PRUDENTIAL

Embracing opportunities in the adviser market

Prudential's 2017 Adviser Barometer

Foreword

Financial advisers play a crucial role in the business written by Prudential UK, with about three-quarters of our new business every year sold through external advisers.

They are not just important for our business – advisers play a vital role in supporting customers throughout the country navigate the complexities of a fast-changing world and achieve their financial goals.

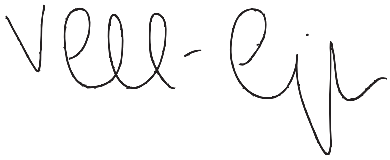
Whether it is pension freedoms, inheritance tax planning or supporting clients with investment planning as the UK prepares to leave the European Union, advisers are at the sharp end and their experience today and their hopes for the future tell a wider story.

In 2016 Prudential conducted extensive research with advisers to help us understand the challenges they faced and shared those findings in our inaugural report *Embracing change in the adviser market*. The insights in that report included strategies for growth and success for adviser businesses as well as a snapshot of advisers' views on the major issues facing them and the economy.

We have updated and expanded last year's report for 2017 looking at what has changed over the past 12 months while expanding the research into new areas. We have been able to track and update four key areas from last year's report – the challenge of robo-advice, new business drivers, recruitment and training in the adviser market, working hours and working practices. We have also added a section on advisers' hopes and fears over the longer-term.

The key finding is that change is constant and financial advisers are facing a range of challenging issues that reflect the needs of their clients as the technological revolution gathers pace.

Advisers are living and working through challenging times as the sector and working practices change rapidly. However, one thing does not change and that is the resilience of advisers who continue to demonstrate that they and their businesses are capable of adapting while delivering the first-class service that clients demand. With the advent of pension freedoms good quality advice has never been more important.



Vince Smith-Hughes
Director of specialist business support
at Prudential

Executive summary

Turn on to technology

Robo-advice, the buzzword of the last few years, looks to be gaining traction, moving from being a threat to a workable solution within the adviser community.

Attitudes among advisers are changing rapidly. Prudential's research in 2016 found 47 per cent of advisers didn't believe that robo-advice could help close the advice gap, but opinion has shifted and now 69 per cent believe technology can help to address the advice gap.

This year we have seen that advisers increasingly accept that technology has a role to play in their business. Striking the right balance will free up time, make writing new business more efficient and improve the advice experience for clients.

However, it isn't a clear-cut victory for the machines. There remains deep distrust among advisers about the risks and rewards of robo-advice.

What is clear is that advisers do need to address the issue. Technology is here to stay and they will need to adapt to both prove the ongoing value of bespoke advice and to benefit from the opportunities technology offers.

Count on new business

Existing clients remain the biggest source of new business for advisers demonstrating how the quality of service advisers provide and the value they add is their best advert.

In last year's research 68 per cent of advisers highlighted 'existing clients' as their best new business source. Since then there has been a significant shift and now 37 per cent of advisers say clients provide most of their new business.

Peer group referrals, particularly from accountants and lawyers, represent a growing influence on new business. Some 15 per cent of advisers say lawyers and accountants are their best new business source this year compared with 11 per cent in 2016.

The next generation

The continued resilience of advisers and of the 'advice model' are highlighted by the turnround in views on growth in adviser numbers.

This time last year, more than half (51 per cent) of those surveyed told us they expected the number of advisers across the profession to fall over the next year.

Now nearly two out of five (38 per cent) expect the numbers of advisers to grow and there is growing confidence in recommending financial advice as a career. However, there is concern about the source of new recruits and calls are being made for action from professional bodies, as well as the Government, to actively promote financial advice as a career option.

The race against time

There is a clear need for more financial advisers to enter the sector and the results of our study show advisers are working longer hours.

Nearly two-fifths (39 per cent) say they are working longer hours compared to 12 months ago, and on average putting in an extra hour each a week. When we asked the question in 2016 just 27 per cent of advisers said they were working longer hours than the year before.

Their average working week in 2017 is 42.3 hours and around 31 hours a month are spent on non-fee earning work.

That is just the average, however, and about 14 per cent of advisers say they are working more than 60 hours a week keeping up with demand.

What do advisers want?

The implications of Brexit were a significant part of our report last year following the UK's historic vote to leave the European Union.

A year on it remains a major issue for advisers and when asked of their biggest hope for the year ahead 54 per cent of advisers want to see the uncertainty caused by Brext come to an end.

Ahead of the Budget on 22 November our study shows advisers are literally hoping for nothing – 53 per cent say their biggest hope from the Government is a commitment to no more change in retirement and pensions planning legislation.

We have also looked at the issues that advisers believe will drive business decisions over the next three years, with the taxation of retirement income being the major issue for them until 2020.

Chapter 1
Turning on to technology

March of the machines

In 2016 advisers were unconvinced by the potential of robo-advice as a solution to broadening the advice market and helping more customers fulfil their financial planning needs. That view has changed entirely as the table below shows.

Can Robo-Advice help close the Advice Gap?	2016	2017
Agree	17%	69%
Disagree	47%	13%
Don't know	36%	18%

We're now seeing 69 per cent of advisers agreeing that robo-advice within an advice firm can help close the advice gap and enable them to help a wider range of customers. By comparison, in 2016 fewer than one in five could see a role for robo-advice in helping them support more clients.

Improved technology can bring greater efficiency, reduce costs and help advisers to serve their clients better while continuing to run viable businesses in a fast-changing world. Advisers will need to embrace the opportunities technology brings by offering live portfolio analysis, reporting of positions and information, scenario activity, and alerts about a portfolio's or individual investment's performance, as well as robust client reporting and interaction.

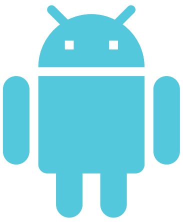
However, in this year's Adviser Barometer we have extended the scope of the research and looked in more detail at advisers' views on the benefits and uses of robo-advice, as well as its potential pitfalls.

Advisers remain divided about fully taking the plunge – 41 per cent of those questioned say that over the next 12 months they or the firm they work for plans to offer robo-advice while 44 per cent say they're not planning to go down the robo route.

The research shows nearly half of firms believe offering robo-advice will help their business grow, while two-fifths believe robo solutions are a threat to their business.

But the big concerns advisers have about robo-advice focus on the potential regulatory and compliance risks. More than three quarters (76 per cent) say they fear robo-advice could mean issues for their business in the future.

There are also serious concerns that technology may not provide the best outcomes for clients and an acknowledgement that the robo route is potentially only suitable for clients with smaller funds. Advisers are more aware than anyone that receiving tailored advice to meet individual needs is the preferred solution for many clients.



69%
of advisers agree that robo-advice can help close the advice gap

"Attitudes to technology are changing fast and advisers are increasingly seeing the possibilities from robo-advice. However, major issues remain and will need to be addressed."

Paul Harrison
Head of Prudential's Business Consultancy for advisers

How divided are advisers over the future uses and risks of robo-advice?

What do advisers say?	We will launch robo solutions	Robo is only suitable for clients with small funds	Robo can help us grow our business	Robo is a threat to our business model	Robo might not be the best for customers	Robo could mean regulatory or compliance issues
Agree	41%	54%	46%	40%	67%	76%
Disgagree	44%	20%	27%	32%	7%	4%
Don't know	15%	26%	27%	28%	26%	20%

Call to action

The Adviser Barometer paints a clear picture of growing acceptance and usage of robo-advice and a significant shift in opinion.

However, good financial advice depends on more than just algorithms and there will always be a role for the empathy, understanding and experience provided by financial advisers. Robo-advice has a major role to play in the future but it will require a hybrid approach – part human, part automated.

Chapter 2
Count on new business

Opening up new business sources

Last year there was a clear winner when it came to securing new business; referrals from existing clients were by far and away the best source.

Advisers who provided good financial advice to clients and delivered value for them were rewarded with referrals to new clients. More than two out of three advisers (68 per cent) said existing clients were their best source of new business followed by referrals from accountants and solicitors, chosen by 11 per cent of advisers surveyed.

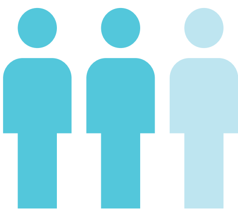
This year the Adviser Barometer shows a more nuanced picture. Referrals from existing clients remain the bedrock of new business but other areas are playing a more prominent role as advisers expand their new business sources and marketing mix.

The table right shows the change in the past year with existing clients chosen by 37 per cent of advisers this year and increases for all other sources of business.

Where does advisers' business come from?

Best new business source	2016	2017
Existing clients	68%	37%
Accountants and solicitors	11%	15%
My company or network's online presence	7%	11%
Direct marketing activity including social media	7%	9%
Approved adviser lists – such as Money Advice Service or Unbiased	4%	8%
Client events	0%	8%
Other	3%	13%

Due to rounding, numbers may not add up to 100%



37%
of advisers said existing clients were their best source of new business

"Outsourcing to specialists and working with other professionals who are experts in complex areas is becoming a significant part of the advice market – but existing clients and quality of service remain the best source of new business."

Paul Harrison
Head of Prudential's Business Consultancy for advisers

The growing influence of accountants and lawyers

The most striking finding of this year's study was where advisers are expecting the growth in new business to come from.

More than half of advisers (52 per cent) said they expect the referrals they receive from accountants and lawyers to grow over the next 12 months. Just 12 per cent of advisers questioned said they did not receive any new business referrals from this source and six per cent said they expected referrals to drop in the future.

The complex financial planning environment

Advisers are increasingly happy to outsource specialist and complex advice. Nearly half of those questioned (47 per cent) said they currently outsource a range of issues while 25 per cent indicated a willingness to do so in the future. Only 23 per cent are against referring work to other professionals.

One issue of increased complexity for advisers – and which would often be suitable to work on with accountants and lawyers – is inheritance tax planning. Around six in 10 (58 per cent) of advisers say they have seen a rise in demand for IHT advice, with 37 per cent saying they expect this demand to continue to grow over the next three years. The biggest source of new enquiries identified by advisers for the next three years was advice on taxation of retirement income, which has relevance for accountants.

"It's encouraging to see that advisers expect professional connections to become a greater source of new clients. In an increasingly complex financial planning environment, there is undoubtedly a greater opportunity for accountants and advisers to work more closely together to deliver better outcomes for their clients.

"ICAEW has recently launched its online Personal Financial Planning Community (www.icaew.com/pfp) which is open to both ICAEW members and other professionals with an interest in this increasingly complex and important part of the professional advice sector. The Community provides a range of content in the areas of regulation, tax, pensions, investments and probate to help professionals from different disciplines keep up-to-date and find ways to work more collaboratively."

John Gaskell
Head of Personal Financial Planning, at the Institute of Chartered Accountants in England and Wales (ICAEW)

"Many advisers will have dealt with vulnerable customers in the past, but it makes sense to proactively look at their client bank to see if they could do more. This may be something as simple as providing information via different means, other than standard written material, to more complex matters such as discussing power of attorney. It's also important to remember that customers may be vulnerable for many reasons, not just because they are elderly or have a disability."

Vince Smith-Hughes
Director of specialist business support at Prudential

Dealing with vulnerable customers

The introduction of pension freedoms means that advisers could increasingly be dealing with more vulnerable customers – people who, due to their personal circumstances, are especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

The good news is that many firms now have processes in place to deal with vulnerable customers with 17 per cent of advisers reporting that they have specific guidelines that they adhere to and over a quarter (27 per cent) saying that they are aware of different communication methods suited to vulnerable clients and that they have used them. Only one in 10 advisers say that they don't deal with vulnerable customers, while 14 per cent refer them to specialist adviser firms.

Call to action

The new business mix is changing and the need to work with other professions is becoming a bigger part of today's advice business landscape.

However, advisers need to control the process and ensure that they are growing their business while maintaining service for clients.

Chapter 3
The next generation

What a difference a year makes

This time last year, advisers were worrying about the future of their profession and doubting whether it was a suitable job to recommend to others. The 2016 research found 51 per cent of advisers expected numbers across the profession to fall this year while nearly a third (30 per cent) said they would not recommend financial advice as a career option.

This year's Adviser Barometer shows 38 per cent of advisers forecasting that the profession will expand, with more advisers coming into the industry. It is important to note they are not predicting boom times as only eight per cent are forecasting a rise of more than five per cent in the total numbers in the profession. However, it's quite a turn-around and even though 30 per cent of advisers are still forecasting a drop in numbers, a sense of optimism is emerging.

One major source of this optimism is the growing numbers of advisers who are happy to recommend financial advice as a career. In 2016 advisers were relatively optimistic with 44 per cent happy to urge others to follow in their footsteps. Now around 70 per cent of advisers would be willing to recommend financial advice as a career.

38%
of advisers forecast that the profession will expand

Adviser views	2016	2017
The number of advisers will grow in the year ahead	11%	38%
The number of advisers will fall in the year ahead	51%	30%
I would recommend financial advice as a career	44%	70%
I would not recommend financial advice as a career	30%	10%

"Supporting advisers is a priority for Prudential and an important part of that is working with the Personal Finance Society on its Aspire development programme to help bring new talent into the profession. It provides wide-ranging assistance to employers to help them achieve the qualifications and skills they need."

Paul Harrison
Head of Prudential's Business Consultancy for advisers

"It's encouraging to see that advisers are increasingly optimistic about the future growth of their profession, supported of course by evident consumer demand and the growing recognition by government and policy makers of the key role that financial planning has to play in society.

"We need to support this growing demand and the need for succession planning through attracting and developing new talent which is vital to the ongoing success of the profession.

"The Personal Finance Society's recently-launched Aspire programme, which Prudential is supporting, offers wide-ranging assistance to employers of aspiring personal finance professionals to help them achieve the necessary qualifications and skills required to support the public."

Companies and individuals can register their interest at apprenticeships@thepfs.org

Keith Richards
Chief executive of the Personal Finance Society

Finding the new advisers

Advisers are expecting a rise in the number entering the profession and are happy to encourage others to follow in their footsteps – but there are significant concerns about where the new advisers will come from.

Fewer than half (48 per cent) of advisers questioned believe there are enough new recruits coming into the industry and 31 per cent believe the profession is struggling to attract new entrants.

The question is this: What is the industry to do about it? This is where views differ, as the table right demonstrates. Nearly three out of four (74 per cent) believe schools and universities need to do more while 69 per cent believe the burden should fall on providers and 58 per cent want to see Government intervention. The majority (83 per cent) are calling for a coordinated approach.

Finding the new advisers	Agree	Disagree
There needs to be a coordinated approach by trade bodies and providers	83%	5%
Schools and universities need to do more to promote financial advice as a career	74%	5%
Providers should expand apprenticeship schemes	69%	7%
The Government should consider sponsoring a scheme to attract advisers	58%	15%

Chapter 4
The race against time

Working hard for the money

One of the reasons for the optimism among advisers – and a potential catalyst for more advisers to enter the profession – is that the current group of advisers are having to put in more hours.

Nearly two out of five (39 per cent) say they are working longer hours in 2017 than in the previous year. This is higher than in 2016, when we found that 27 per cent of advisers were putting in longer hours than in 2015.

Around 40 per cent of those questioned this year said they were working longer hours because their business is growing. However, nearly a third (32 per cent) said increasing compliance requirements mean longer hours while 26 per cent say regulatory requirements mean client meetings last longer.

On average those who are working longer hours say they are putting in nearly an hour extra a week while 13 per cent say they are working up to two hours or more extra each day.

Longer hours haven't translated to any real increase in average fees earned per hour. Average fees across all work were £157 in 2016 and are £160 this year.

The average hourly fee for a financial adviser is

£160

Average fee for area of advice	2016	2017
Estate planning	£164	£162
Tax planning	£167	£161
Savings	£153	£160
Investments	£158	£162
Pensions	£159	£161
Mortgages	£143	£153
Asset management	N/A	£161

"Advisers have to expect that their working week will continue to change with increased demands from clients for more specialist and sophisticated advice. At the same time they need to adapt to the regulatory framework while running a business and focusing on Continuous Professional Development."

Paul Harrison
Head of Prudential's Business Consultancy for advisers

Staying qualified

Maintaining professional standards and improving qualifications are clearly important to ensure high standards of service for clients. However, the Adviser Barometer shows a wide range of opinion from advisers on CPD with 42 per cent believing the need to gain certification is a burden on their business, while 62 per cent say they are committed to gaining further qualifications.

Advisers' attitudes to CPD

CPD attitudes	Agree	Disagree
In practice I do the minimum to retain certification	51%	30%
I do more than the minimum as it is vitally important	57%	13%
Video is the most effective format	33%	24%
Interactive online learning is the most effective format	44%	17%
Events are the most effective format	60%	8%
A combination of video, online and events is the most effective format	52%	12%
I plan to gain more qualifications	62%	17%
Qualifications have become more important since RDR	61%	8%
Certification is a burden on my business	42%	30%

Call to action

Longer hours are good news when they are being driven by increased business and that is the case for many advisers. However, there is a real need to balance CPD requirements with running a business effectively.

Market changes

Keeping-up to-date with market changes is an important part of making sure that advisers continue to recommend suitable products and services to their clients.

While 84 per cent of advisers report that they review their due diligence and suitability processes regularly, half say that despite monitoring the market for developments they always have a concern about how the advice they give now will be perceived tomorrow by clients, the regulator and the Financial Ombudsman Service. Just over a quarter (26 per cent) think that their processes are robust and have no concerns.

"It's in the best interests of adviser businesses to carry out robust, repeatable and recordable research and due diligence when selecting product, investment and platform solutions. These exercises should be done to facilitate best practice and, crucially, to support the delivery of good customer outcomes. Ideally such exercises need to be done when first identifying and selecting solutions, and then revisited and reviewed on an ongoing basis. Adviser businesses should also seek to contextualise these exercises, and key considerations for their customers and their business, against the backdrop of an uncertain economic, regulatory and political landscape, allied with an ever-changing financial services marketplace."

Matt Ward
Director of communications at AKG

Chapter 5

What do advisers want?

#BREXIT

54%

of advisers say their biggest hope for the next 12 months is an end to Brexit uncertainty

Advisers are demonstrating their resilience yet again despite all the problems, burdens and issues they face.

They adapt to circumstances and make the best of what is thrown at them – but what if they could choose what will happen in the year ahead?

With a Budget due on 22 November the Adviser Barometer asked advisers for their biggest hope for the next 12 months for the economy and their biggest hope for the retirement savings market for the next year.

An end to Brexit uncertainty is the top choice for the economy in general, chosen by 54 per cent of advisers, and a commitment to no more change was the top choice for the retirement savings market, chosen by 53 per cent.

The tables below show what advisers want to see happen over the next 12 months.

The Adviser *Top Five* *Economic Wishlist*

54% An end to Brexit uncertainty

41% Sterling starts to gain value

38% Political stability in the UK

34% Sustained equity market performance

25% No more General Elections for at least two years

The Adviser *Top Five* *Retirement Savings Wishlist*

53% A commitment to no more changes

38% Abolish the Lifetime Allowance

30% Abolish the Annual Allowance

24% Enhanced Money Advice Service launch

9% Increase the State Pension Age

Conclusion

The key message coming through from our Adviser Barometer is that advisers expect more people to come into the profession as the gloom expressed in last year's survey lifts.

That is translating into growth in business and changes in the sources of new business as the profession expands its expertise into new areas while seeking partnerships to help support clients and further business growth.

Of course, growth comes with challenges and it is clear there is increasing pressure on advisers as they work longer hours to cope with the demands being placed on them by their clients, the need to meet regulatory standards while adapting to new technology including the opportunities and risks it brings. Certainly there is a debate to be had on how to attract more people into the profession and the need for more support in this regard.

There is unfortunately no simple solution to clear away all the uncertainty and advisers' desire for clarity on Brexit. A pause in the flood of change that has come from Government and regulators in recent years would be a welcome start but is unlikely to be met anytime soon.

However, it is certain that advisers will continue to adapt and remain resilient while striving to deliver the best possible service to clients.

Consumer demand for expert financial advice is growing and advisers are definitely rising to the challenge.

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