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SPEED READ
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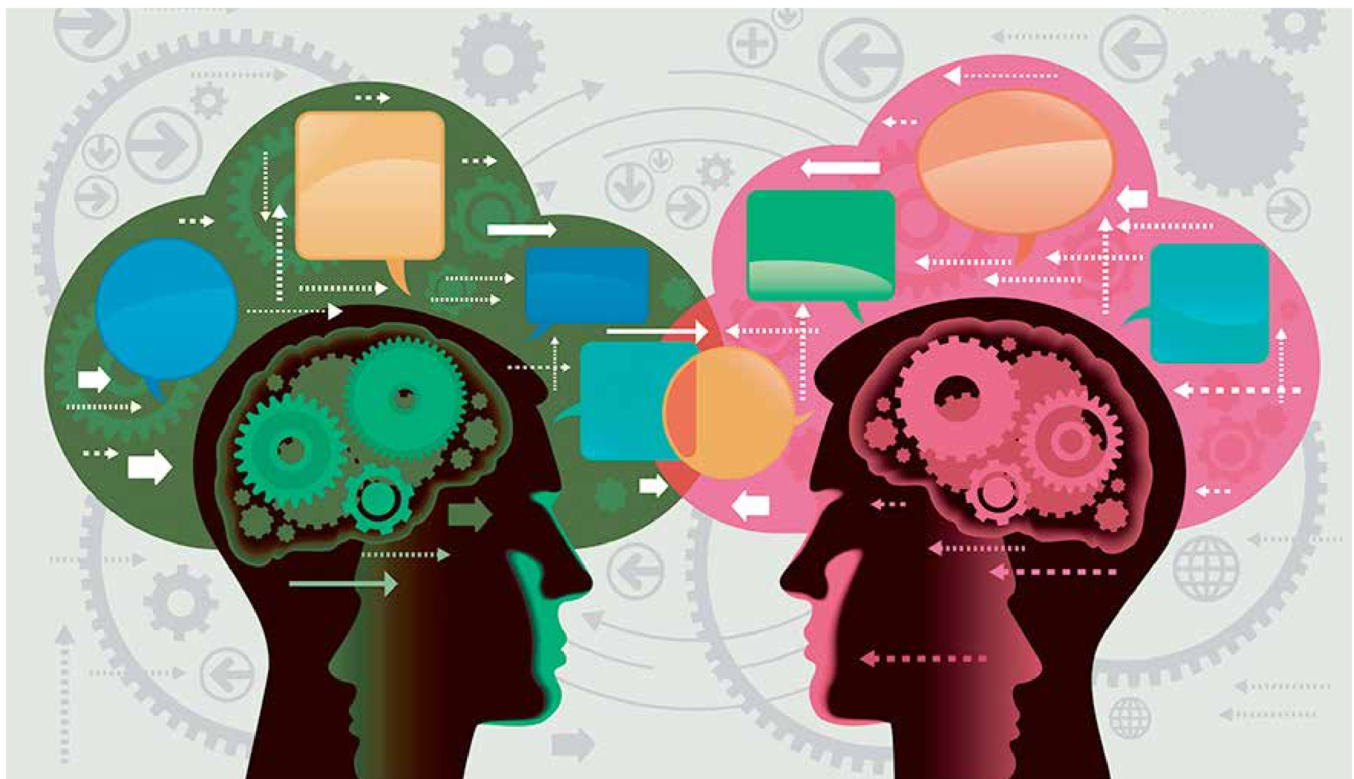
- Turning to friends and family for advice
- Solutions include execution-only platforms
- Auto-enrolment creates opportunity

DESPERATELY SEEKING ADVICE.
JUST NOT FROM THE PROFESSIONALS



As the introduction of charges sees consumers increasingly reluctant to pay for advice upfront, JOHN GILBERT analyses the changes that will redefine the financial services market.

With Retail Distribution Review (RDR) fever intense at the end of 2012, the ComPeer-JGFR Financial DIY 2013 report, using research commissioned from GfK NOP, finds a further drop in the number of people using a designated financial adviser.

Compared to December 2011, when 24.5 million consumers cited having a financial adviser, last December only 22.7 million people (7% fewer) indicated they had one.

More people exiting from professional financial advice

Of the public consulting with a financial services adviser, two-thirds have a professional financial adviser, down from nearly three-quarters in 2011. Friends and family comprise the main category of non-professional adviser.

As the new dawn of the RDR world takes shape, in the past year two million more people have dispensed with a professional financial adviser, with the biggest drop in type of adviser among upmarket wealth managers, stockbrokers and private bankers, following a jump in 2011.

Fewer people employ the services of an IFA and more IFA relationships look set to end as menus of charges are shown to clients. The only growth in professional advice is at the MFSPs (the banks), with a gain of around one million clients. Here, a perception of a better chance of redress if things go wrong may be a factor. This improvement is likely to be short-lived as the major banks withdraw from giving financial advice.

More people now use friends and family

‘AS MORE BUSINESSES ADOPT AUTO-ENROLMENT, THE WORKPLACE CHANNEL WILL PROVIDE ENGAGEMENT WITH THE PUBLIC.’

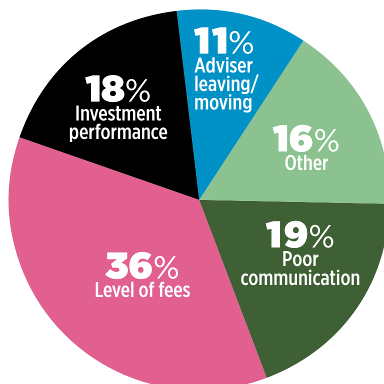
for financial advice (up 0.5 million to 7.3 million) than use IFAs (down 0.5 million to 6 million). Together with the near 28 million non-advised, some 35 million people now have no professional adviser as such, up from around 21 million ten years ago.

More people switched adviser because of rising fees

Nearly a third of adults switched financial adviser in 2012, the highest since 2009. An uncertain investment climate together with negative real cash returns resulted in much greater focus on performance and particularly fees, and less on loyalty.

By far the major factor in people switching in the past year is fees (36%). Much greater publicity has been given to the impact of fees on performance, together with the growing introduction of up-front fees by advisers in preparation for RDR. A year ago the main cause for switching was poor investment performance (a third of switchers), with the level of fees the second main factor (27%). Better stock-market performance in 2012 will have improved investment performance.

Figure 1: Why people switched adviser, 2012



Source: GfK NOP/ComPeer /JGFR

Only 5% of the public value financial advice enough to pay up to £200 an hour for it.

With the build-up to RDR in 2012, new financial advisory models were introduced, although the public awareness of RDR remained very low.

Asked whether they agreed with the statement: ‘I value financial advice and currently/am prepared to pay £100-£200 an hour for financial advice to my financial adviser’, very few people (5%) agreed. This highlights the difficulty the industry faces in bridging the savings gap post-RDR.

Interestingly, the public appear more in support of bundled pricing, with 38% agreeing with the statement: ‘Fees for financial advice should be included in the cost of the product’. This is the most appealing option and one that consumers have been used to in the past when buying financial products. Increasingly, models will need to reflect such consumer preference.

Additionally, a minority of consumers (17%) agree with the statement: ‘I prefer my investments to be managed for me, for which I pay an annual management fee’, which is likely to take the form of a deduction from the funds held by the manager. This is most appealing to older and better-off consumers.

RDR – blown off course by technology developments and market events?

Increasingly, the growth of execution-only (XO) platforms has transformed the financial services distribution mix and accelerated the consumer move to financial DIY. This year’s Financial DIY report shows 13% of adults use an XO stockbroker/ share-dealing service and 10% use a fund supermarket/platform. ComPeer data shows the value of XO assets under administration at a record £92.5 billion, up from £56 billion at the end of 2006. A big attraction of XO platforms is that they avoid paying an adviser fee and generally provide ‘guidance’ content with model portfolios and risk-profiling tools.

Indeed, the distinction between financial guidance, advice and information is becoming increasingly blurred. Consumers were asked about where they sought financial information/advice, with the search engine (30%) the most popular choice, followed by business television/ radio (on air and online 27%) and the personal finance sections of newspapers (print and online 26%).

A minority cited Twitter, Facebook and LinkedIn, and indeed around one in 11 adults use social media to find out what friends and others are saying about investment products. As a method of engaging young people with finance, social media has a role to play, especially by way of mobile. Overall, one in ten adults use their mobile phone for online investment activities (some five million people).

Generation wars: auto-enrolment should help the young, while RDR has cast adrift many younger baby boomers

With the Government facing a problem of engaging people in savings, with fewer advisers and consumers not valuing advice, one channel likely to play a central role is the workplace. As more businesses adopt auto-enrolment, the workplace channel will provide regular engagement with the public in long-term savings. Currently, 9% of consumers use the channel for financial information/advice, a figure that looks set to rise as more providers seek to increase their workplace influence.

For younger baby boomers approaching or just at retirement, the need for advice over pensions and annuities has increased enormously with the move away from defined benefit to defined contribution pensions. The report found many have small pension pots, seemingly of little appeal to financial advisers, but of great attraction to a new financial business – the pension liberator.

This year’s Financial DIY report highlights the trend away from professional financial advice across all segments. There will be unforeseen consequences as regulation cannot keep up with shifts in technology/market innovation together with economic policies buffeted by global influences. Pension liberation scams may be the first of several such post-RDR unforeseen consequences. ■

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Still Stumbling in the Dark: Most providers are behind the curve when it comes to ‘RDR-friendly’ products and services, says Chris Davies. That gives the industry a great opportunity to build ingenuity and high efficiency into its offerings.

Sixty Seconds on RDR: We’re into the final breathless lap before the January 2013 launch of the revolutionary Retail Distribution Review. Forum Members assess its impact in our three key constituencies.