For adviser use only

Aegon Adviser Attitudes Report 2017

Insights on the evolving advice sector

Pensions | Investments | Protection

Contents

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Foreword

It is a fascinating time to ask financial advisers what they see as big challenges facing them and their clients. The financial services environment, as always, is undergoing reform. The government is pushing ahead with changes to the state pension age, the FCA is looking to get to grips with platforms while also advancing MiFID II, and the pension freedom changes are gathering steam, all against the uncertain backdrop of Brexit. While the environment in which advisers guide their clients is constantly shifting, the requirement for financial advice remains, particularly in an era of increasing personal responsibility.

Aegon is committed to supporting advisers as they help their clients to achieve their financial goals and this report is the first in a series which will shed light on the challenges advisers face. Based on research* conducted with over 250 financial advisers around the country, these reports will share insights with advisers on a wide range of issues from the outlook for advice businesses, client wealth, take-up of technology and their use of different investment propositions.

Those who took part completed a series of questions designed to gauge their views on these issues, and the findings deliver real insight into the trends that advisers are seeing in the market. The survey also gave us the opportunity to lift the lid on some key areas of interest, such as millennial engagement, the role of platforms, robo-advice, Defined Benefit (DB) transfers, investment attitudes, and client behaviour; all of which will be further explored in subsequent reports.

Our findings reveal advisers are in a confident mood, and against a backdrop of change, it's clear that out of challenge comes opportunity. Any concerns that advisers are overwhelmed by the vast array of recent changes in the industry seem unfounded.

It's great to see the sector brimming with confidence and energised by the new avenues for growth. It was no surprise to see DB transfers leading the list of financial advice opportunities, but the extent to which the adviser community is divided over the impact of leaving the EU does highlight how uncertain a post-Brexit world looks. Additionally, the number of advisers pointing to social care funding as a growth opportunity suggests that it is slowly moving into mainstream retirement planning.

This research highlights the strong position many advisers are in today, but it would be a mistake for the sector to rest on its laurels. We must all do our utmost to support advisers in continuing to provide a truly valuable service to UK consumers, and promote the importance of financial advice, which recent research revealed could result in a £40,000 boost in wealth, compared to people who didn't seek financial advice[1]. That's a very powerful illustration of the value of advice.

[1] The value of financial advice – A Research Report from ILC-UK, in partnership with Royal London, July 2017
https://www.royallondon.com/Documents/PDFs/2017/ILC%20and%20RL%20The%20Value%20of%20Advice%20(final)%20Report%20July%202017.pdf

* Aegon Adviser Attitudes Research conducted by Opinium amongst 252 UK financial advisers. The fieldwork was conducted 21-27 June 2017.

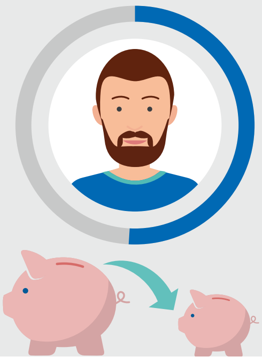
Introduction

Right now, it's difficult to point to any area of financial services which isn't changing or under review. The Financial Advice Market Review continues to progress, albeit with tangible outcomes slow to appear. The FCA is starting to implement remedies from its Asset Management Market Study (AMMS) while consulting in other areas. It has also kicked off a major Investment Platforms Market Study even before seeing what impact its AMMS remedies might have there. And despite Brexit, the wide reaching implications of EU regulations are only now unfolding with MiFID II, PRIIPs and the Insurance Distribution Directive leading the charge.

The retirement savings landscape has also been dramatically transformed, first by automatic enrolment and then by the radical pension freedoms. Just over 2 years since freedoms were introduced in 2015, we've seen the take-up of drawdown products more than double, with more than 1 million pension pots accessed since the freedoms kicked in[2]. Within this, the FCA points out that some money is not being spent, but rather moved into alternative savings or investment vehicles – with associated tax, investment and benefit risks[2]. These are risks of accessing drawdown without advice, something the FCA is also studying in its Retirement Outcomes Review.

And as the UK's move from a Defined Benefit (DB) to Defined Contribution (DC) system accelerates, the demand from individuals for advice on transfers has hit record levels, with the regulator having at last accepted it is time to revisit its regulatory expectations there. In a world of pension freedoms, the days of Transfer Value Analysis (TVAs) are numbered.

There's another huge pension challenge emerging, one that advisers are in prime position to address. The state is sending out clear signals that it can't afford the full bill for later life care and support. But across ages, people are still not saving enough. This is particularly true of millennials as evidenced by recent Aegon research showing that more than half (52%) of those aged 18-30 have had to reduce their monthly savings to help with the increased cost of day-to-day living[3].



52%

of those aged 18-30 have **reduced their savings** to cover increased living costs

[2] FCA Retirement Outcomes Review 2017 – https://www.fca.org.uk/publication/market-studies/retirement-outcomes-review-summary.pdf

[3] Research sample involved interviews with over 617 advised customers on Aegon's customer and consumer panel on the 31st May 2017.

The geo-political landscape is also unrecognisable to that of only two years ago and the domestic political scene appears to be built on shifting sands. The challenge as a result of Brexit now in conversations at kitchen tables across the country, with continued uncertainty around what form it will eventually take and what it will actually mean for the UK economy, its citizens, and EU nationals that have made their home on these shores.

Predictably, Brexit has already soaked up a lot of MPs' attention, as illustrated by the lack of non-Brexit Bills in June's Queen's Speech. The lack of space for additional legislative work in this parliament has already seen the government potentially delay tackling the issue of pension cold calling. The Taylor Report into the gig economy lacked any concrete proposals on pensions for this growing sector of employment. And who knows how a minority government will frame any meaningful plans to solve the looming social care funding crisis, having sounded the retreat from the manifesto's unpopular proposals, rather unfairly christened the 'dementia tax'. As it happens, expediting the state pension age increase was a rare example of the government taking decisive action albeit with legislative change deferred.

In terms of economics, the consensus is that the UK is set to enter a sustained period of relatively high inflation. The Bank of England is yet to provide support for savers in the form of higher interest rates, so current and future retirees must do all they can to protect their hard-earned pension income from inflation's corrosive effects. Weak sterling has bolstered investment into the UK, which has helped markets despite the perceived elevated geo-political risk. The US, Japan and other economies have also been outperforming expectation but this does beg the question of what might come next and people will need advice on where they are turning to for additional returns or to protect existing funds and manage risk.

As the challenges consumers face become ever more substantive, complex and varied, there are huge opportunities for advisers to demonstrate added value to current and prospective clients.

The findings

Opportunity knocks

A recent Confederation of British Industry (CBI) survey revealed that more than two fifths (42%) of UK firms believe Brexit has hurt their investment plans[4] and the International Monetary Fund (IMF) recently described the UK's economic performance as 'tepid'[5] when downgrading its growth forecast.

This economic and financial uncertainty, felt by many in the UK can create advice opportunities as people strive to work out how to protect their finances and their futures. Our findings reveal that advisers are certainly in demand. The adviser market is in rude health and the expectation is that this will continue for the foreseeable future.

Not only do the findings reveal that four in five (81%) financial advisers have seen their turnover increase over the past 12 months, their optimism for the future is significant. When asked to give their expectation for turnover over the next 12 months the same number (81%) anticipate an increase of which one in five (17%) are expecting a 'significant increase'.

Even in what is expected to be a volatile environment, UK advisers are also impressively bullish about their profit margin. Three quarters (75%) have seen their profits increase over the past year and even more (78%) expect this to increase further in the next 12 months with one in five UK advisers anticipating a significant increase in profit over the next year.

Hiring spree to meet growing client demand

So, with the sector seemingly booming, are we going to see that transfer into investment in staffing? The answer is a resounding yes, with the data suggesting that there is a hiring spree on the horizon.

More than three quarters (76%) of advisers expect the number of clients their firm services to increase over the next 12 months, of which around one in fifteen (7%) expecting a significant increase. To meet this demand, more than a quarter (28%) of advisers expect to make new hires in the next 12 months. Looking at those with six employees or more, over half (51%) expect to be expanding their workforce in the coming year.

This is hugely encouraging but will also bring challenges for the industry. Even experienced advisers struggle with the amount of rules, regulations, and tax complexities, not to mention the frequent government tweaking. This new generation of advisers will bring with them new skill sets and digital technology will be second nature. It will be fascinating to monitor how this impacts innovation and development within the industry.

DB to DC transfers take centre stage

Concerns over the adequacy of Defined Benefit (DB) scheme funding, rocketing transfer values and the benefits of Defined Contribution (DC) pension freedoms have come together to create a surge in

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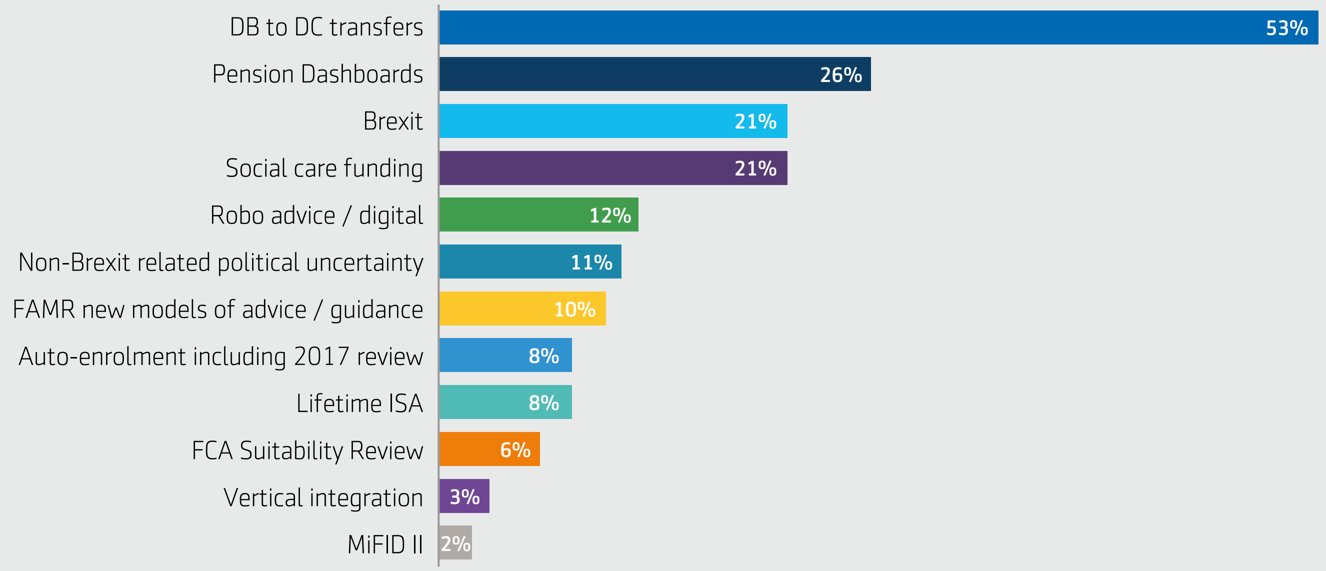
[4] CBI press release 16/07/2017 – http://www.cbi.org.uk/news/brexit-affecting-investment-decisions-now-survey/

[5] Maurice Obstfeld, the IMF's chief economist quoted in the Financial Times 24/07/2017 – https://www.ft.com/content/5ebf7170-703d-11e7-aca6-c6bd07df1a3c

The biggest opportunities for the advice industry over the next two years



demand for advice in this complex area. However, so far, that demand has not been met with sufficient supply. This is due partly to the fact that many firms and their compliance departments still have memories of 'pensions mis-selling' in the late 80s and early 90s. Of course, the pension world, and industry as a whole has moved on hugely since then, but until recently, it took nothing short of a mind reader to know if the FCA expectations on DB to DC transfers had evolved to reflect these changes.

While the FCA continues to believe that, for most people, retaining their DB pension will likely be in their best interests, they will no longer require the adviser to assume from the start that transferring is not the best option. Advisers will still need to demonstrate the suitability of their advice, which will in future always include a personal recommendation.

The proposed new rules should increase the number of DB transfers, providing some long overdue clarification of FCA expectations which will likely give more advisers confidence to operate within this market. With this in mind, it is not at all surprising to find that when asked to identify the biggest opportunities for the advice industry over the next two years, DB to DC transfers came out top, with more than half (53%) of advisers seeing it as a key area for growth.

Pension dashboards

Back in 2016, then Chancellor George Osborne committed the government to work with the pensions industry to develop 'Pension Dashboards'. The aim of the initiative was to give people a clear picture of all their pension pots in one place (the average worker will have 11 jobs in their lifetime[6]), helping consolidation, and aiding pension management more broadly.

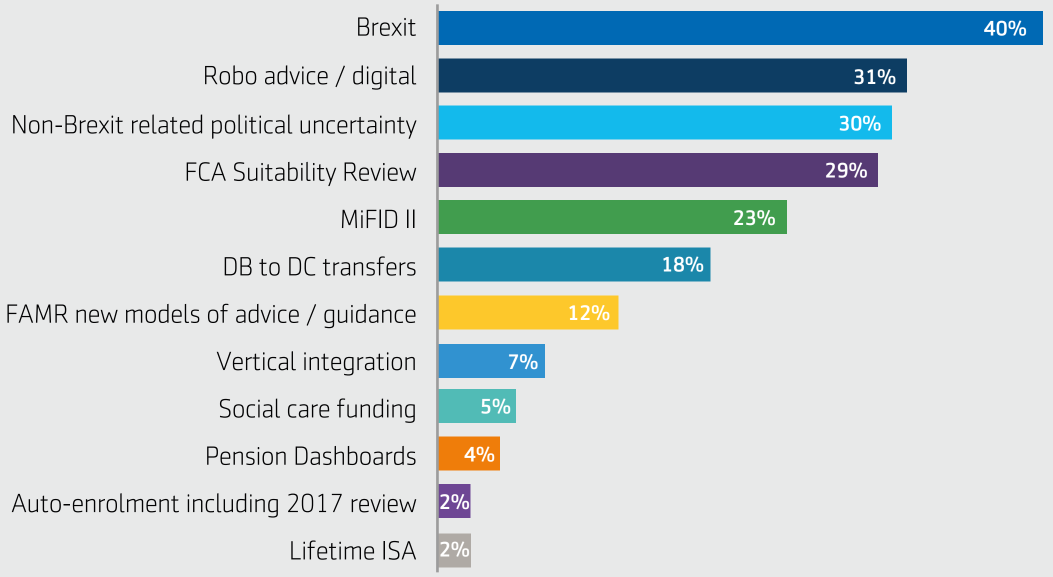
Failing to keep track of savings is a significant barrier to effective financial management and it is estimated that £400m of pensions are unclaimed[6]. If dashboards are implemented successfully, they have the potential to be transformative, not just for savers but also for their advisers, giving much more ready access to information on all pensions. Perhaps this explains why a quarter (26%) of advisers think that pension dashboards will be a major opportunity over the coming two years.

Social care

Helping their clients with social care funding was identified by around one in five (21%) advisers as a key driver of growth over the next two years. While some

[6] The Pensions Dashboard – https://pensionsdashboardproject.uk/industry/about-the-pensions-dashboard-project/

The biggest threats for the advice industry over the next two years



commentators advocate an insurance approach or the development of separate 'care ISAs', it makes sense for social care funding to be tackled through the existing pension regime. Pensions are well established as the best approach to retirement saving with their tax incentives and valuable employer contributions helping people build up savings much faster than under an ISA style approach.

The pension freedoms made them even more suited to providing an income that can vary during different phases of retirement. Building social care funding into pension planning makes the need for in-retirement advice even greater.

Obstacles to progress

Looked at in isolation, Brexit is a subject that divides not just the population, but advisers. It is a significant concern for two in five (40%) advisers who fear it could hurt their business prospects, compared to one in five (21%) that believe it could well lead to new opportunities. On the regulatory side, MiFID II has introduced some uncertainty to the path ahead (23%), as has the FAMR's new model of advice/guidance (12%). But above all else, political uncertainty, both Brexit and broader political volatility combined, was identified as the greatest threat by 70% of advisers.

It is within this environment that some adviser firms (15%) expect their business will be sold in the next two years; although three quarters think this is highly unlikely. Those most likely to be sold are servicing the top end of the market, with a quarter of those firms whose clients have an average portfolio of £200k+, expecting to be in this situation.

Robo-advice

One of the many ways in which technology is making inroads into the financial services sector is through so-called 'robo-advice'. Potentially cheaper, quicker, and more mobile, robo-advice is grabbing a lot of headlines at the moment, but has yet to demonstrate it can provide anything close to the level of service that a financial adviser can.

It's probably not a huge surprise then to see that three quarters (78%) of respondents are not worried that robo-advice may impact their business. There are however seeds of doubt amongst advisers serving those with smaller pots. While just 9% of those with average client portfolios of more than £200k are concerned about the rise of robo-advice, this increases to one in five (22%) of those servicing smaller portfolios, those up to £100k.

Conclusion

Recent years have seen the UK's financial advice market buffeted by its fair share of regulatory headwinds, but the findings of this report reveal that it has emerged stronger and more sustainable; as too have the firms that have proven they can readily adapt to thrive in this new environment.

Driven by the rising costs of an ageing society, the government has sought to contain its role in later life funding, handing back more financial responsibility to those individuals approaching retirement. This has firmly cemented the role of the adviser as being fundamental to our pension system, something which is hugely necessary as the market becomes increasingly complex. As people alter their behaviour according to the new landscape, advisers stand to benefit from the heightened value of their offerings.

The clear and overwhelming trend within the research is that of transformation. For those advisers that can stay ahead of the curve, all change should be seen as an opportunity to demonstrate added value to both current and prospective clients.