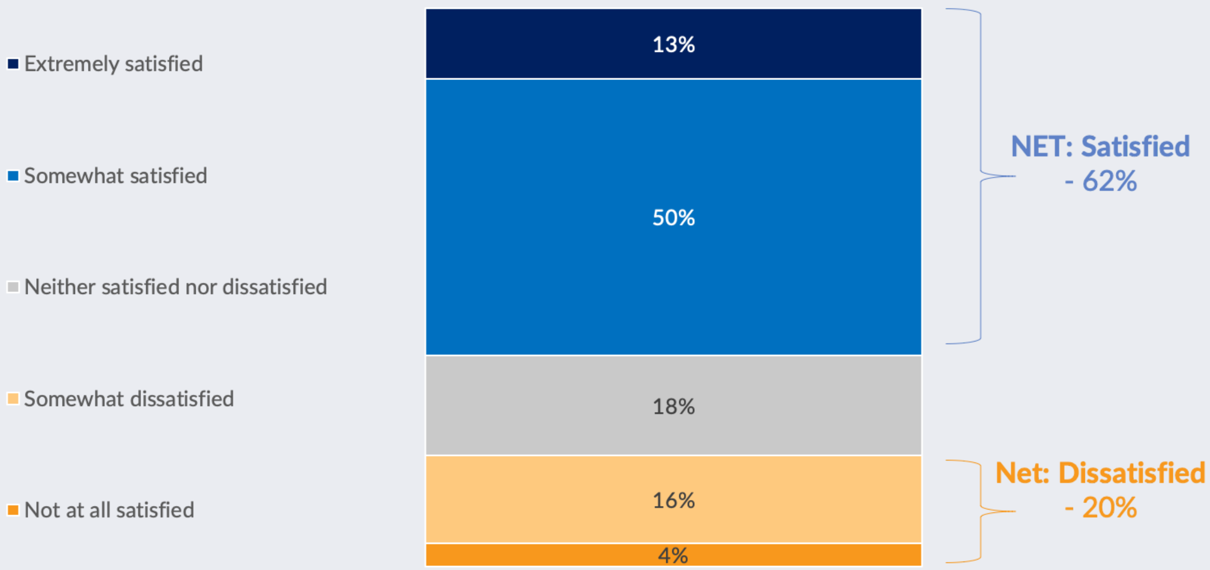


“What is your firm's average on-boarding cost for a new client?”, Base: n=90

7/ TECHNOLOGY INFRASTRUCTURE

Our survey respondents are mostly satisfied with their firms' current technology infrastructure, although there is room for improvement. We found no significant difference in satisfaction levels across age, gender or size of firm.

FIGURE 32:
SATISFACTION WITH CURRENT TECHNOLOGY INFRASTRUCTURE



"How satisfied are you with your firm's current technology infrastructure?", Base: n=482

7.1 TECHNOLOGY FRUSTRATIONS

When we explored frustrations with technology, we discovered two major themes in the responses, the primary theme being integration.

Integration frustrations:

- Financial planners are often frustrated by the lack of integration and connectivity across technology systems. Without good integration, planners are forced to duplicate efforts and data entry.

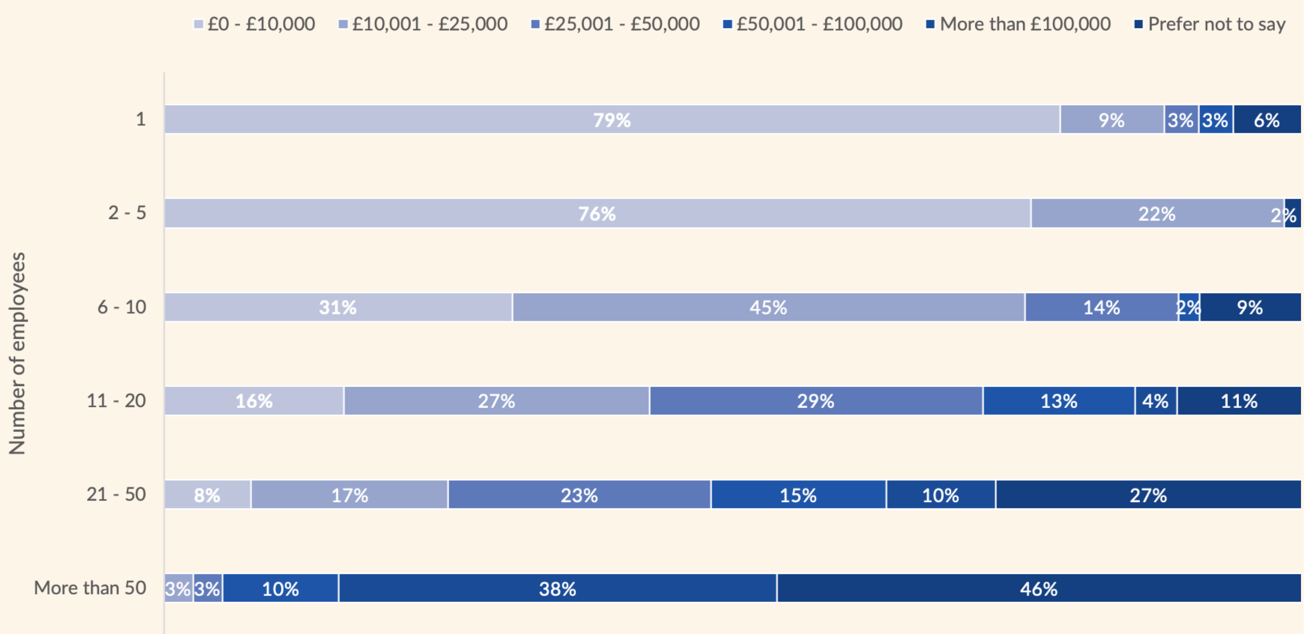
Back office & CRM frustrations:

- As well as a lack of integration between back offices and other parts of the adviser tech stack, respondents complain of poor functionality, technology that "overpromises and under-delivers". They also complain that these systems are overcomplicating a simple process. Finally, planners describe a lack of tailoring and customisation options to the individual firm's processes.

7.2 TECHNOLOGY SPEND

The following chart shows technology spend by various sizes of firm. As one might expect, there is a clear link between size and spend on tech infrastructure. We also found, perhaps unsurprisingly that firms that are directly authorised and those with discretionary permissions tend to spend more on technology on average.

FIGURE 33: TECHNOLOGY SPEND LAST YEAR



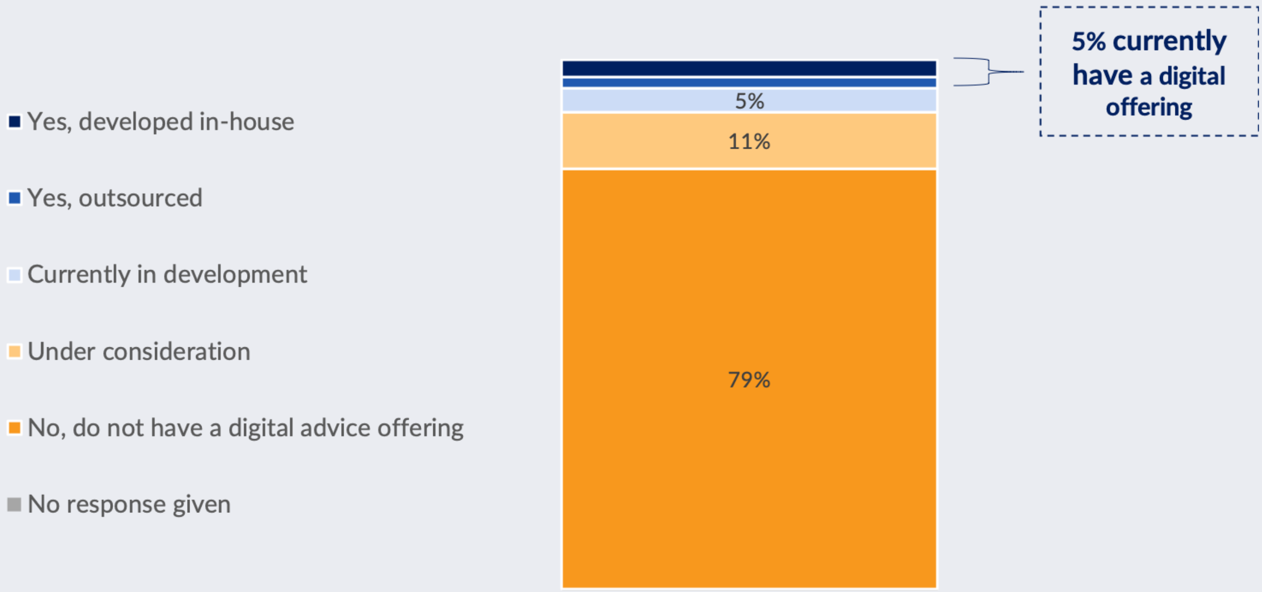
“What was your firm’s overall technology spend in the last 12 months (approximately)?”, Base: n=482

7.3 DIGITAL ADVICE

The rise of robo advice has consumed a great many column inches in the past few years, with advice businesses being encouraged to embrace digital advice models as a way to bridge the 'advice gap' and engage with the clients of the future.

Our survey confirms that just a small minority of firms (5% of respondents) have incorporated some sort of online or robo advice into their businesses, or are referring clients to a digital advice service. A further 5% of businesses are developing a digital advice model, and 11% are considering something for the future.

FIGURE 34:
DIGITAL ADVICE OFFERING

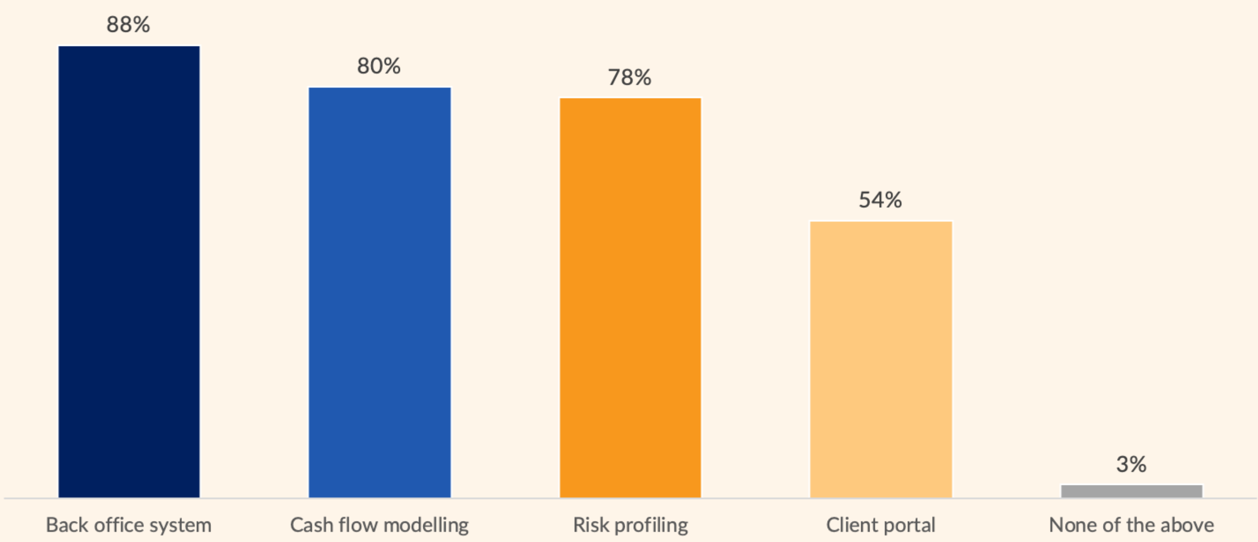


"Does your firm have, or refer clients to, a digital advice offering?", Base: n=482

7.4 TECH STACK

The 'tech stack', or the technology infrastructure supporting financial advice businesses, includes a back office system (used by 88% of financial planners), cash flow modeling (used by 80%) and risk profiling tools (used by 78%). Currently just over half (54%) of financial planners use a client portal solution.

FIGURE 35:
USE OF TECHNOLOGY SOLUTIONS

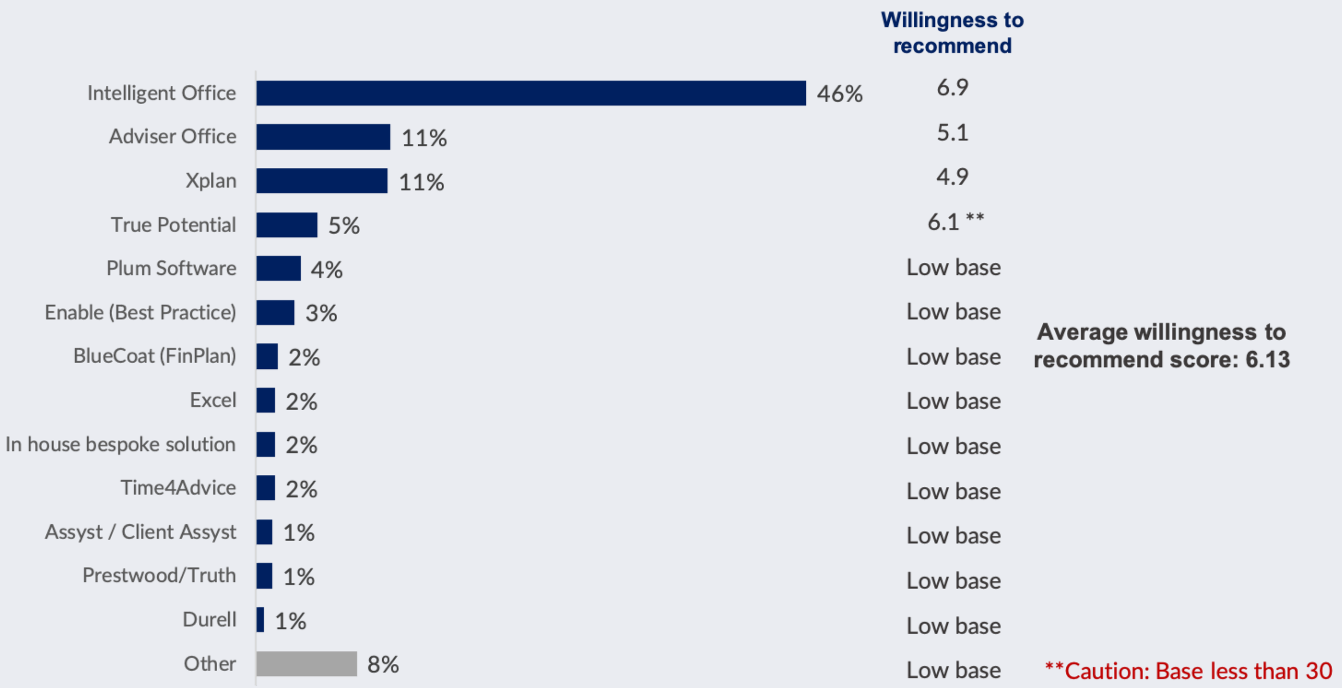


"Does your firm make use of technology solutions for the below...?", Base: n=482

Back Office

The most cited provider for back office systems is Intelligent Office, used by 46% of respondents. None of the back office providers received a positive net promoter score (calculated from respondents' likelihood to recommend to peers), reflecting frustrations cited above regarding integrations and customisation options.

FIGURE 36: BACK OFFICE SOLUTION PRIMARILY USED

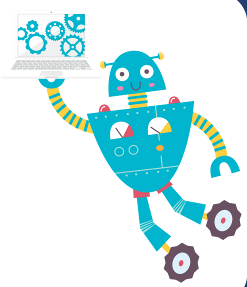


"Which technology solution does your firm primarily use for its... Back office system?", "On a scale of zero to ten, where zero means 'Not at all likely' and ten means 'Very likely', how likely are you to recommend the below to colleagues and contacts?".Base: n=424.

Read a Review. Leave a Review

From financial planning tools to back office systems, the NextWealth Directory lists the providers and tells you what your peers think of them.

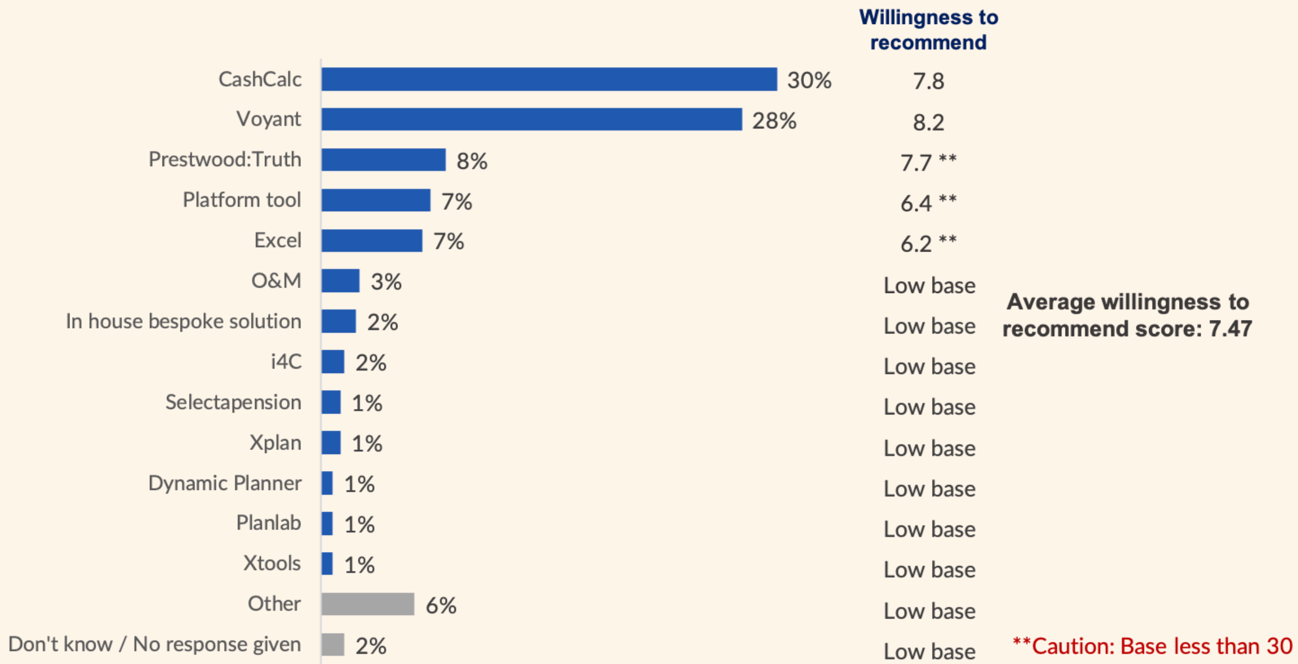
www.nextwealthdirectory.co.uk



Cashflow Modelling

For cash flow modelling tools, the three most-used solutions all received positive 'willingness to recommend' responses. Cashcalc emerged as the most commonly used system by survey respondents, followed closely by Voyant. Larger firms are more likely to use Voyant; 41% of firms with more than 30 employees say Voyant is their cash flow modelling provider.

FIGURE 37:
CASHFLOW MODELLING SOLUTION PRIMARILY USED

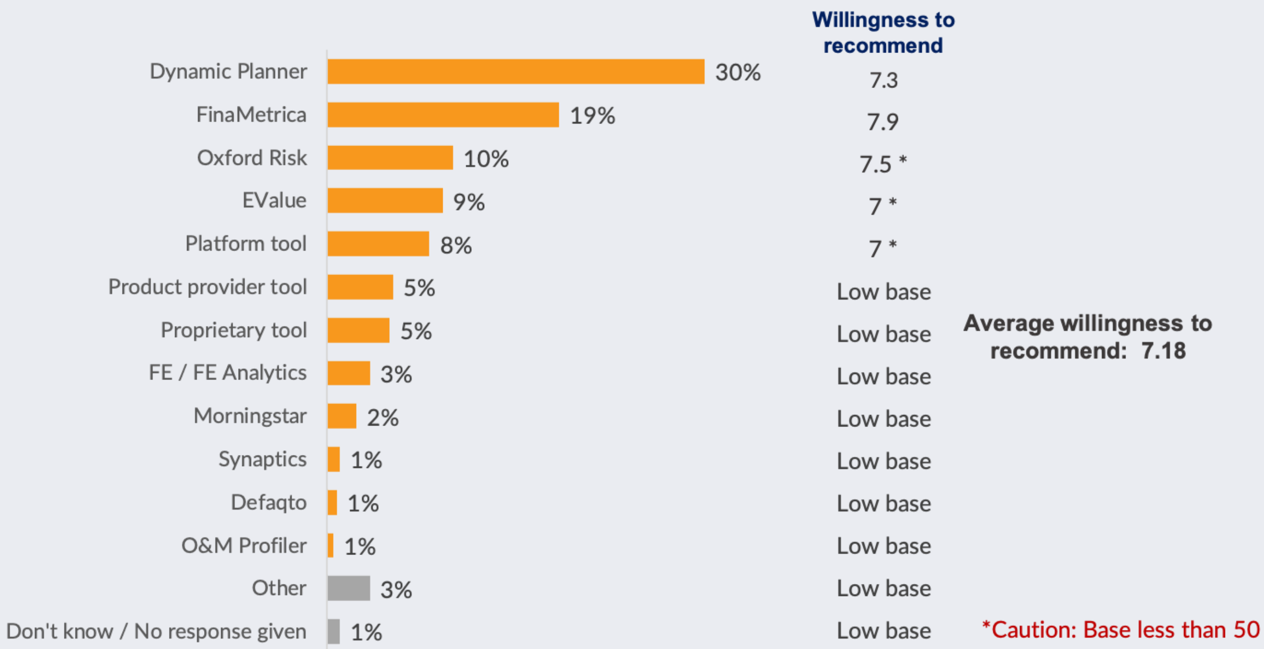


“Which technology solution does your firm primarily use for its...Cash flow modelling?”,“On a scale of zero to ten, where zero means'Not at all likely' and ten means 'Very likely', how likely are you to recommend the below to colleagues and contacts?” Base: n=385

Risk Profiling

The most commonly used solution for risk profiling is Dynamic Planner followed by FinaMetrica. Financial planners' likelihood to recommend these solutions to peers or colleagues, as represented by the net promoter score, is mixed, with FinaMetrica receiving a much more positive score.

FIGURE 38:
RISK PROFILING SOLUTION PRIMARILY USED

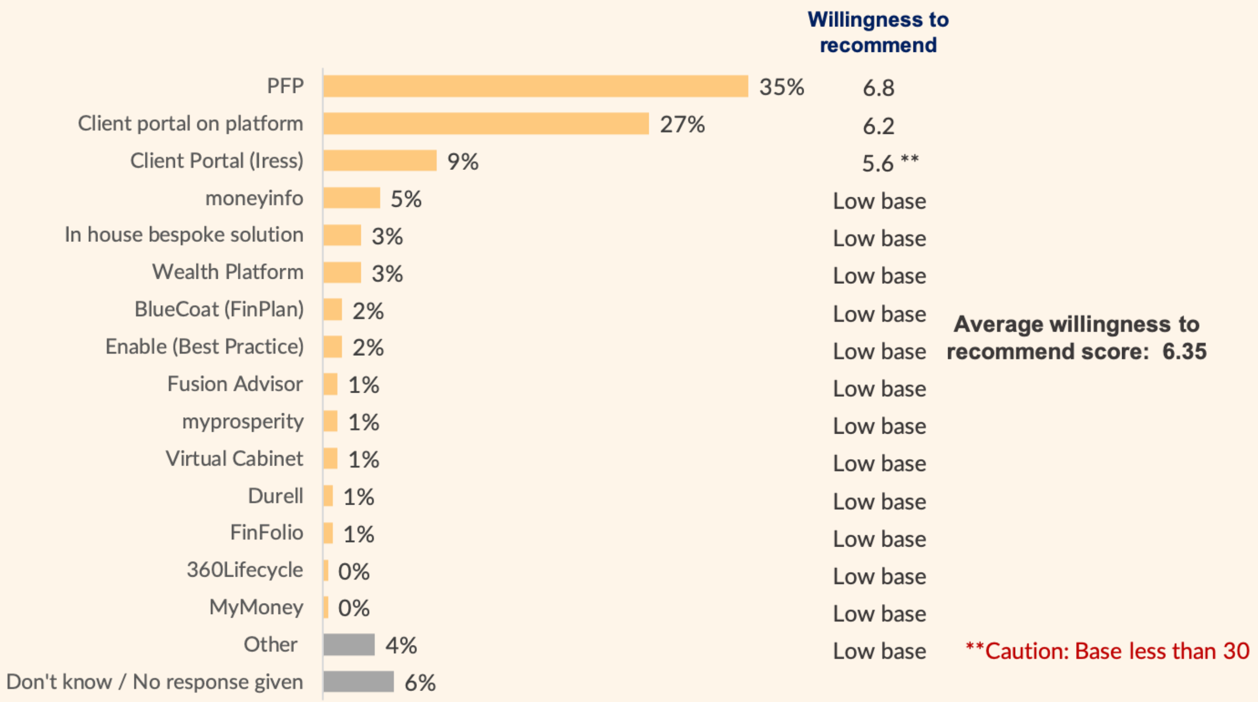


"Which technology solution does your firm primarily use for its... Risk profiling?", "On a scale of zero to ten, where zero means 'Not at all likely' and ten means 'Very likely', how likely are you to recommend the below to colleagues and contacts?" Base: n=375

Client Portal

Of the 54% of advice businesses that use a client portal, the most commonly used solution is myPFP from Intelliflo. The second most popular solution is for firms to use the client portal provided by a platform. Both solutions receive a negative net promoter score, revealing a level of dissatisfaction with client portal offerings currently. Larger firms with more than 20 staff are more likely to use the client portal on platform.

FIGURE 39:
CLIENT PORTAL SOLUTION PRIMARILY USED



"Which technology solution does your firm primarily use for its...Client portal?", "On a scale of zero to ten, where zero means 'Not at all likely' and ten means 'Very likely', how likely are you to recommend the below to colleagues and contacts?" Base: n=260

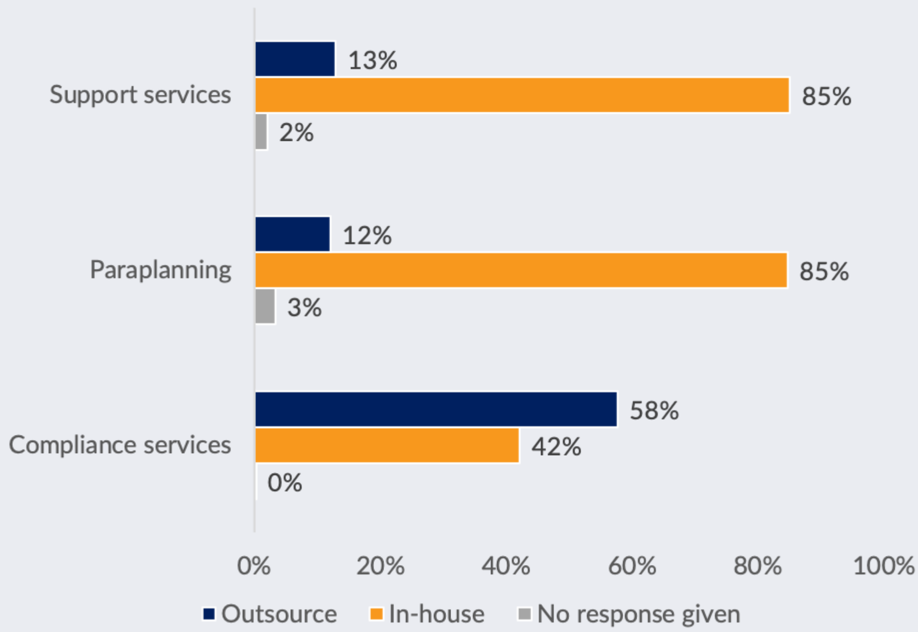
8/ OUTSOURCED SUPPORT

When we looked at the web of relationships supporting financial planning firms, we found that businesses are most likely to outsource compliance services, whilst retaining paraplanning and support services as in-house functions. Regulation and compliance is frequently cited by financial planners as one of their principal business challenges, and so unsurprisingly nearly 60% of respondents say they pay an external specialist to keep on top of this area.

Outsourced compliance services are more often used by independent financial planners at small and medium sized firms. 60% of respondents who are independent planners use outsourced compliance, compared with 38% of restricted firms. Restricted advisers are more likely to be part of a network and therefore have compliance services provided by the network. Firms with discretionary permissions are also more likely to retain compliance services in-house.

Outsourced paraplanning services are most often used by small, appointed representative firms. While around one quarter of firms with 6 or fewer employees outsource paraplanning, just 1% of businesses with 20 or more staff choose to outsource their paraplanning. The same is true by size of assets, with firms holding larger volumes of assets under advice being less likely to outsource.

FIGURE 40:
IN-HOUSE AND OUTSOURCED SERVICES



“Which of the following does your firm currently do in-house and which do you outsource?”, Base: n=482

SimplyBiz is the most commonly cited compliance services provider, used by 16% of respondents. Firms with more than 20 staff are more likely to use threesixty.

For support services, nearly a quarter of respondents who outsource use threesixty, with 21% using SimplyBiz. As with outsourced compliance services, smaller firms, with 10 or fewer staff, are more likely to use SimplyBiz.

Among the 58 respondents that outsource paraplanning, 17% use ParaSols. The majority of respondents (76%) listed a wide variety of paraplanning support sources that could not be grouped together, including private individuals and consultants.

FIGURE 41:
MOST CITED OUTSOURCING PROVIDERS

Most cited outsourcing providers *(%'s less than 5% not shown)*	
Compliance Services	1. SimplyBiz (16%) 2. threesixty (15%) 3. Compliance First (9%) 4. Bankhall (8%) 5. CATS (6%) 6. Tenet (5%)
Support Services	1. threesixty (24%) 2. SimplyBiz (21%) 3. Bankhall (6%) 4. True Potential (5%)
Paraplanning Supplier/ Provider	1. ParaSols (17%) 2. The Paraplanners (7%)

"Who is your Compliance Services supplier/provider?" Base: All advisers answering who outsource Compliance Services, n=269. "Who is your Support Services supplier/provider?" Base: All advisers answering who outsource Support Services, n=62. "Who is your Paraplanning supplier/provider?" Base: All advisers answering who outsource Paraplanning Services, n=58.

9/ BIGGEST BUSINESS CHALLENGES

Survey respondents were asked an open question about the biggest challenge for the business over the next year. Four key issues are keeping financial planners awake: client acquisition; professional indemnity insurance; regulation, and political uncertainty. None of these are fresh challenges for advice businesses, but are continuing to absorb valuable time and resource.

Finding younger clients

Attraction of HNW clients.

Client acquisition

Respondents describe the difficulty in attracting new clients, specifically those fitting the target client profile of the firm and especially high net worth individuals.

PI cover and claims culture with FOS being a champion of the client without evidence to support it.

PI Insurance

The affordability of PI cover is a challenge for some respondents; “Our regulatory costs; PII, FCA, FSCS, are over £100,000 per annum.”Other respondents have problems with the adequacy of coverage with their insurance

FCA interventions-Cost of Protection and Compliance-PI Cover

Regulation and compliance

Staying up-to-date with any compliance or regulatory changes is an ever-present challenge The time absorbed by keeping up to date with regulatory and compliance change is “stifling the business” and causing problems in balancing “the need to spend time with clients against the growing admin burden”.

Regulation, compliance and associated time and money costs

The level of paperwork and disclosure information provided to clients.

MiFID II was specifically cited as slowing business activity; “increasing the amount of paperwork we have to generate with no apparent benefit to the client”. Other respondents complained that MiFID II client reporting is a challenge as “many providers still cannot provide the required information at the push of a button, or it is deficient in some way”.

Regulations i.e MiFID 2, IDD and Final Salary Pension Transfers

Brexit and political uncertainty

BREXIT and the press around it

Both the UK and the US political situation is causing uncertainty within respondents’ firms. For some respondents, they are prioritising other challenges within the business but “clients would say Brexit”.

Brexit and clients remains very nervous about the future

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9/ CHARACTERISTICS BY FIRM SIZE AND TYPE

There are stark differences in the ways that firms are run, from the type of staff in the firm to the technology infrastructure supporting the business. In this section, we profile six types of firms to help financial planners to benchmark themselves against a similar profile of firm. The profiles are:

SOLE TRADER

1 employee, sometimes two

58% of sole traders are directly authorised and 32% are appointed reps

- Most have less than £50m in assets
- Almost three fifths have less than £20m
- Gross revenue in the most recent financial year was less than £250k for most sole traders (88%)

- Less likely to use elements of a technology infrastructure, but most (well over half) use a back office system, cash flow modelling and risk profiling.
- Among all types of firms, the appointed rep sole trader is most likely to still be using spreadsheets instead of a back office system.

SMALL FIRM, DIRECTLY AUTHORISED

- 2-10 employees
- 44% of employees are RI's giving investment advice, 27% work in support and ops functions whilst 15% are paraplanners

- 93% are independent.
- More likely to outsource compliance than average (76% outsource compliance support)

- Mostly £20m to £250m in assets under advice (86%)
- Most had gross turnover of less than £750k in the last financial year. One fifth had gross turnover of less than £250k, around a third had gross turnover of £250k-£500k and 18% had gross turnover of £500k to £750k

- 50% spend between £0 and £10k on technology for the business and 36% spent £10k - £25k
- Almost two thirds (64%) are satisfied with their current technology infrastructure
- Half use Intelligent Office and 48% use the myPFP client portal
- This group are also more likely to be using Dynamic Planner for attitude to risk (36%) and CashCalc for cash flow modelling (33%)

- Less likely to offer advice on protection and mortgages than advisers at bigger firms.

- Vast majority don't have discretionary permissions
- Slightly more likely to buy in-template model portfolios than average
- Slightly less likely to outsources investments to a discretionary manager.

- Spend less than average on marketing
- 23% spend 0% of turnover; 64% spent up to 5%; 8% spent more than 5%

SMALL FIRM, APPOINTED REPRESENTATIVE

- 2-10 employees
- 44% of employees are RI's giving investment advice, 25% work in support and ops functions whilst 15% are paraplanners

- 61% of firms are Independent
- Intrinsic, Openwork, Tenet and Best Practice are most cited as Principals
- Appointed rep. firms less likely to outsource compliance support (52%) than directly authorised small firms

- Mostly £20m to £250m in assets under advice (72%), almost a quarter have less than £20m in assets (24%)
- Most had gross turnover of less than £750k in the last financial year. Two fifths had gross turnover of less than £250k, around a quarter had gross turnover of £250k-£500k.

- 70% spend less than £10k on technology and 24% spent £10k - £25k last fiscal year.
- A third (36%) use Intelligent Office whilst 19% use the myPFP client portal (31% use client portal on platform)
- A quarter (26%) use Dynamic Planner or a proprietary tool (19%) for attitude to risk
- CashCalc (40%) or Voyant (35%) are most used for cash flow modelling

- Twice as likely to offer advice on mortgages than advisers at directly authorised firms (48% vs 24%)

- Vast majority don't have discretionary permissions, although more likely to have these than directly authorised counterparts
- Slightly more likely to outsource to a discretionary manager than directly authorised small firms (46% vs 38%)
- Almost half as likely to build own portfolios than a directly authorised firm (30% vs 57%)

- Spend more than average on marketing
- 24% spend 0% of turnover; 54% spent up to 5%; 19% spent more than 5%

MEDIUM FIRM, INDEPENDENT AND DA

- 11-20 employees
- These firms are more likely to employ paraplanners than average (88% compared to 68% on average) with one fifth of staff in these mid-size firms working as paraplanners. They also employ more people in client services roles. Only one third of employees in these firms are client facing RI's offering advice
- These firms are more likely to employ younger advisers. Under 35's made up 15% of respondents from this age group compared to 9% on average
- The firms are also more likely to say that they have recruited advisers in the past year. 55% have recruited in the past year compared with 37% average

- Almost four fifths of these firms have between £100m and £999m in AUA (78%)
- Most (52%) had gross turnover in the most recent financial year of between £1m and £2m. A further fifth (19%) have gross turnover of £750k to £1m

- Technology spend varies greatly within the medium firms. 29% spend between £10k and £25k and 32% spend between £25k and £50k
- Nearly all (97%) use a back office system and 88% use cash flow modelling
- Iress' Adviser Office is more common among this cohort, with 25% using the back office system compared to 11% of all advisers
- This group are as likely as average to use Intelliflo as average. Iress' advantage appears to come at the expense of other smaller back office systems.

- More likely to build their own model portfolios than average (70% versus 53%)

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LARGE FIRM WITH DISCRETIONARY PERMISSIONS

- More than 20 employees
- Large firms with discretionary permissions are more likely than average to employ compliance staff (9% vs 5%) and client services staff (14% vs 7%)
- Just over a quarter (28%) of employees in these firms are client facing RI's offering advice
- These firms are less likely to employ younger advisers. Under 35's made up just 4% of respondents from this age group compared to 9% on average
- The firms are also more likely to say that they have recruited advisers in the past year. 78% have recruited in the past year compared with 37% average

- 37% of firms are restricted as compared with 13% on average
- Just 4% of these firms outsource compliance support as compared with 58% of firms on average

- Around four fifths of these firms have over £250m in AUA (81%)
- Most (70%) had gross turnover in the most recent financial year of more than £2m. A tenth (11%) have gross turnover of between £1m - £2m

- 37% spent more than £100k on technology solutions in last year
- Nearly all (93%) use a back office system, 89% use cash flow modelling whilst 85% make use of a client portal solution
- Intelligent Office is used by 40% of these firms whilst a quarter use xPlan as a back-office system
- A third (35%) use client portal on platform whilst 42% use Voyant as a cashflow modelling tool

- More likely to build their own portfolios than average (67% vs 53%)
- Less likely to buy in-template models than average (4% vs 13%)

LARGE FIRM WITHOUT DISCRETIONARY PERMISSIONS

- More than 20 employees
- Large firms without discretionary permissions are slightly more likely than average to employ client services staff (9% vs 7%)
- Almost two fifths (37%) of employees in these firms are client facing RI's offering advice
- These firms are more likely to employ younger advisers. Under 35's made up 23% of respondents from this age group compared to 9% on average
- The firms are also more likely to say that they have recruited advisers in the past year. 80% have recruited in the past year compared with 37% average

- 91% of firms are Independent
- Almost a third (31%) of firms outsource compliance support as compared with 58% of firms on average

- Just over three quarters of these firms have over £250m in AUA (77%)
- Over half (56%) had gross turnover in the most recent financial year of more than £2m. 17% have gross turnover of between £1m - £2m

- 16% spent more than £100k on technology solutions in last year (i.e. more than average but less than large firms with discretionary permissions)
- Nearly all (92%) use a back office system, 86% use cash flow modelling whilst 72% make use of a client portal solution
- Intelligent Office is used by 46% of these firms with Adviser Office being next most cited tool (17%) used for a back-office system
- 30% use myPFP as client portal tool whilst the most cited cashflow modelling tools are Voyant (38%) and Cashcalc (29%)

- More likely to outsource to a discretionary manager than average (58% vs 44% average.
- Less likely to buy in-template models than average (5% vs 13%)

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