Schroders

Schroders 2023 UK Financial Adviser Annual Survey

Adviser Report

Marketing material for professional clients only

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Welcome

The Schroders UK Financial Adviser Survey series aims to deliver a range of insights that can help advisers with their planning.

It covers a wide variety of issues from the current challenges facing financial advisers, to the way their strategic thinking is developing and the direction of travel for the industry.

This report sets out the key findings from the November 2023 survey, conducted online between 20 October and 6 November 2023. This was completed by over 250 advisers which we feel is a good representative sample from the market. We hope that you find the report informative and useful.

Doug Abbott
Head of Wealth,
UK Client Group, Schroders

Gillian Hepburn
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Benchmark Capital

How are clients feeling about investing?

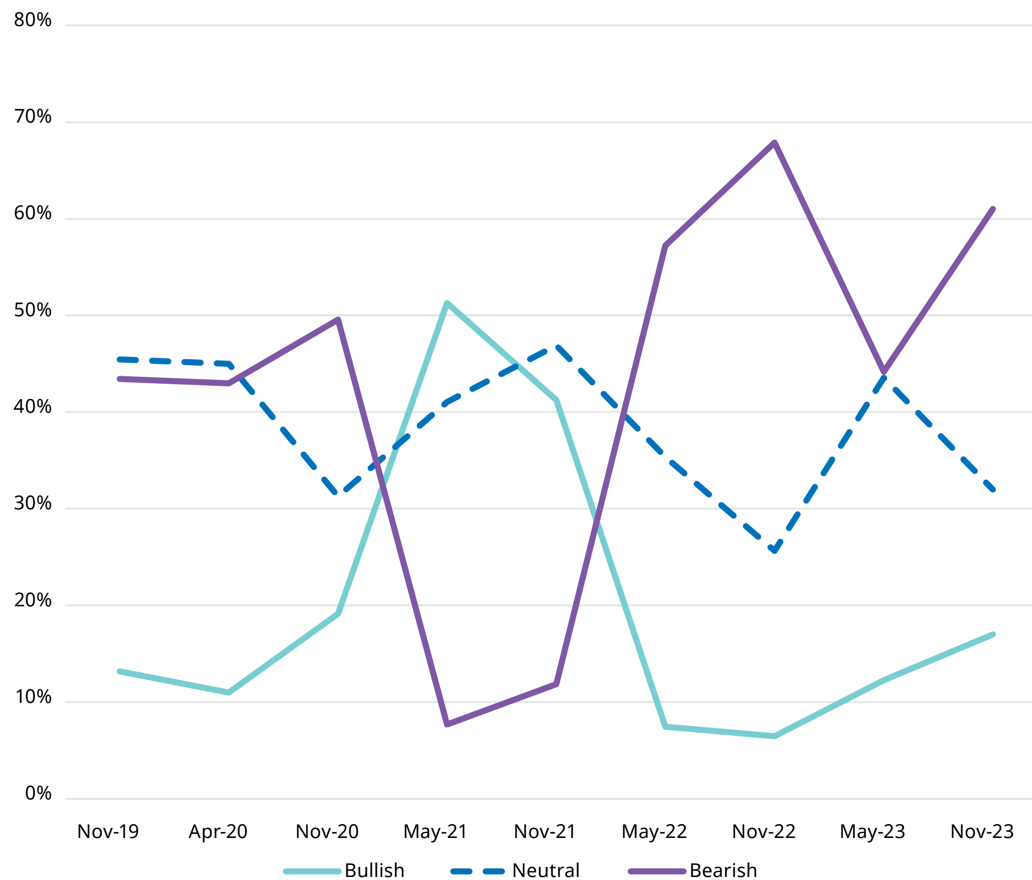
Sentiment

Advisers' clients are on balance more bearish than they were back in May 2023, with 51% now slightly bearish and 10% very bearish.

Markets have blown hot and cold in recent months. While evidence of resilient global growth has fuelled hopes of a soft landing for the major global economies, global equity markets fell in October amid worries that US interest rates may remain higher for longer given still strong inflation. The geopolitical situation was another concern for investors amid renewed conflict in the Middle East. Bonds also fell, with yields rising sharply. The retreat in markets over the period the survey was conducted may have had an influence on raising the level of bearishness reported.

The proportion of advisers' clients that are bullish remains low at 17%. This is the highest level of bullishness reported since November 2021 as we started to emerge from Covid and there was a sense of optimism. This could be a sign that some people, at least, are beginning to discern the possibility of improving market conditions into 2024.

Figure 1: How would you describe the sentiment among most of your clients?



How are clients feeling about investing?

Client concerns

We asked advisers what their clients were currently most concerned about – capital loss, inflation, generating sufficient income or rising interest rates.

On balance, advisers' clients remain most concerned about the prospect of losing capital, by some margin. 59% rank this as their number one concern. This picture has remained consistent for the last two years. Most of advisers' clients are approaching retirement or have already retired, so maintaining the capital they have built up to fund their later years is a key objective.

Inflation, with its potential to erode the value of capital, continues to rank as the second greatest concern for advisers' clients. However, the proportion of clients who rank this as their number one concern has fallen from 32% to 22%. The Consumer Prices Index (CPI) rose by 6.7% in the 12 months to September 2023, which remains well above the Bank of England's 2% target, although well below the peak 11.1% CPI rate in October 2022.

Despite the obvious weakness in the economy's current performance, inflation, although coming down remains far too high. The Bank of England's (BoE) forecasts the consumer price index (CPI) inflation rate to drop towards 5% by the end of the year, before falling back towards target in two years' time and beyond.

Source: Bank of England Monetary Policy Report August 2023.

TOP THREE CLIENT CONCERNS

How are clients feeling about investing?

Cash vs. long term investing

The cash vs. investing debate continues and 95% of advisers are having conversations about long-term investing vs. cash deposits, up from 90% in May.

Cash savers are benefiting from the highest returns in almost two decades, with many popular fixed-rate accounts paying over 5%. The rise in returns has been rapid, with rates today more than double those of a year ago. And as interest rates look like staying higher for longer, returns on cash look set to remain at attractive levels for levels for some time to come. Unsurprisingly savers have committed record sums to cash ISAs in recent months.*

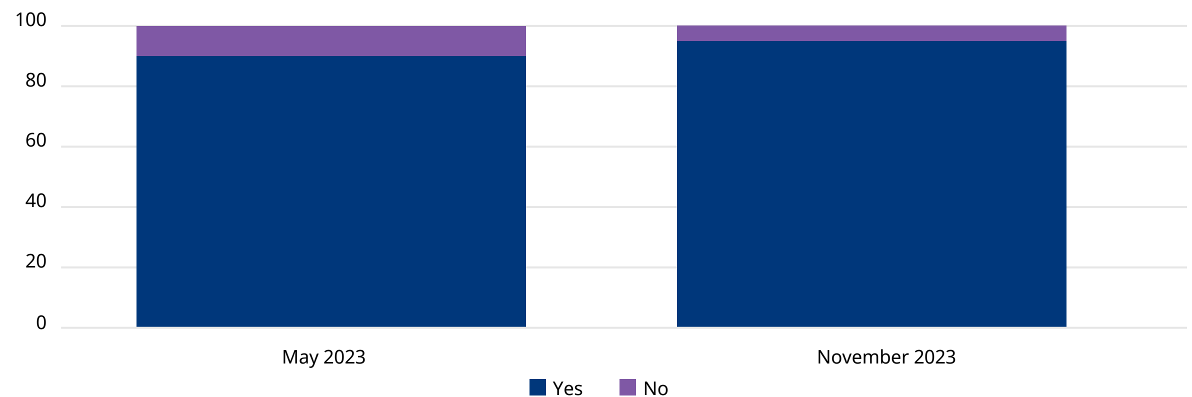
At the same time, market progress this year has been intermittent, following the worst year on record for a typical 60/40 portfolio of equities and bonds in 2022.

As this surveys shows, most advisers' clients remain bearish, while capital loss remains their biggest concern. So, many advisers' clients may be thinking about whether it could be a better idea to put money into cash savings products, rather than investing.

The question of 'should I invest in cash?' is not straightforward and this is an area where advisers can provide real value to clients. Through talking through the issues, they can help to ensure that their clients' money is deployed in the right place to meet their long-term goals. For many of those with a long-term horizon, this will be in a well-diversified portfolio of investments.

*Source: Bank of England, ISA deposits from BoE Money & Credit tables. Data issued June 2023.

Figure 2: Given current interest rates, are you having conversations with clients about long-term investing vs. cash deposits?



How are clients feeling about investing?

Retirement conversations

74% of advisers report that, when discussing retirement, the issue of annuities vs. drawdown has been raised more frequently by clients over the past 12 months than in the previous few years.

One of the most significant decisions that many investors will face is whether to purchase an annuity with the money built up in their pension or opt for an income drawdown strategy to help fund their retirement.

Following the introduction of Pensions Freedom in 2015, income drawdown became the choice for many as annuity rates, which are driven off interest rates, also fell to historically low levels.

Rising interest rates now mean that annuity rates are now considerably more attractive. Current annuity rates are at a level comparable to those on offer between 2005 and 2008, when they were at their peak level over the past two decades.

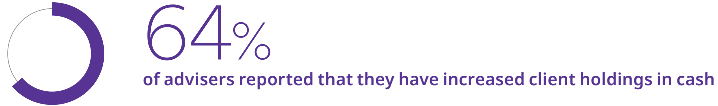
The choice of whether and when to purchase an annuity has become a more nuanced one and should take full consideration of a clients' overall financial position, lifestyle, financial objectives and attitude to risk.

This is another area where an adviser can help to deliver value to a client, helping them implement a retirement funding strategy that best suits their needs, based on their personal circumstances.

Has the issue of annuities vs. drawdown been raised more frequently by clients than in the previous few years?

Market trends

Asset allocation



The most notable asset allocation change that advisers have made over the past twelve months has been to increase their client's allocation to cash. 64% of advisers say that they have increased client holdings in cash. Higher interest rates mean the return available on cash has risen sharply and it's now possible to earn interest rates of 5% on cash deposits in the UK, broadly similar to what can be earned by investing in government bonds.

Advisers have marginally increased their exposure to both corporate and government bonds, where yields are now much more attractive following last year's market sell off.

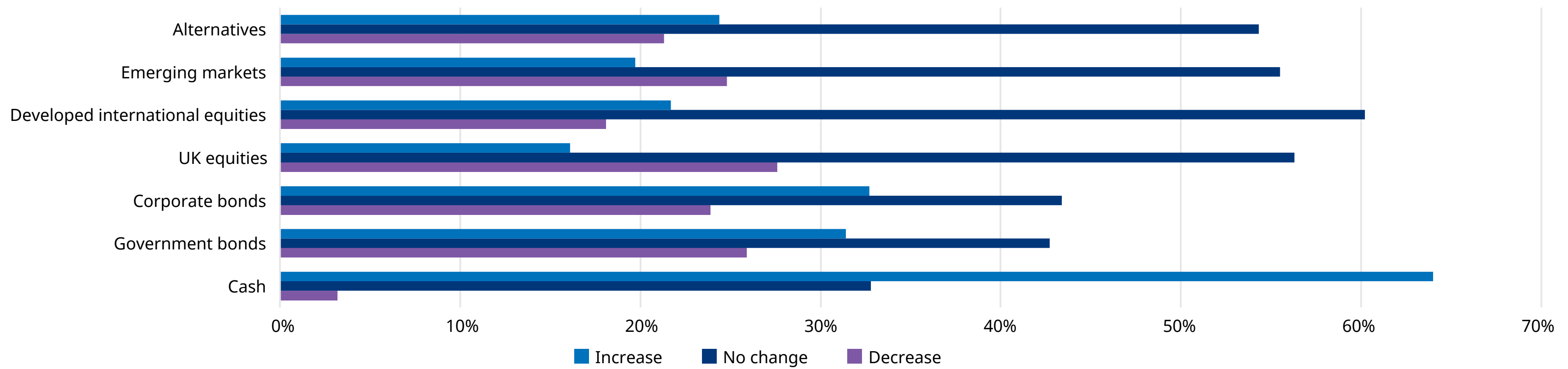
Within equities, there has been a marginal increase in exposure to developed international equities while the UK market has on balance continued to remain out of favour, with 28% of advisers reducing exposure to the domestic market.

Forward looking asset allocation intentions suggest advisers think that risk markets may stage something of a recovery over the next 12 months. On balance, they expect to increase allocations across equities bonds and alternatives while making little change to their allocation to cash.

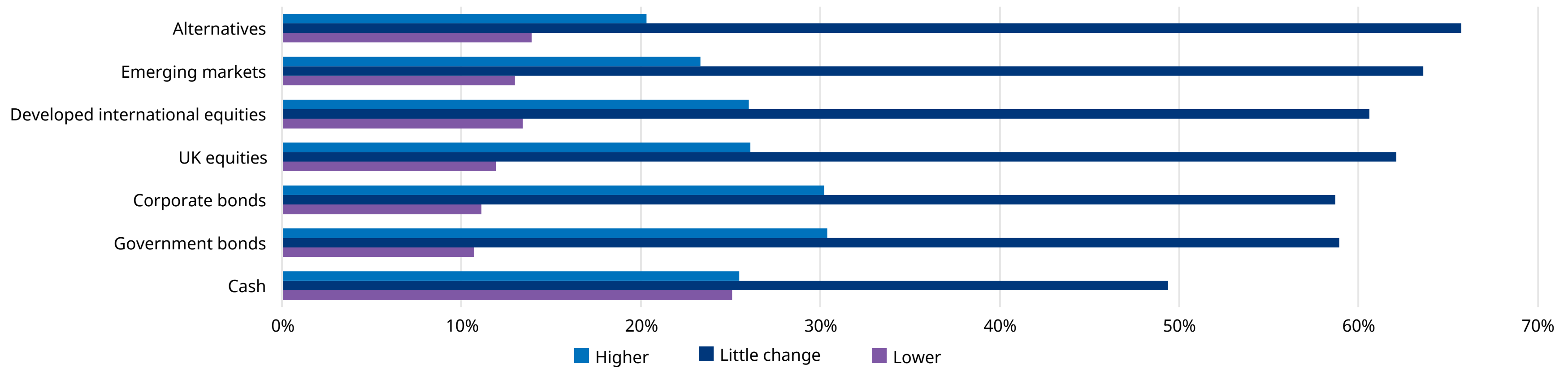
Market trends

Figure 3: Change in client asset allocation over the last 12 months and expectations for the next 12 months

Last 12 months



Next 12 months



Forecast expectations

On the economic front, growth expectations for the next five years have risen, with 53% of advisers expecting higher global growth against just 13% who expect it to trend lower.

Advisers are anticipating that the period of sharply rising inflation is coming to an end and that central bank interest rates will come down from current levels.

Unsurprisingly, 74% of advisers expect that inflation will trend lower over the next five years and 72% expect that interest rates will do likewise.

Advisers expect that disruption will remain a major theme in markets. It is of some note that the proportion of advisers who expect higher levels of disruption related to changes in the environment, including climate change, has fallen somewhat in recent years, although at 49%, it remains at high levels. The percentage of advisers expecting higher disruption related to technological advances has risen from 30% last November to 46%, which could be a reflection of the enormous coverage there has been on developments in Artificial Intelligence since the launch of ChatGPT.

69% of advisers expect a higher level of disruption related to geopolitics, which is back to the heighted level following Russia's invasion of Ukraine. This comes against a background of the conflict in Gaza between Israel and Hamas, which threatens to further destabilise the Middle East, and with no sign of an end to the war in Ukraine.

Market trends

The 3D reset

34% of advisers expect that deglobalisation will persist as a trend against 9% who expect global markets to open up further.

The Covid-19 pandemic and rising geopolitical tensions have heralded a new era where greater supply chain resilience and security is a priority. These winds have and may continue to encourage greater nearshoring of key sectors, such as manufacturing, which in turn could have implications across a wide range of sectors and asset classes.

This is part of what we call the 3D reset, which encompasses decarbonisation, demographics and deglobalisation. We believe these ongoing trends have had and will continue to have massive long-term implications for the global economy. Taken together, the 3Ds are reshaping the investment landscape. Understanding the three Ds – how they affect the global economy, what that means for market volatility, and how active investors should be allocating their assets – might be the key to deciphering what comes next and where the investment opportunities are.

Market trends

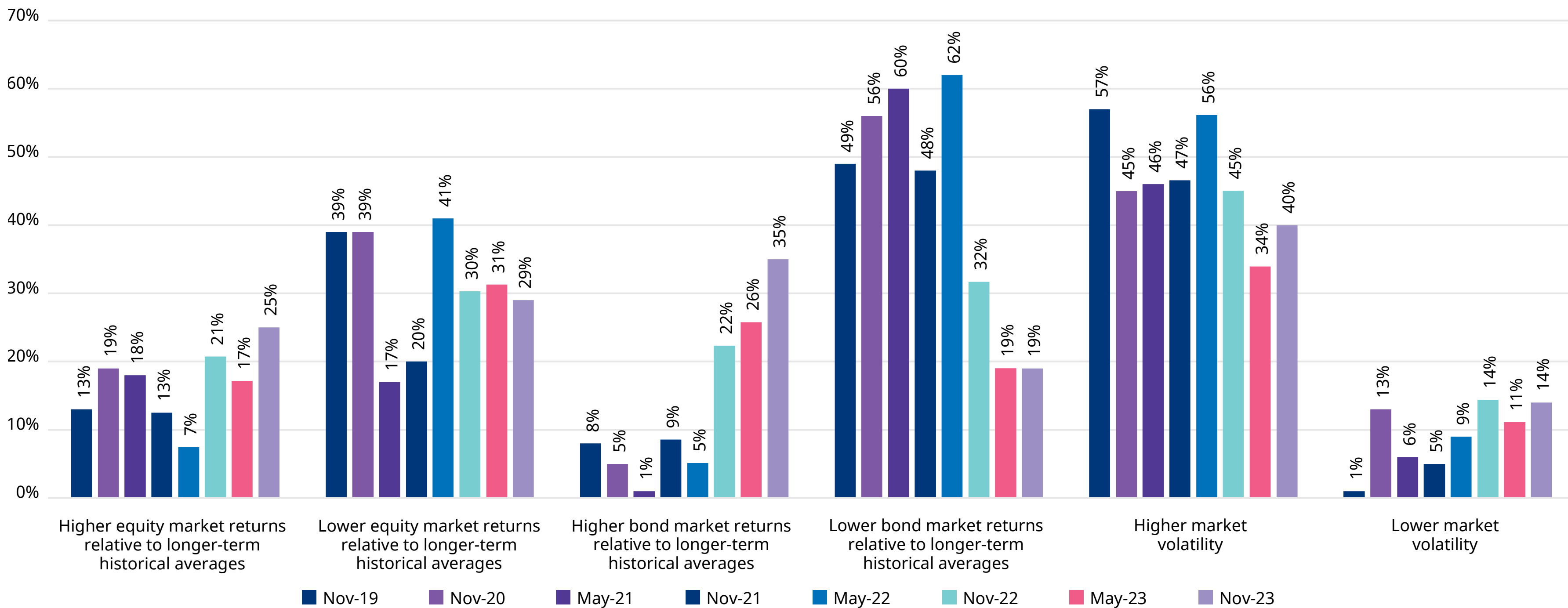
Markets

The proportion of advisers who expect equity market returns to be higher than historical averages over the next five years has risen to 25%. This is the highest level in four years. However, this still remains slightly below the proportion who expect lower equity market returns than historical averages, which stands at 29%.

On balance, advisers view prospects for bonds as more positive with 35% expecting returns to be higher than historical averages against 19% who expect lower returns.

Following a period when markets have blown hot and cold, 40% of advisers expect that volatility will be higher than historical averages. This is up from 34% in May.

Figure 4: How would you expect the following to trend over the next 5 years?



Cost of living crisis

89% of advisers report that some of their clients have adjusted their plans as a result of the cost of living crisis, the same proportion as in May. This is higher than predicted back in May 2022 when only 69% of advisers anticipated that clients would have to adjust plans, perhaps demonstrating that this 'crisis' is more prolonged than was expected at that time.

27% of advisers report that more than a quarter of their clients have had to make some adjustments. This shows that even among those wealthy enough to use a financial adviser, many people have suffered a big enough hit to their financial position from the rising cost of living that they have been compelled to change their plans.

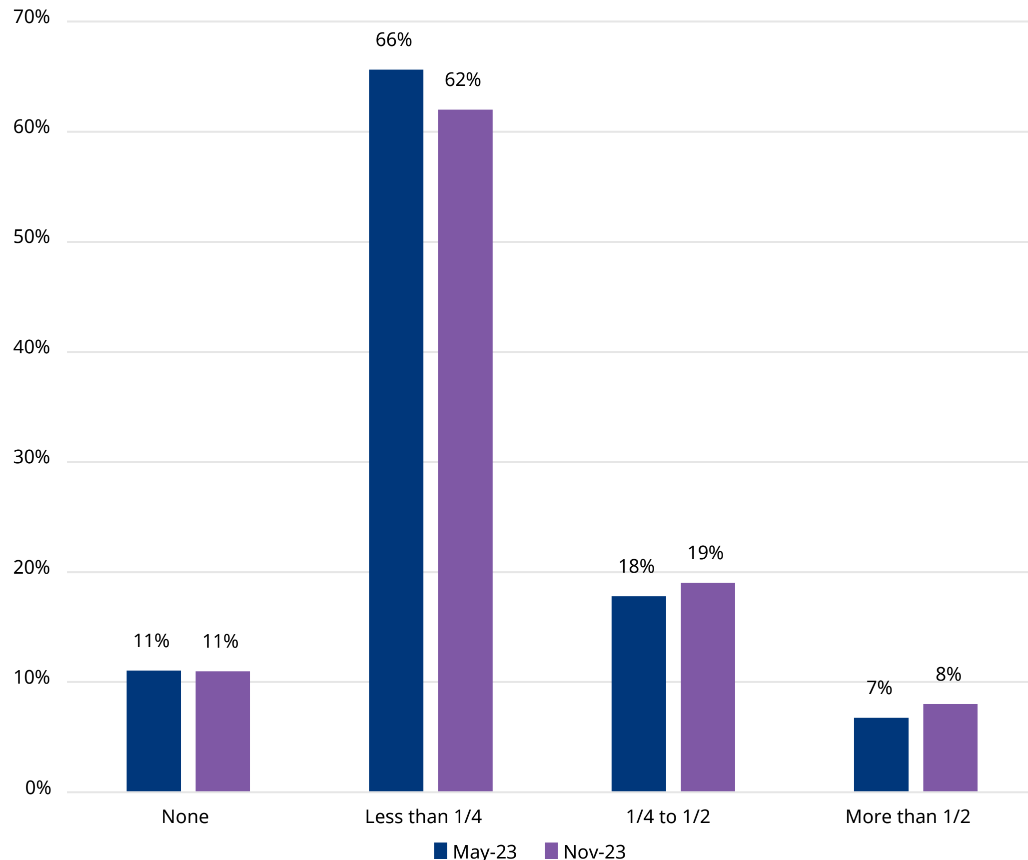
35% of advisers report that some of their clients have stopped or reduced making payments into a pension. While stopping payments into a pension can help to relieve short term financial pressures, if maintained for more than a short period, this can have a significant impact on the amount of capital built up to fund a retirement.

20% of advisers report that some of their clients have stopped or reduced insurance payments and a smaller but, not insignificant, 10% report that some of their clients have stopped or reduced making mortgage payments. Stopping mortgage payments can increase the risk of a property being repossessed. This is not a step that many are likely to consider unless their finances are under considerable strain.

We asked advisers about the reasons for clients changing their plans.

45% of advisers cited higher household expenses as the number reason why clients have adjusted their plans. This was followed by increased mortgage payments (20%), helping wider family (18%) and pension considerations (15%).

Figure 5: What proportion of your clients have adjusted their plans due to the cost-of-living crisis?



Adviser business challenges

Almost half of advisers cited regulation at their main concern up from a third in November last year. This follows the introduction of the Financial Conduct Authority's (FCA) Consumer Duty which sets a requirement that firms must act to deliver good outcomes for their clients and that firms must also evidence these outcomes are being met. The retirement income review and numerous 'Dear CEO' letters are also likely to be driving this concern.

Finding new clients and servicing existing clients rank next in advisers' list of concerns and it's interesting to note that despite significant levels of activity, the focus on succession planning and/or exit strategy has reduced from previous surveys where is was typically one of the key challenges.

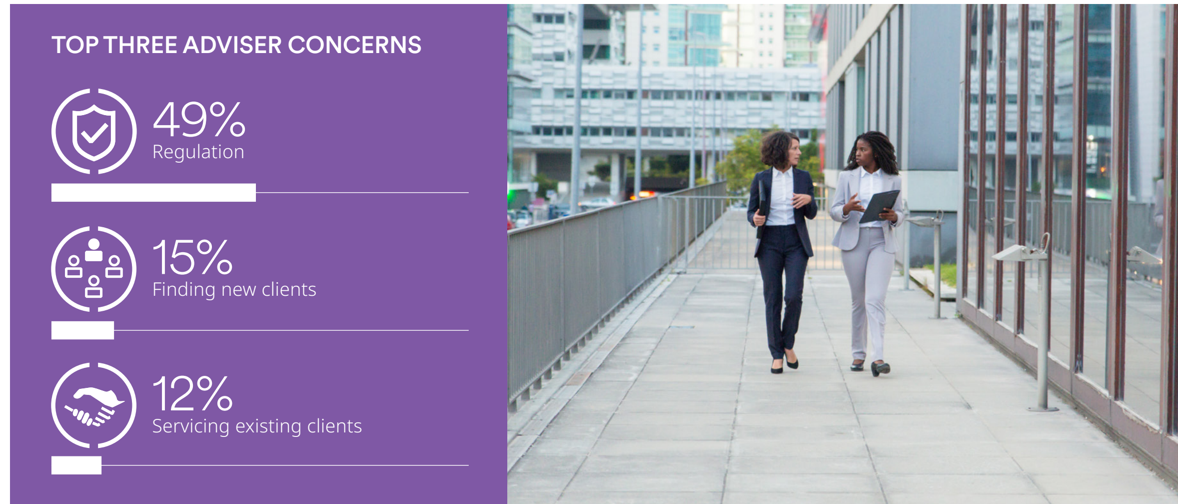
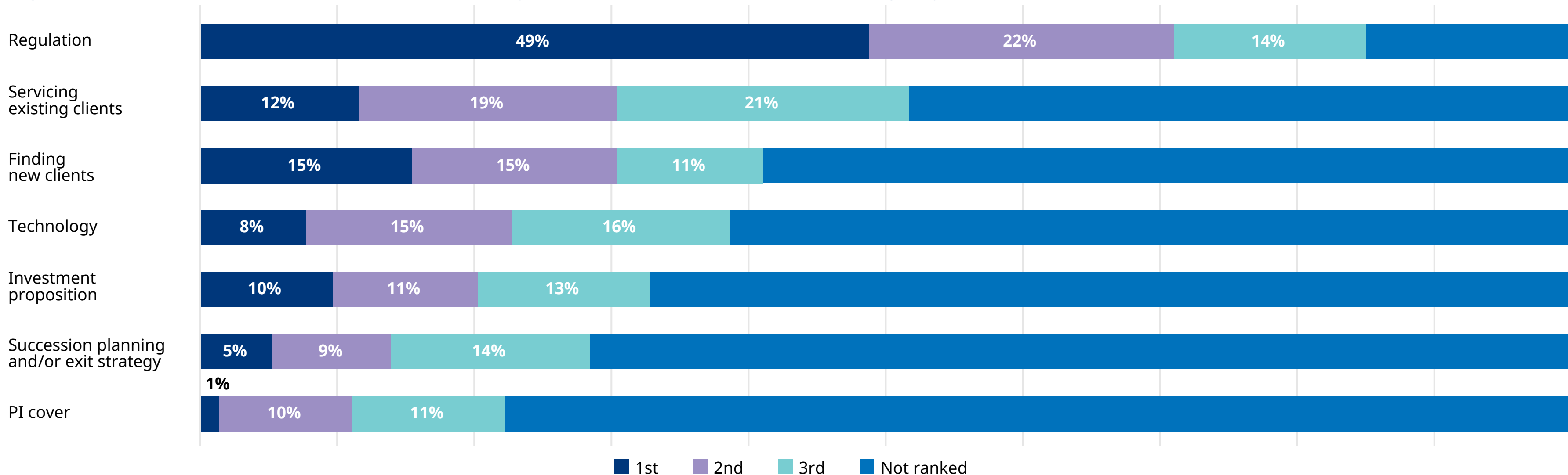
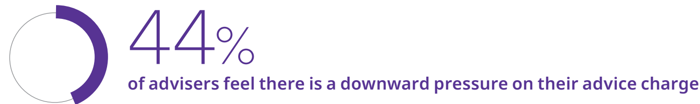


Figure 6: From this list, which three factors are you most concerned about relating to your business? Please rank in order from 1st to 3rd



Adviser business challenges

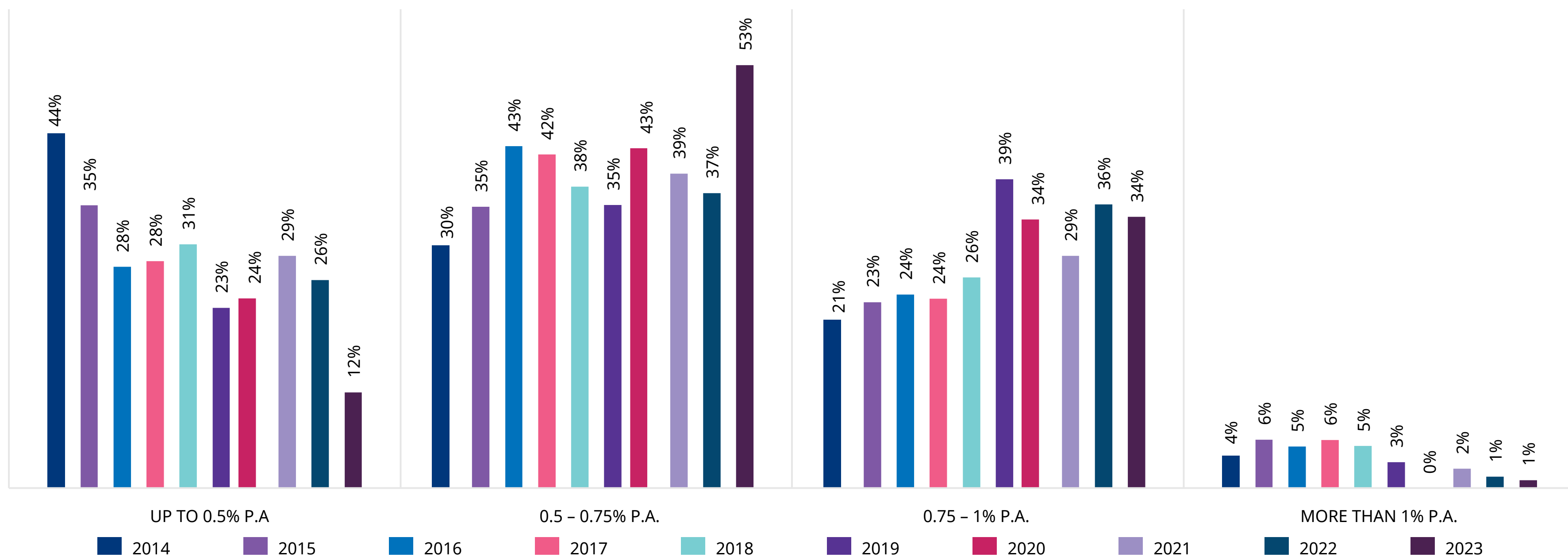
Fees



44% of advisers indicated that they felt a downward pressure on their advice charges and this aligns to the 69% of advisers who said that the 'price and value' outcome of Consumer Duty will put pressure on the ongoing charging model.

Despite this, 53% of advisers have an ongoing advice charge of between 0.5% and 0.75%, a significant increase from 37% in 2022. There is a corresponding decrease of advisers charging up to 0.5% falling now to 12%. The proportion charging 0.75% or above has remained largely the same at 35%. At the moment, this downward pressure is really only being observed at the lower end of the scale.

Figure 7: What is your average % ongoing advice charge based on assets (approximately)?



Adviser business challenges

Client segmentation

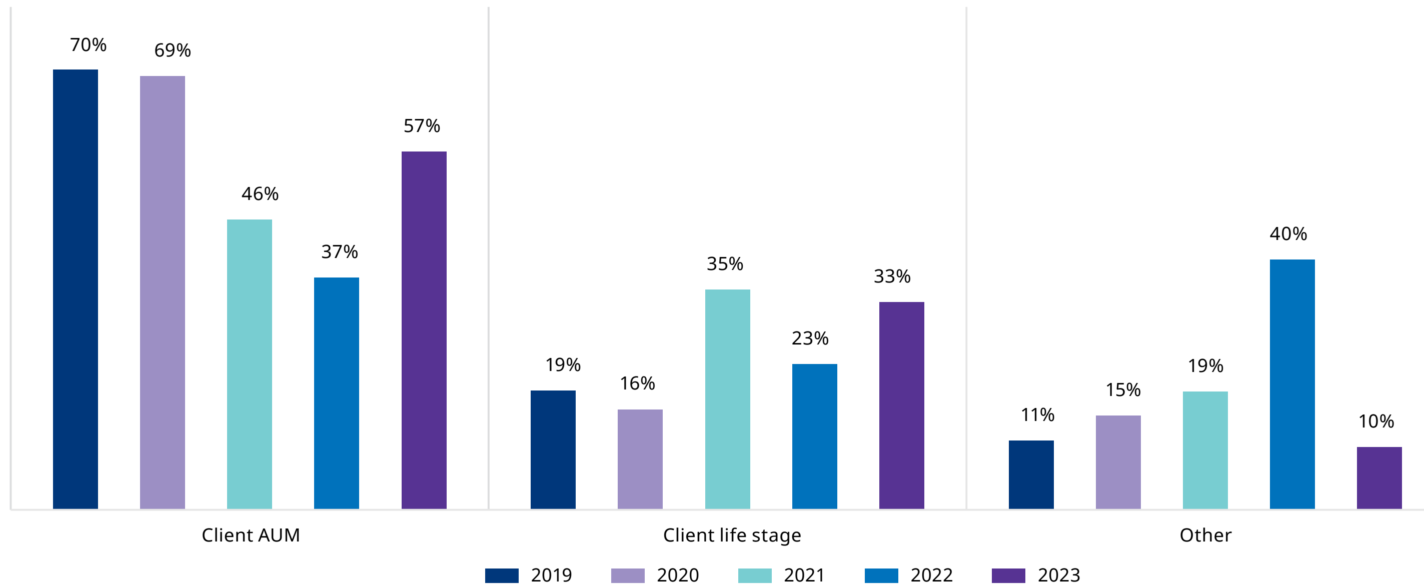
64%
of advisers segment their client base

Following the introduction of the Consumer Duty, it is interesting to note that while 64% of advisers segment their client base, 36% still don't. Indeed, there has not been a significant increase in the proportion of advisers segmenting their client base since 2018, when there was a jump following the introduction of the PROD rules.

This required advisers to 'identify the target market and their distribution strategy using 1) the information obtained from manufacturers and 2) information they have on their own clients' which led to many segmenting their clients to support the delivery of different products and services. However, the introduction of Consumer Duty and the 'Products and Services' outcome has prompted advisers again to revisit their target market and ensure that products and services must be 'fit for purpose' and designed to meet the needs, characteristics and objectives of the target market.

57% of advisers who segment their client base use the basic metric of client assets under management (AUM) and 33% of advisers segment by life stage which is an increase of 10% from 2022. Other ways that advisers reported segmenting their client base include a blend of client AUM and life stage, the complexity of a client's situation, and a client's ongoing service requirement.

Figure 8: If you segment your client base, what basis do you principally use?



Sustainability

The survey provides evidence that advisers and their clients are now more aware of the link between sustainability and investing and are increasingly looking to ensure that their views on sustainability are reflected in portfolios.

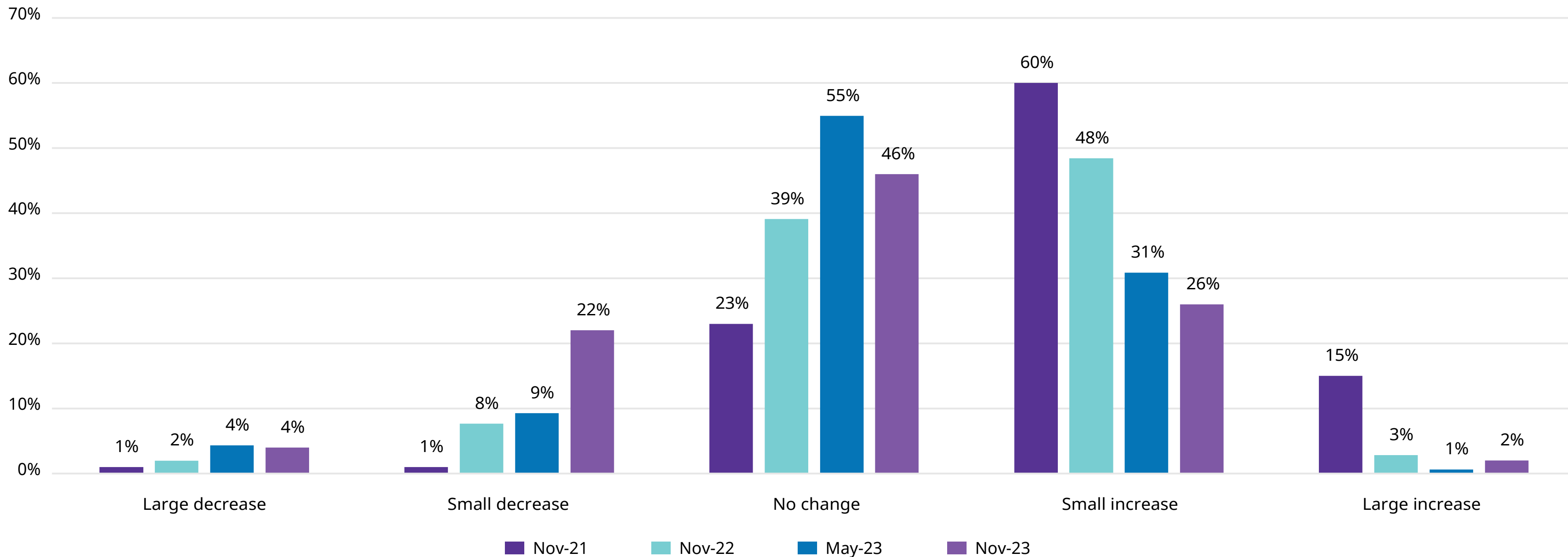
76% of advisers now specifically consider sustainability and ESG factors as part of their fund selection process, compared to 43% in 2019.

23% of IFAs report that more than a quarter of their clients now ask to incorporate ESG factors when investing. This is up sharply from 9% in 2019. However it remains below the 29% figure reported in 2021. It's possible that a combination of difficult market conditions and the increasing strain on household finances may have pushed sustainability back a little in the list of the concerns that advisers' clients have relating to their investments.

Advisers, on balance, are becoming more confident in talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing. 45% rate their confidence level as high compared to 35% last year.

However, many advisers want to improve their understanding of sustainable investing further with 45% saying they would like more educational support in this area.

Figure 9: How has the number of clients asking for sustainable investing changed over the past 12 months?



Outsourcing

17%
of advisers have increased their use of outsourced solutions in the last year

36%
of advisers now outsource more than half of their clients' assets under management

Advisers are continuing to use outsourced investment solutions to help manage an increasing proportion of their clients' assets.

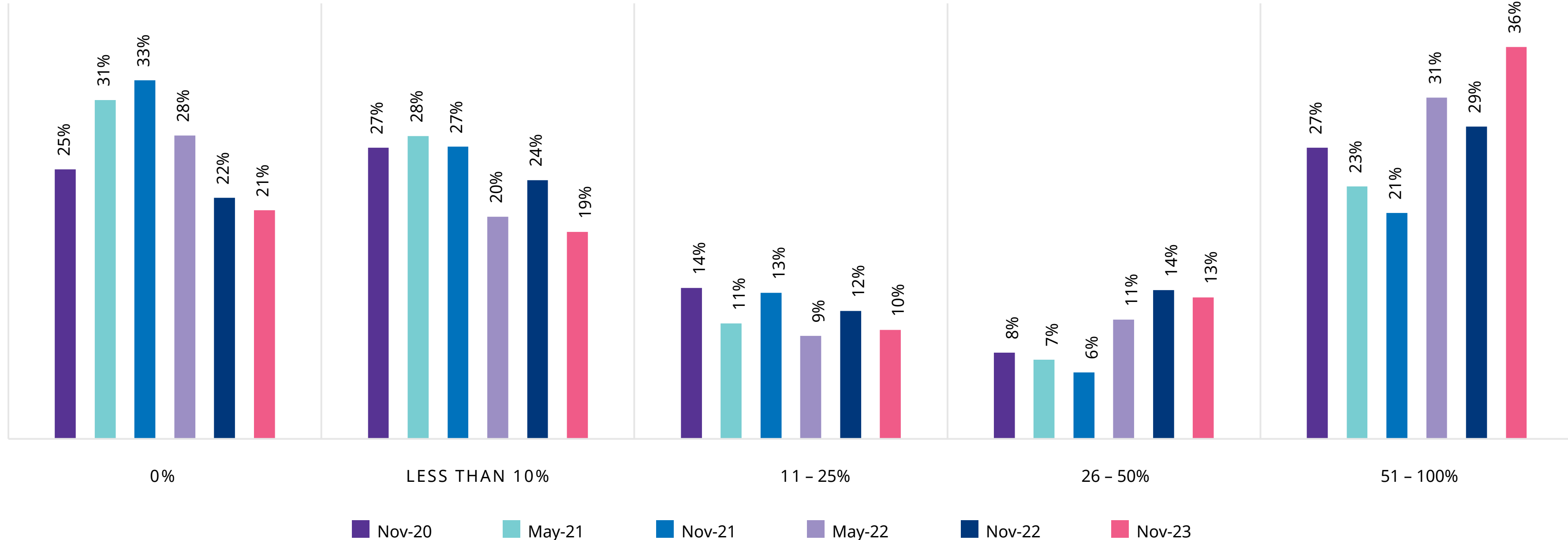
36% of advisers now outsource more than half of their clients' assets under management and 49% outsource more than a quarter of their clients' assets under management, up from 43% in 2022.

The proportion of advisers who do not outsource the management of any of their client portfolios remains broadly similar to last year at 21%.

17% of advisers have increased their use of outsourced portfolio management in the last year The trend of increasing use of outsourced performance management has been consistent over the past few years.

Overall, advisers expect to increase their allocation to all types of outsourced solution over the next 12 months. They expect to increase their use of multi asset funds and third party model portfolio services by the greatest amount. This was same picture in 2022.

Figure 10: What percentage of your clients' assets are managed externally through outsourcing portfolio management?



Outsourcing

Selecting an outsourced solution

TOP THREE FACTORS WHEN REACHING A DECISION TO OUTSOURCE PORTFOLIO MANAGEMENT

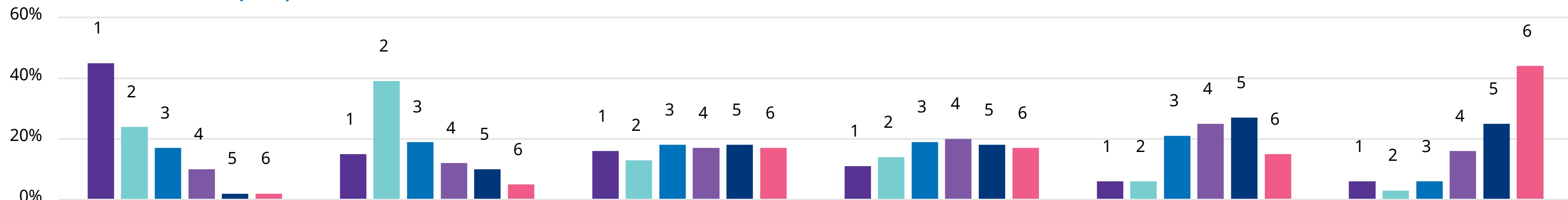
- Improved operational effectiveness
- More time to spend with clients
- Access to investment expertise

The two factors that were rated most important in reaching a decision to outsource portfolio management were 'improved operational effectiveness' and 'more time to spend with clients'. These were closely followed by 'access to investment expertise and resources' and 'reduced risk in your business'. This was a shift from previous years where 'access to investment expertise' was a key priority – perhaps this is now simply a given?

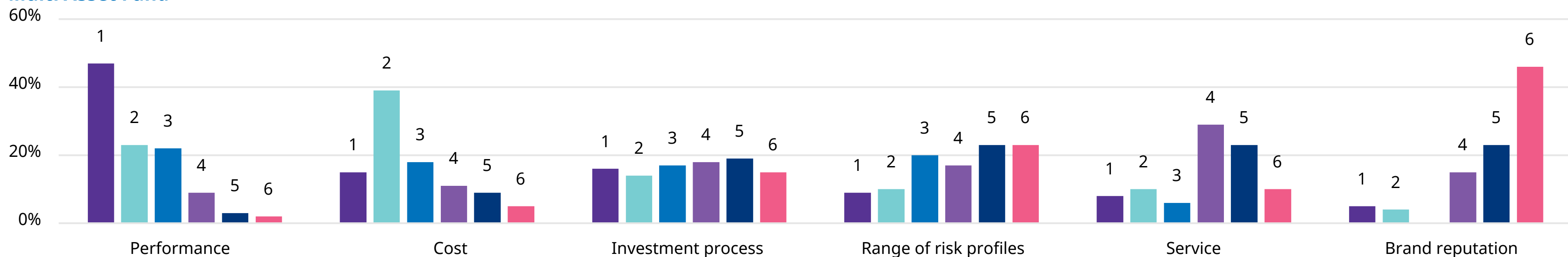
Performance ranked as the main factor when selected an MPS and multi asset fund, by some margin. This was followed by cost and investment process.

Figure 11: What are the most important factors when selecting an outsourced solution? Rank from 1 (most important) to 6 (least important)

Model Portfolio Service (MPS)



Multi Asset Fund



The Consumer Duty

PERCENTAGE OF ADVISERS WHO THINK THE DUTY WILL HAVE A REASONABLY HIGH OR HIGH IMPACT ON THEIR BUSINESS

May 2023 – 25%

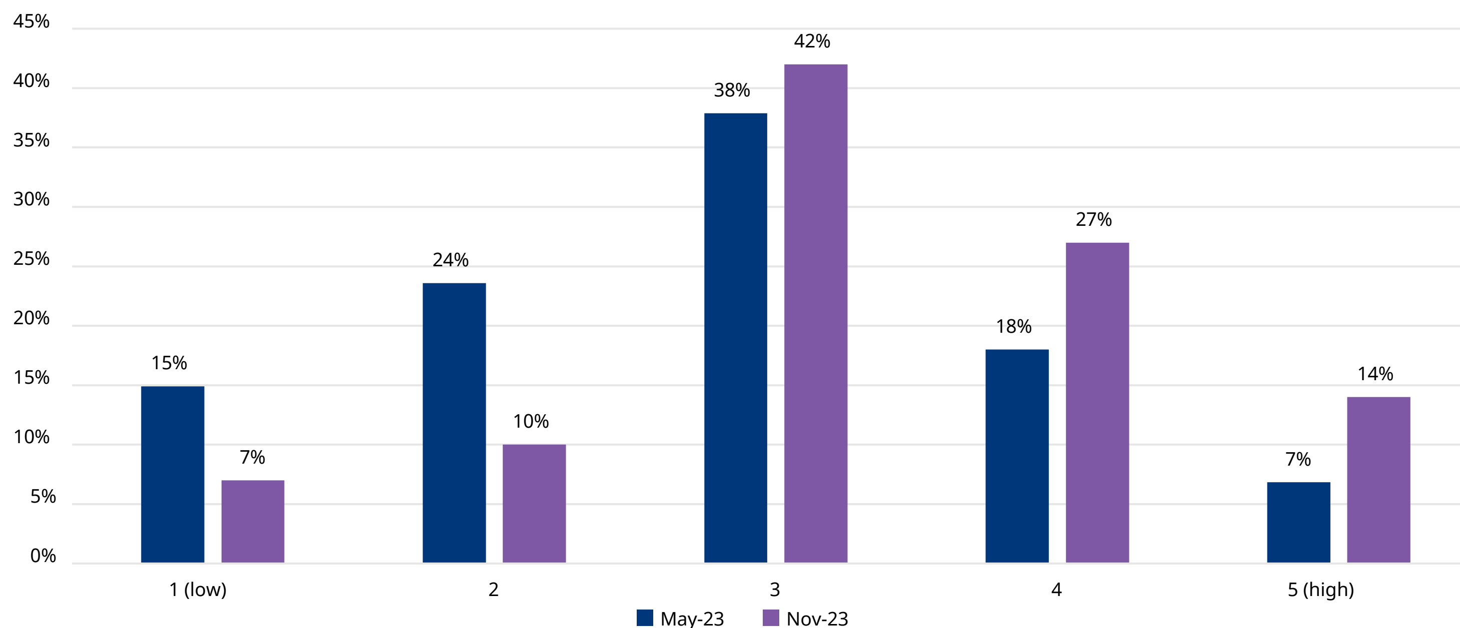
November 2023 – 41%

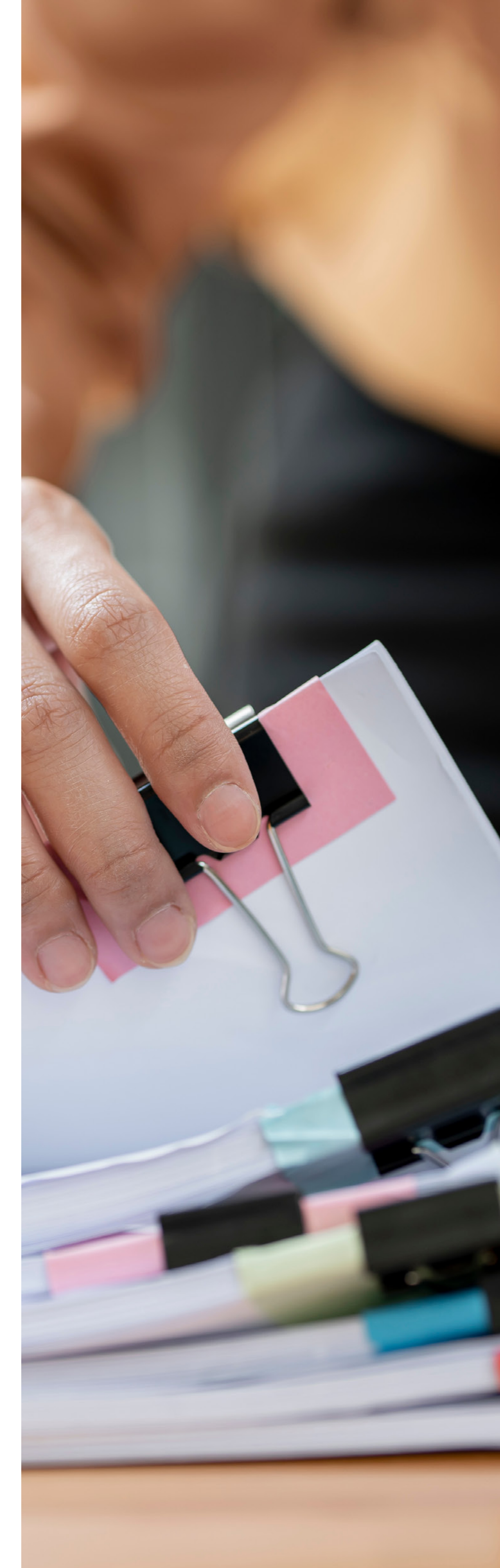
The Consumer Duty came into effect in July 2023. It's interesting to see that the proportion of advisers who think that the Duty will have a high or reasonably high impact on their business has since risen from 25% to 41%, with a commensurate fall in the proportion who think the impact will be relatively low. This suggests that there is a growing recognition among advisers that the Consumer Duty has real teeth and will require ongoing effort to ensure that they successfully implement the requirements.

As covered earlier, 69% of advisers think that the 'price and value' outcome will put pressure on ongoing charging models, which is a significant increase from 59% in May.

33% of advisers have considered making greater use of outsourced discretionary model portfolios specifically as a result of the Consumer Duty. An adviser who constructs their own model portfolios can now find they are classed as a 'manufacturer'. This brings the associated obligations of fair value assessments and target market documents, and it appears that many are starting to review their investment propositions due to this additional regulatory burden.

Figure 12: On a scale from 1 (low) to 5 (high) what impact do you think Consumer Duty will have on your business?





The Consumer Duty

Evolution not revolution

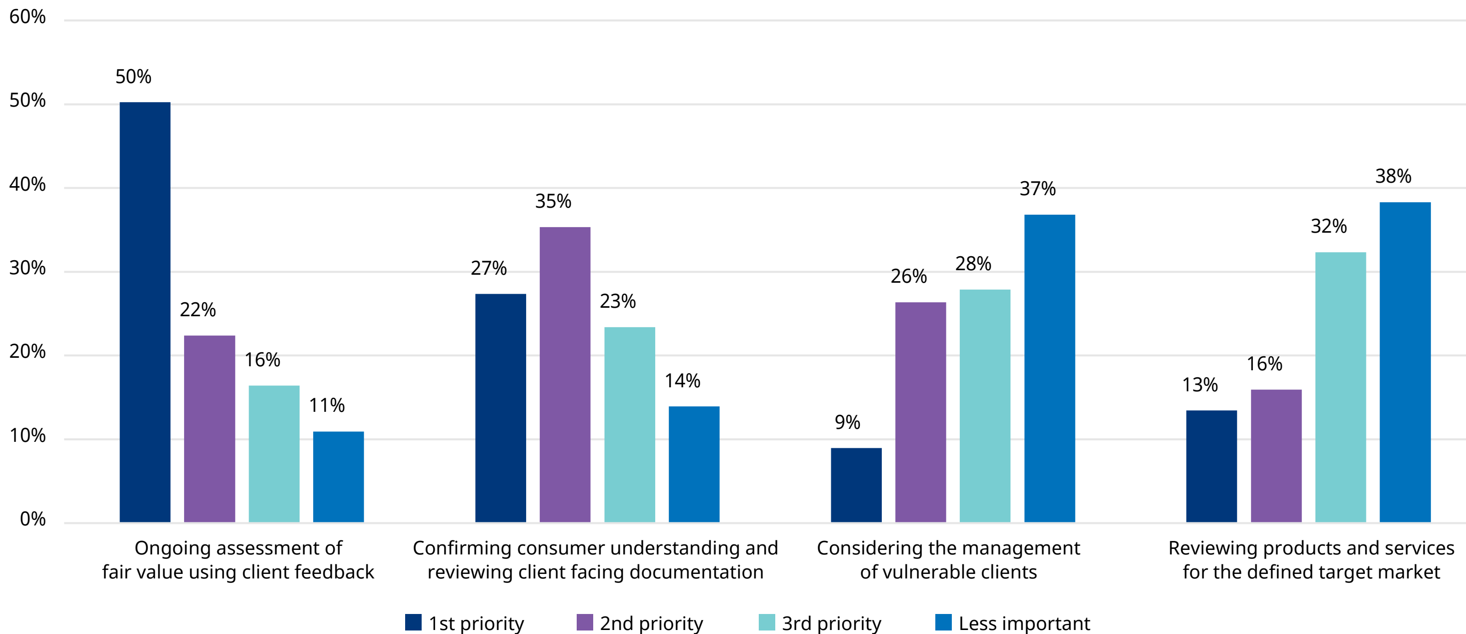
50%

of advisers reported that ongoing assessment of fair value was the top priority when implementing the Consumer Duty

One of the key messages for advisers is that the implementation of the Consumer Duty will be 'evolution and not revolution' and that the target implementation date of end of July 2023 was simply the start of this journey.

When asked about ongoing implementation of Consumer Duty, 50% of advisers cited the assessment of fair value using client feedback as their first priority. The second most common choice for advisers was confirming consumer understanding and reviewing client facing documentation.

Figure 13: Select the top three priorities for your business for the ongoing implementation of Consumer Duty from the following:



Wealth transfer

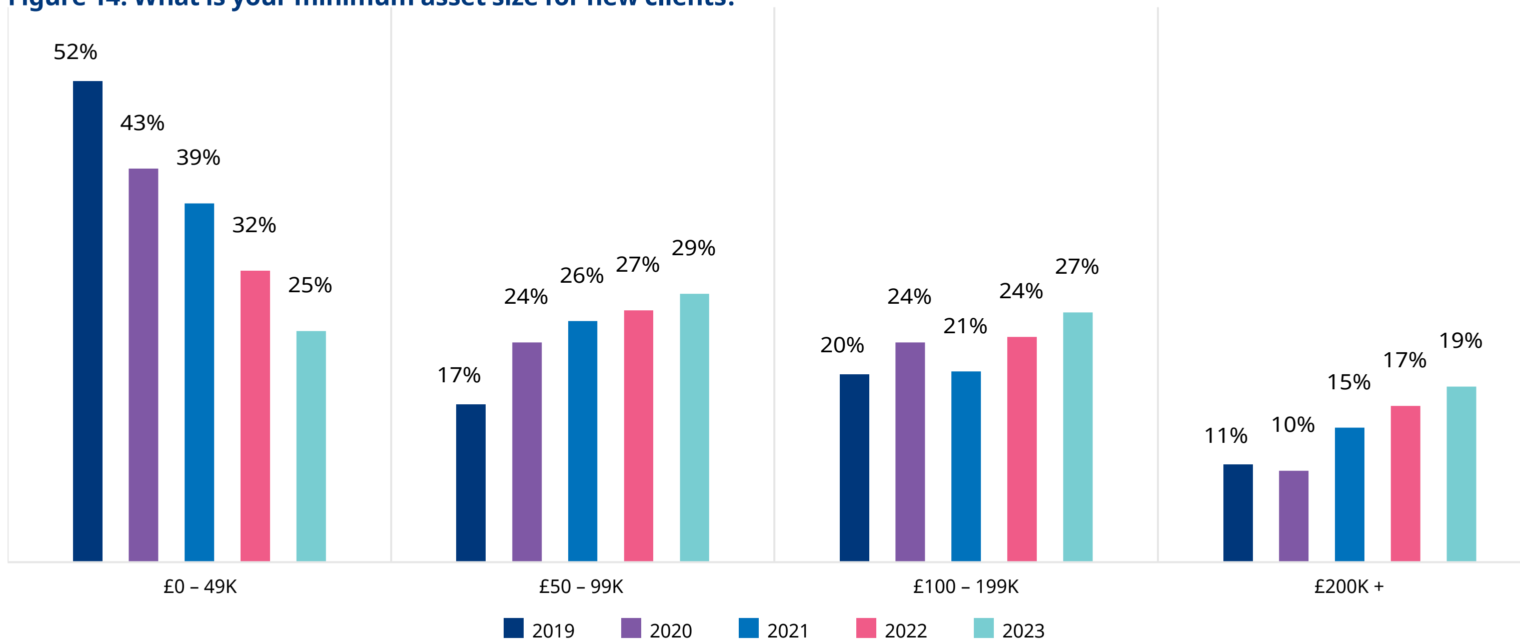
Advisers are increasingly concerned about the impact that wealth transferring between generations could have on their businesses. 63% are now concerned that they could lose business as wealth transfers between generations, up from 59% last year.

Despite this, and an increased industry focus on the risks and opportunities posed by intergenerational wealth transfer, attracting younger clients does not appear to be a priority for most advisers. This is reflected in the ageing profile of their client bases and the fact that only 25% of advisers are prepared to advise clients with less than £50k to invest. Sadly this figure has been declining steeply from 52% in 2019.

Correspondingly, the percentage of advisers who will only accept new clients with more than £200k has risen to 19%.

49% of advisers report that the average age profile of their clients has increased over the past five years. And the overall age profile of clients remains largely unchanged from last year's survey. 67% of advisers surveyed have clients with an average age of 51-64.

Figure 14: What is your minimum asset size for new clients?



Wealth transfer

The proportion of advisers with a differentiated strategy for younger investors or for retaining, attracting and advising women remains notably low.

Only 16% of advisers have a differentiated sales and marketing strategy for younger investors and 10% for retaining, attracting and advising women. The role of female clients cannot be overlooked as the first point of wealth transfer in the baby boomer generation is typically to a widow. In the US, it is estimated that 70% of women change their financial adviser after the death of their husband (Source: McKinsey 2020).

Advisers ignoring the wealth transfer opportunities might also find that, when negotiating business valuations for an exit strategy, the potential loss of assets could be challenging.

Artificial Intelligence (AI)

Given the significant focus on the rise of AI, the challenges and opportunities which this could present for wider society as well as the financial services industry, the survey presented an opportunity to ask advisers for their views.

The proportion of advisers who think that the development of AI technology applications such as ChatGPT represents an opportunity rather than a threat to their business has risen significantly to 70% from 57% in May. This suggests that many think AI has the potential to power solutions that will help them to deliver enhanced services to clients and deliver efficiencies within their business.

85% of advisers now anticipate incorporating AI based technology applications in their advice process in some way in the future. We are already hearing of examples of where this is being used to help with suitability reports, KYC processes and client correspondence etc. However, advisers are also aware of some of the challenges of this such as the risks of putting client data into applications on the internet and some are asking for help to create AI policies for their business.

Despite this, 17% of advisers expect AI to be incorporated in their advice process in some way within a year and a further 56% in two to five years.

DO YOU THINK THE DEVELOPMENT OF AI TECHNOLOGY REPRESENTS AN OPPORTUNITY OR THREAT TO YOUR BUSINESS?

May 2023

57% OPPORTUNITY

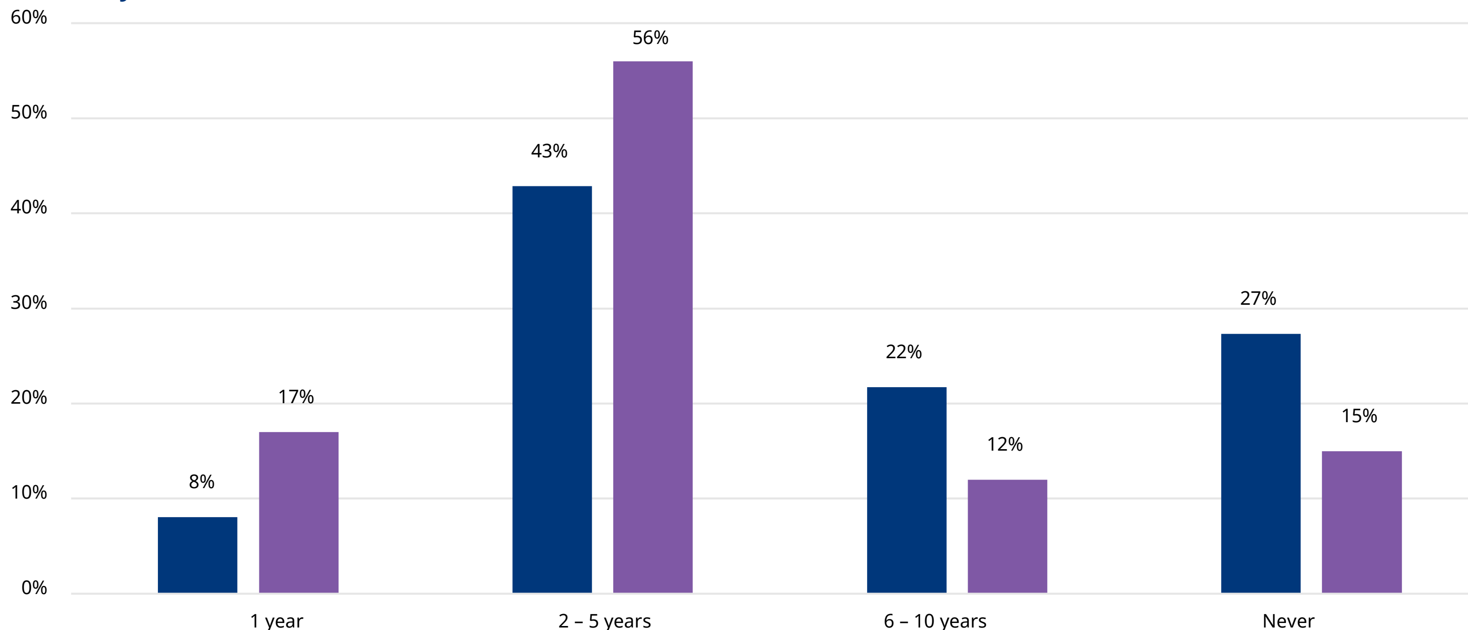
November 2023

70% OPPORTUNITY

Threat

Opportunity

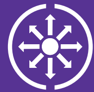
Figure 15: How soon would you anticipate incorporating AI based technology applications in your advice process in some way?



Artificial Intelligence (AI)

TOP THREE WAYS IN WHICH AI COULD BENEFIT ADVISERS' BUSINESSES

Efficiency and automation

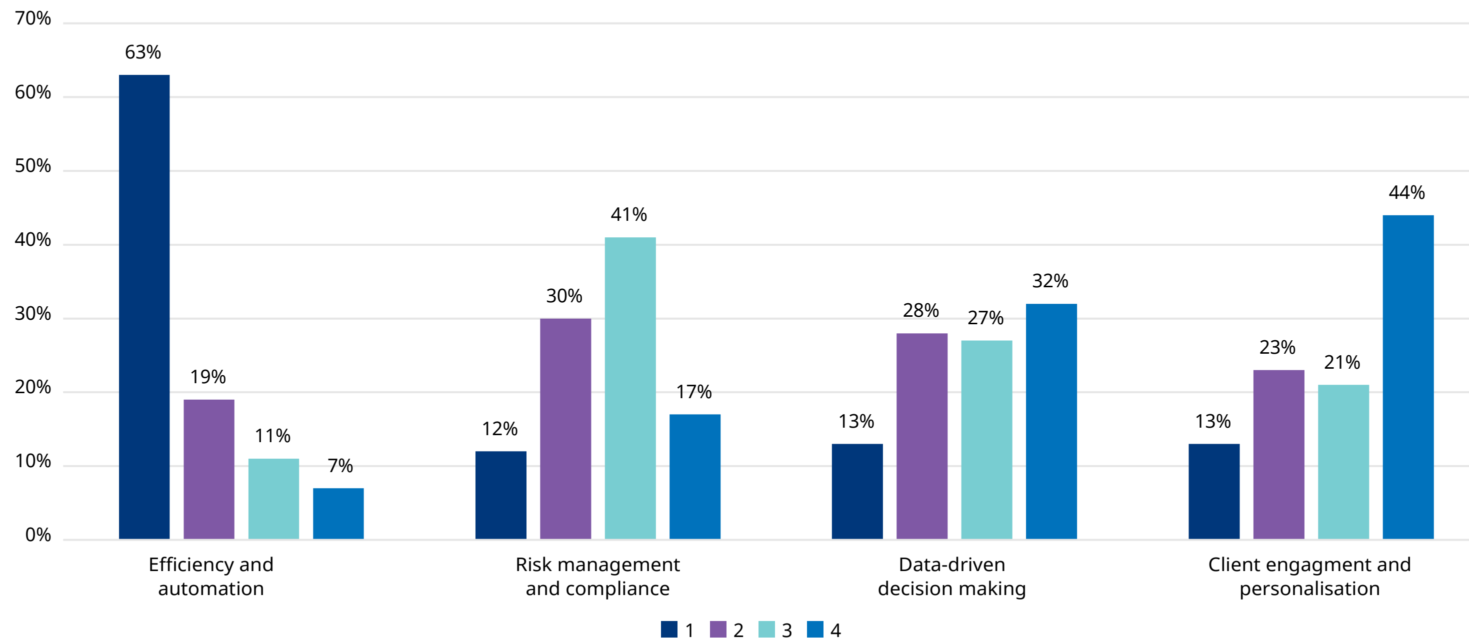

Data-driven decision making

Client engagement and personalisation

The area in which advisers think AI could be of most help to their business is through efficiency and automation.

It is interesting that they rank AI's potential for client engagement and personalisation in last place. This suggests that few advisers currently envisage that AI will play much of a role in the way that they communicate and engage with clients.

Figure 16: Rank in order the ways in which you think AI could be of most help to your business



Key takeaways

As ever, the Schroders annual adviser survey delivers valuable insight into the opportunities and challenges currently facing advisers.

The views on the investment market were largely as expected and as interest rates remain at current levels, conversations around cash vs. long-term investing and annuities are hardly surprising.

Regulation continues to be a major theme and in 2024. We anticipate that advisers will continue to review their work to date on the Consumer Duty, reviewing good practice and refining their implementation in their own business. However, the outcome of the retirement income review will also be one to watch, both in terms of retirement income propositions but also the services and client charges are likely to be under scrutiny.

Wealth transfer continues to remain a key topic. However, despite the potential opportunities, the 2023 survey suggests that this is still 'work in progress' with many advisers still concentrating their efforts on older, wealthier clients. Whilst understandable, for those planning on an exit strategy, retention of client assets is vital. There is a realisation of this but still work to be done.

Finally, the conversation on AI is well and truly underway but there are questions about what this means for the future of advice businesses and how quickly the potential benefits can be realised. It's definitely a 'hot topic' and one to watch as we move into 2024.

Get in touch

Schroders have a range of support and practical guides available including sustainable investing and wealth transfer.

To find out more about these topics and our investment solutions, just contact your usual Schroders representative, call our Business Development Desk on **0207 658 3894** or visit **www.schroders.com/investment-solutions.**

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