FE fundinfo

ADVISER SURVEY I 2022

BUILDING BETTER ADVICE

How financial advisers are adapting
to the post-pandemic world

FOR FINANCIAL ADVISERS ONLY

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ABOUT THIS RESEARCH

This FE fundinfo survey was conducted in November and December 2021. It consisted of 60 questions and was completed by over 200 financial advisers.

The survey spanned a broad range of subjects, including retirement strategies, decumulation, client segmentation, ESG investing and the outlook for the advice industry in 2022. With the end of the Covid-19 pandemic in sight, the opportunities emerging from the post-pandemic world have been far wider reaching than many could have predicted. Demand for advice has never been higher and consequently, advisers looking to stay at the top of their game are increasingly looking to technological and digital solutions to improve efficiencies in their businesses.

This is the seventh annual survey conducted by FE fundinfo.

EXECUTIVE SUMMARY

- With remote working now an established norm and the client-adviser relationship predominantly online, most advisers see technology as an opportunity to improve efficiencies and attract more business.
- Back-office systems are the most valued aspects of technology in terms of importance to an adviser business, with cashflow-planning and risk-profiling tools the priorities at the client-facing end.
- 38% of advisers have added new pieces of technology to their propositions for the first time over the past year.
- However, one in five (19%) believe technology – be it through robo advice or DIY investing – presents a threat to their business, while a lack of integration, the cost of implementation and finding the right pieces of software are identified as the biggest barriers to greater technology adoption.
- Some 66% of advisers feel more positive about their business outlook than 12 months ago. Although this figure is down from 91% a year ago, the proportion of advisers who feel less positive remains unchanged at 9%.
- The implementation of centralised retirement propositions increased in 2021. Almost three-quarters of advisers have one or are developing one.
- With greater longevity requiring clients to make smaller pension pots last longer, advisers still appear unimpressed with the quality of retirement products on the market.
- The rise of ESG investing continues. Some 72% of advisers now incorporate ESG factors into their investment propositions, up from 65% last year. A further 21% plan to do so soon. Just 7% say they have no plans to introduce ESG into their investment propositions, down from 8% last year.
- Over the past year, almost two-thirds of advisers have seen an increase in the amount of client money invested in ESG.
- Advisers continue to feel that their clients lack a full understanding of ESG investing. The biggest barrier here is a lack of clear standards and definitions. "Greenwashing" is also a growing cause for concern.

INTRODUCTION
THE POST-PANDEMIC WORLD

If 2020 was an extraordinary year, 2021 was its equal on many counts.
As the Covid-19 pandemic wore on, successive lockdowns were lifted then reimposed worldwide. The emergence of worrying new variants led to a seesaw situation in which ups were swiftly replaced with downs.

At the same time however, the successful rollout of vaccine programmes led to a growing sense that some kind of normality would return in the near future. There has been much debate over the shape that the "new normal" would take, but the Covid-accelerated shift online looks set to persist.

The opportunities presented by the post-pandemic bounce-back have taken many by surprise and created a huge surge in demand for adviser services, and in order to meet this demand, many advisers have taken a keener interest in adopting technology have considered how it might aid efficiencies within their businesses to improve their client reach and levels of service. The scope of this report considers what pieces of technology advisers are using, adopting, investing in and planning to scale. It also considers the barriers to further adoption and the risks involved, including – in an increasingly data-driven world – the impact of cyber security on the advice process.

Opportunity can be found beyond technology and this report also looks at key growth areas in the adviser industry, including the continued growth in ESG investing and the growth in retirement services following the introduction of greater pension freedoms and the growing number of retirees entering the market with Defined Contribution (DC), rather than Defined Benefit (DB), pension pots.

As ever, in this rapidly changing post-pandemic world where markets shift and new challenges and opportunities emerge, we are reminded once again of the crucial role. And, by partnering with the right technology providers, the opportunities to improve business efficiency should only increase as new solutions and greater integration between existing pieces of software improve.

CHAPTER 1

ACCELERATING THE TECH CHANGE – ADVISERS AND TECHNOLOGY

Despite initial fears, for many advisers, it was a relief that their industry was not one of the professions that suffered greatly during the pandemic. Technology, and adviser adoption, has played a major part in this. Advice businesses adapted quickly to the shift to remote working, given the ease of communication provided by online-meeting applications like Zoom and Teams.

Prior to the pandemic, technology was already playing an important part in the modern advice business. Tools that model cashflows and risk have become staples for advisers as they help their clients navigate the uncertainties that arise from volatile markets, greater pension freedoms, longer lives and less generous pension schemes.
As technology and software develop further, integration and automation between pieces of technology offer an obvious source of efficiency.

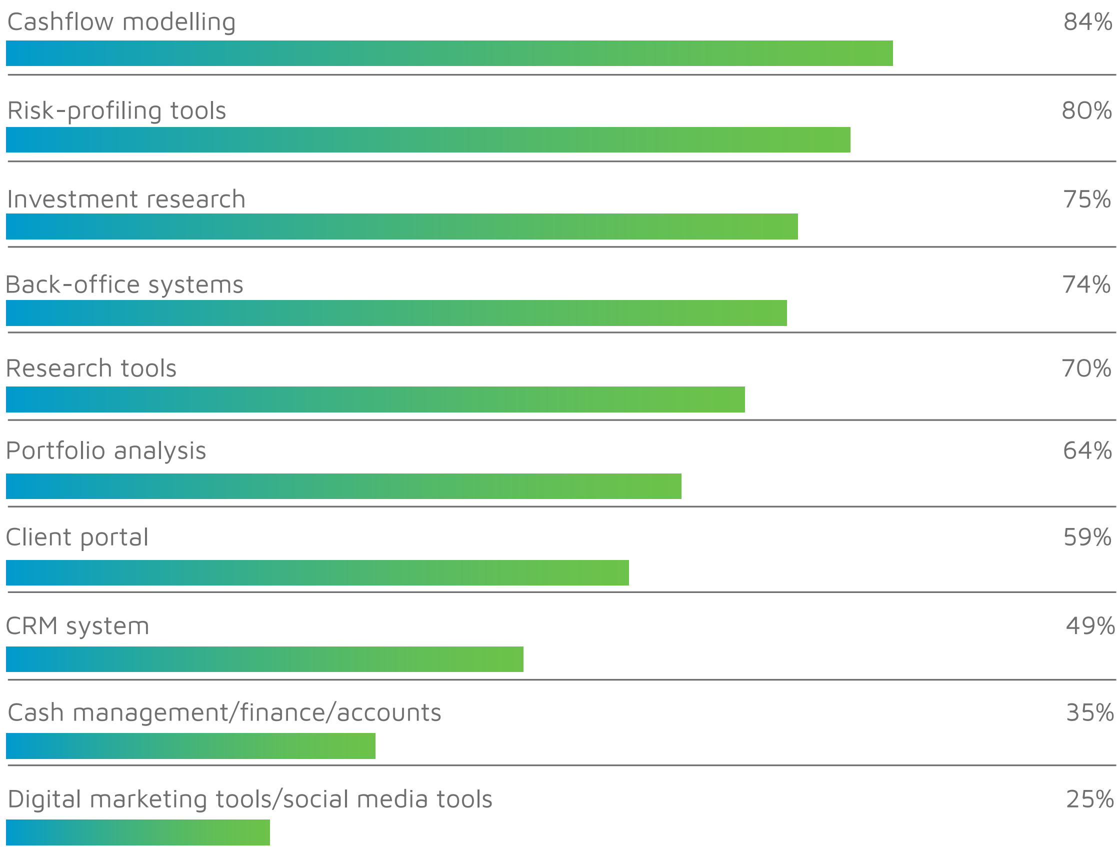
But has digital acceleration really occurred in financial advice and to what extent are advisers capitalising on the full range of opportunities that technology presents? And how are they coping with its challenges? Our research revealed some clear patterns in tech adoption. It also pointed to some nascent trends and some possible areas for improvement.

Adviser technology stacks

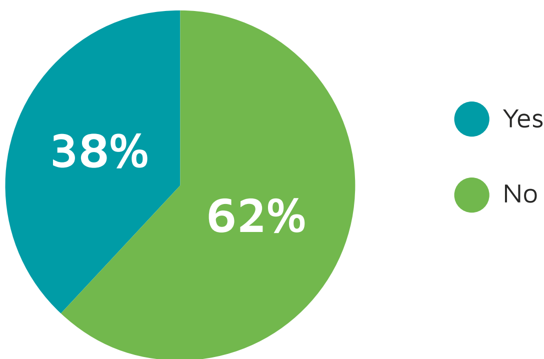
At present, cashflow modelling is by far the most commonly used piece of adviser technology, with 84% saying they have this in place, although risk-profiling tools are not far behind with 80% of advisers using them. Investment research and back-office systems are used by around three-quarters of respondents, but there's a sharp drop-off when it comes to Customer Relationship Management (CRM) systems and cash-management or finance technology, which might be due to existing back-office systems matching this functionality.

The largest gap is in digital marketing and social media tools. Only a quarter of respondents currently use this technology, which suggests that there is considerable opportunity for growth in online marketing. However, with demand for advice booming, the need for advisers to actively promote their businesses to gain new clients is not as pressing a concern.

Which pieces of adviser technology do you currently use?



Have you invested in any of these technology and software solutions for the first time in the last year?



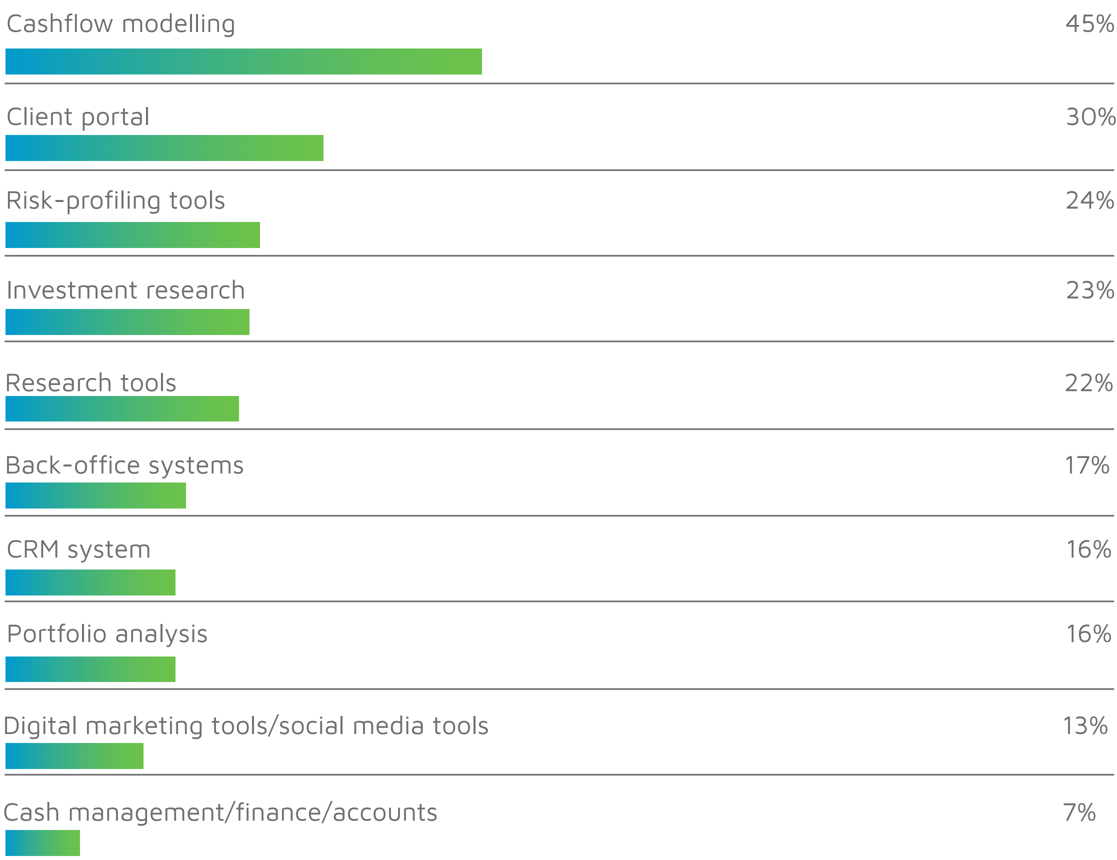
Responses on the technology that was first adopted in the past year are revealing. Perhaps it is a marker of how widely advisers have already embedded mainstay technology solutions in their businesses that only 38% of advisers invested in new pieces of technology for the first time within the past year. Most of this investment was concentrated in the most widely used technologies – indicating that many advisers were playing catch-up and that relatively few were expanding into new areas.

The pandemic presented a unique opportunity for advisers to take an active view of their tech stack. It would have become pretty obvious during remote working where gaps in technology lay, and these would most likely have been addressed throughout 2020.

Ray Adams | Chartered Financial Planner and Founder, FE CashCalc

Of the technology that was adopted for the first time, cashflow-modelling software was by far the biggest area of investment in 2021, with 45% of those advisers who have invested in technology in the last year directing their investment towards this service.

If so, which ones?



Back-office systems emerge as the most important pieces of technology for advisers. Three-quarters of respondents have these systems in place, but only 17% invested in those systems in the past year.

Here it seems that inefficiencies within existing products are discouraging advisers from investing further. When asked what specific product groups exist in the market, several strong opinions on back-office products emerged:

> **A simple-to-use back-office system that adds to the business rather than gets in the way.**

> **A cohesive back-to-front system that integrates, makes sense and produces relevant outcomes. Many are either too simple or too complicated and need bolt-ons.**

> **Back-office and client portals that work.**

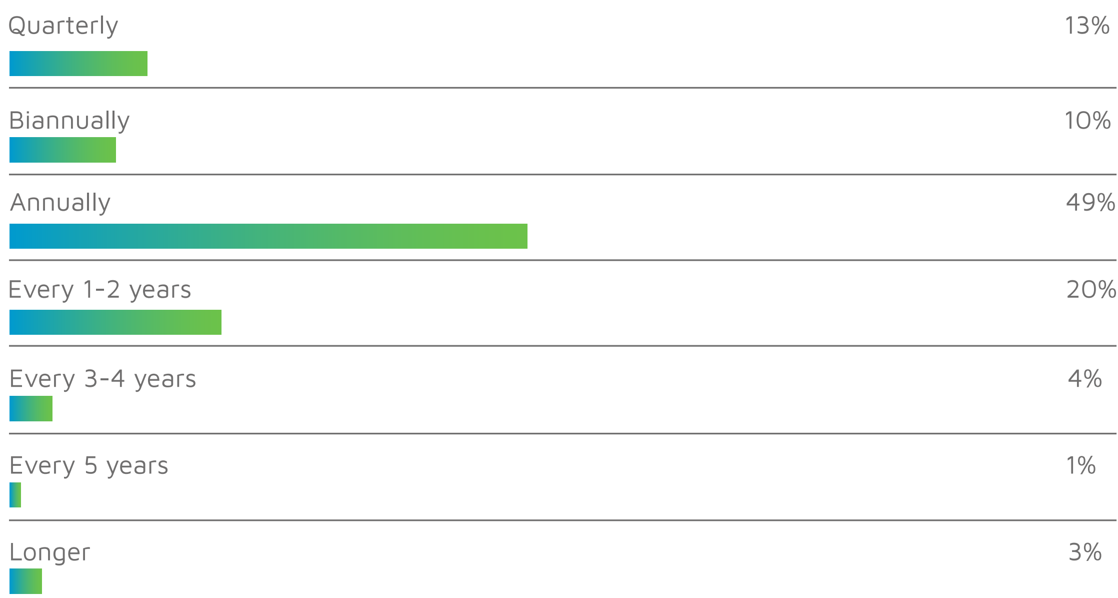
At the client-facing end of the business meanwhile, cashflow modelling and risk profiling are seen as the most important elements.

Please rank the following pieces of adviser technology and software in order of importance to your business

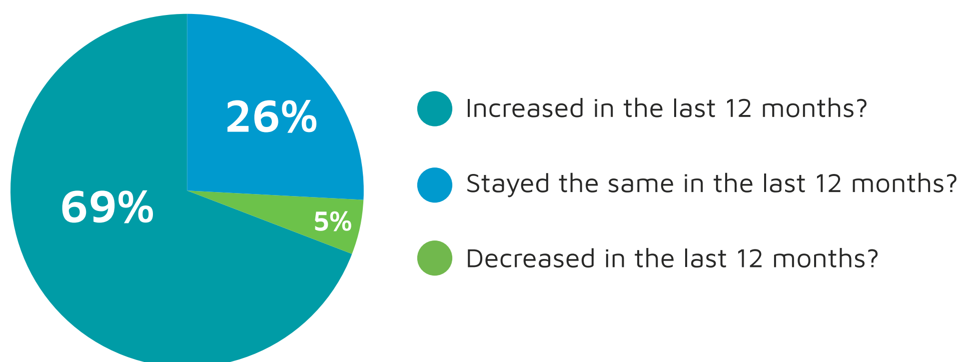
1. Back-office systems
2. Cashflow modelling
3. Risk-profiling tools
4. Investment research
5. Portfolio analysis
6. CRM system
7. Client portal/research tools
8. Cash management/finance/accounts
9. Digital marketing tools/social media tools

Most advisers appear alert to the pace of change. Half review their tech stacks annually, with almost a quarter doing so two or four times a year. Less than 10% of advisers review their tech stacks less frequently than once every two years, suggesting that most are keen to keep their fingers on the pulse.

How regularly do you review your tech stack?



Has your spend on technology...



The reasons for this increase in spending vary, but the strongest theme is an increase in efficiencies. A large majority (72%) of respondents cited improving efficiency as a reason, and again the comments the advisers provided make for some sharp reading about existing propositions:

“There doesn’t seem to be an efficient all-in-one option that doesn’t have lots of additional costs to integrate between different packages. I particularly think the market is missing a very client-friendly portal/live valuations/document holder.

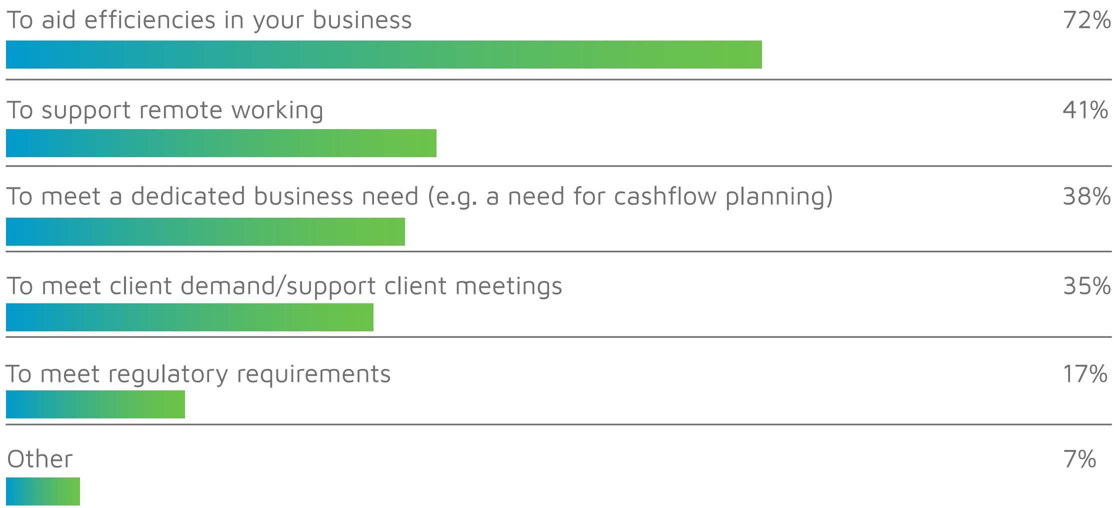
“A good CRM system that integrates with FE Analytics and IO plus Xero/Gabriel [is needed]. We rekey our clients info and financials into lots of different systems.

“[Advisers need] a fully integrative CRM system that can link with everywhere you need it to.

At the client-facing end of the business meanwhile, cashflow modelling and risk profiling are seen as the most important elements.

Substantial minorities meanwhile also pointed to supporting remote working, meeting dedicated business needs and meeting client demand. By contrast, less than a fifth of respondents said that regulatory requirements lay behind their higher tech spending.

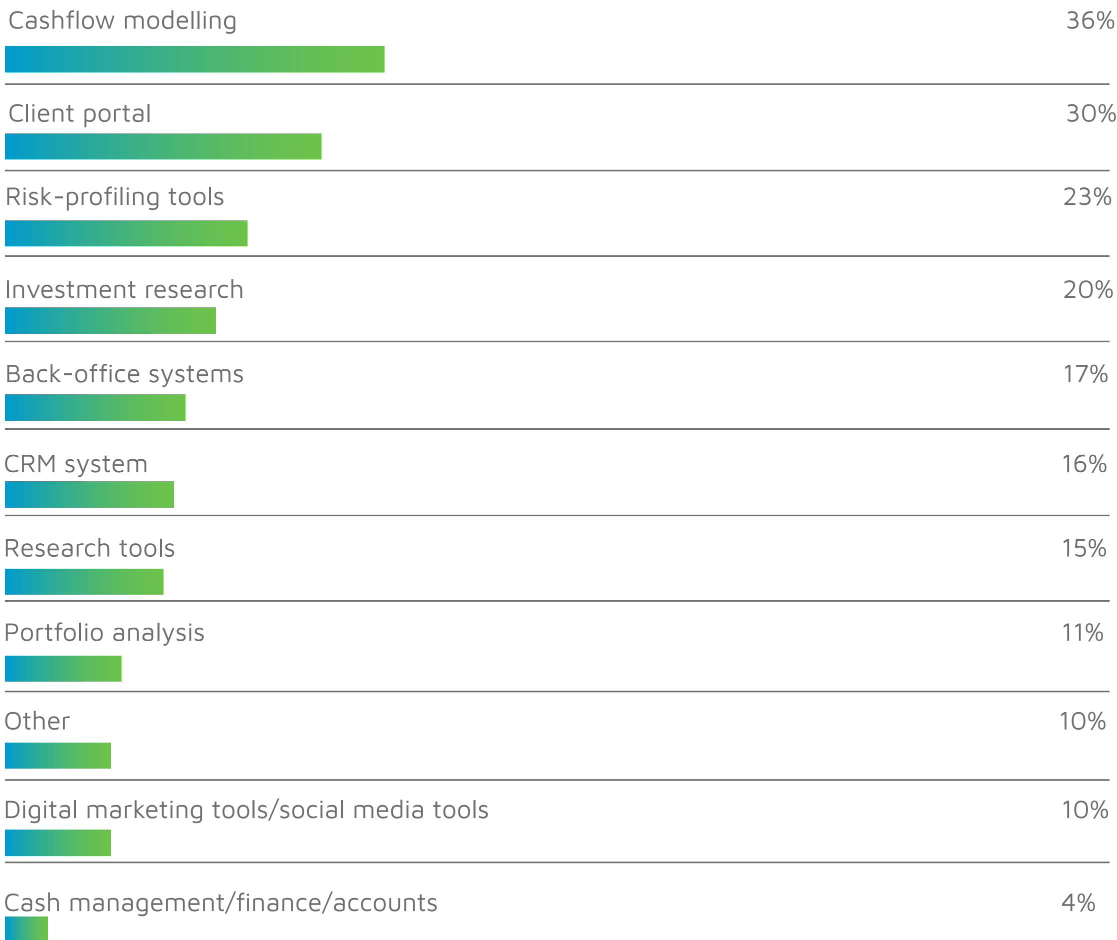
Why did you increase your spend on technology?



Most changes to the tech stack involved cashflow modelling, with more than a third of respondents saying that they had added or changed technology here. Slightly less than a third had added or altered client portals.

Elsewhere, risk-profiling tools and investment research were some way behind, indicating a more mature landscape in established software providers. Although, the fact that 30% of advisers do not use investment research tools perhaps signifies a gap in an advice proposition or that free tools are still being relied upon.

Which pieces of technology have you changed or added?



So what do advisers look for in a technology provider? Ease of use is the main factor by a considerable margin, with integration with existing tech and cost also prominent in the decision process. Brand importance is not a major concern, and client preferences – interestingly – are considered least important here.

The rise of white-labelled services means that household brands within the finance industry appear to be less important, with clients being more engaged by the adviser's own brand.

Matt Wiltshire | Managing Director, Niche IFA

In order of importance, please rank the following factors in your decision-making as to why you choose a particular technology provider.

1. Ease of use
2. Integration with existing software/tools
3. Cost
4. Design/interface
5. Customer service
6. Familiarity with software
7. Brand reputation
8. Recommendation from colleague/associate/friend
9. Client preference

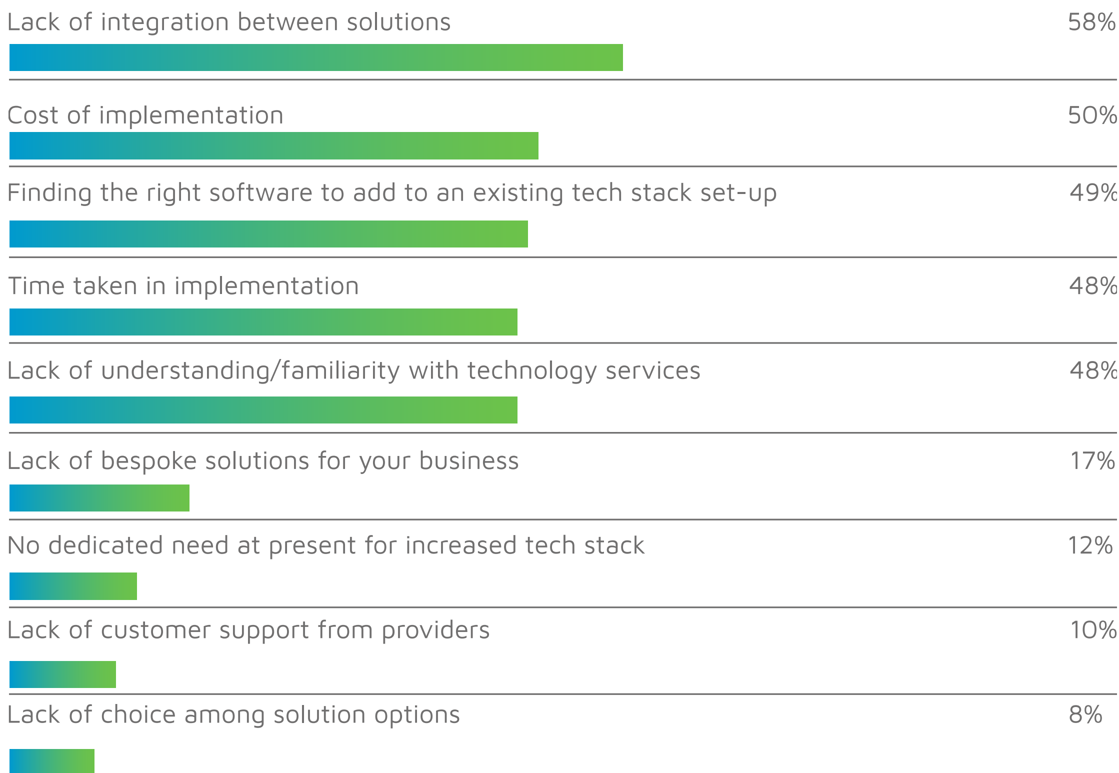
Most advisers think of themselves as somewhat above average in their proficiency with technology. This may be the Dunning-Kruger effect (the well-observed tendency of people to overestimate their abilities), or simply a sign that advisers are taking tech seriously.

In this context, it's interesting that almost half of our respondents cite a lack of familiarity with tech services as a barrier to embedding technology further into their businesses. It's interesting, too, that the main barrier appears to be a lack of integration between solutions – something that respondents also raised regarding their preferences in tech providers.

Cost of implementation is also seen as a major barrier, as is the time required to find a solution that fits with those currently in place. At FE fundinfo this has been at the forefront of the development of our tools FE Analytics and FE CashCalc, both of which integrate with a number of back-office systems, risk profilers and platforms in order to create a simpler, more productive and much more powerful financial planning process. Overall, though, we recognise that all providers need to take a more open architecture view of the technology they are building to truly democratise the technology landscape for all advisers.

All these factors greatly outweigh any perceived lack of suitable solutions, bespoke or otherwise, and lack of customer support. Clearly, advisers believe that they can obtain appropriate solutions when time and resources allow.

What do you think are the main three barriers currently preventing advisers from embedding technology further into their businesses?



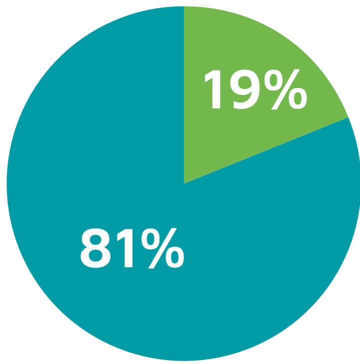
When it comes to the benefits of technology, our respondents are enthusiastic. An overwhelming majority (81%) see technology as an opportunity to attract more business. This is particularly striking in the context of the low priority given to digital marketing and social media elsewhere in the survey. Less than a fifth see technology as a threat – whether in the form of robo-advisers or DIY investing.

Our research using data from FE CashCalc has shown that 69,000 digital fact finds were completed in 2021 – more than 2018, 2019 and 2020 combined. This not only indicates a growing trend towards conducting fact finds digitally, but highlights how much time is being saved. On average, financial advisers save two hours for every digital fact find they conduct with a brand-new client, and a further one hour for every ongoing client who provides up-to-date information. As a result, our digital fact find saved the industry approximately £4m last year alone.

Advisers recognise the time-saving potential technology affords them, both in conducting client reviews as well as simplifying client onboarding. By utilising technology from the outset of the advice process, cost savings can be given to the client as well as freeing up time for advisers to meet with more clients and grow their business.

Matt Wiltshire | Managing Director, Niche

On balance, would you say the greater availability of technology/software for investors is more of...



- An opportunity for your business (e.g. ability to attract new clients etc.)
- A threat to your business (e.g. more consumers shifting to robo advice/DIY investing etc.)?

The two biggest advantages that advisers see for their businesses are in more efficient internal processes and the freeing up of more time for client service. Over 60% of respondents identified each of these as important. Close behind were two specific client-centric benefits: smoother or simpler advice journeys and more contact with clients through remote meetings.

Now thinking about the technology your business specifically uses, what benefits has it given you?

Benefit	%
Provided more efficient internal processes	63%
Given more time for client service	61%
Facilitated more contact with clients via remote meetings	56%
Provided a smoother or simpler advice journey for clients	56%
Allowed for greater communication/sharing of relevant information	44%
Reduced costs of running our business	40%
Facilitated more meaningful advice conversations	39%
Provided greater personalisation of services	32%
Allowed you to attract new clients	21%
Allowed you to introduce new propositions (e.g. ESG investing)	19%
Provided more efficient segmentation	18%
Allowed you to attract different types of clients (e.g. younger clients or clients with fewer assets)	16%
Provided greater understanding of client behaviours	12%
None of the above	3%

What would you say is the biggest opportunity from the growing digitisation of the advice process?

Here we wanted advisers to provide feedback based on their own experiences and insight into how technology is impacting on their business directly. The comments provided offer a unique insight across a broad range of advice businesses and can be broadly grouped into efficiencies gained from cost savings, time savings and greater integration:

“Remote meetings - frees up more time to spend on new clients/market new leads.

“Time saving to give existing clients better service and to free up adviser time to go out and get new business or have better work/life balance. Also, would feel more organised and would have a better audit trail.

“Being more efficient so we can spend more time speaking with clients rather than dealing with admin issues.

“Reduce advice costs, make efficiencies which should result in being able to service more clients.

“Efficient client onboarding processes, better processes for simplifying IHT and pensions advice while remaining fully compliant. Developing robust ESG reporting processes and portfolio creation/management. Automated bulk fund switching, HMRC exemptions for switching/consolidating product wrappers without generating an immediate tax charge, thus driving down costs. This is especially important for trusts, pensions and legacy products locked into old, expensive charging structures.

What would you say is the biggest risk in the digitisation of the advice process?

Risk is a consideration for many advisers when adopting new technology into their processes. When asked what the biggest risk their businesses faced was, the comments provided again offer a unique window into some of the challenges of greater technology adoption. Data theft and security is clearly a major concern, as is a fear of losing a “personal touch” with clients through digitisation:

“Data theft.

“File storage and security.

“Systems failure and security.

“Fraud and security, but also taking traditional advice closer to the automated advice arena.

“Lack of personal contact, feeling like not getting value from adviser if client doing all self online.

“Loss of human input. The advice process is only as good as the data being fed into it, I see many new advisers who are technically brilliant but less proficient at extracting full information from clients. The more meetings we do at a distance and further rely upon technology, there is a risk that the adviser may miss something, despite the file looking solid.

“Advice becomes commoditised and standardised to the extent that the personal relationship and bespoke nature of advice is lost.

Summary

Technology has helped advisers to thrive during the years of the Covid pandemic. Firms have benefited from improved process efficiency and greater time and contact with clients through remote meetings. Modelling tools have also helped to improve the advice experience for clients.

Most firms are making efforts to keep on top of technology by regularly reviewing their tech stacks, although there are barriers in the form of a lack of integration, cost and advisers' own familiarity with the services available. So far, most tech budgets have been spent on back-office systems and cashflow modelling and risk-profiling tools. Patterns of spending in 2021 suggest that these remained the main focus.

The advice industry is seeing continued, albeit steady, growth in the adoption of technology, particularly with client onboarding. But with budgets stretched and increasing demands on adviser time, it is up to technology providers to demonstrate the efficiencies that can be provided through their services.

RETHINKING RETIREMENT – ADVISERS AND THE RETIREMENT MARKET

Over the past year, retirement planning has remained in the spotlight. Decumulation is the watchword, as advisers' clients have to contend with the prospect of stretching out their pension savings over longer life expectancies.

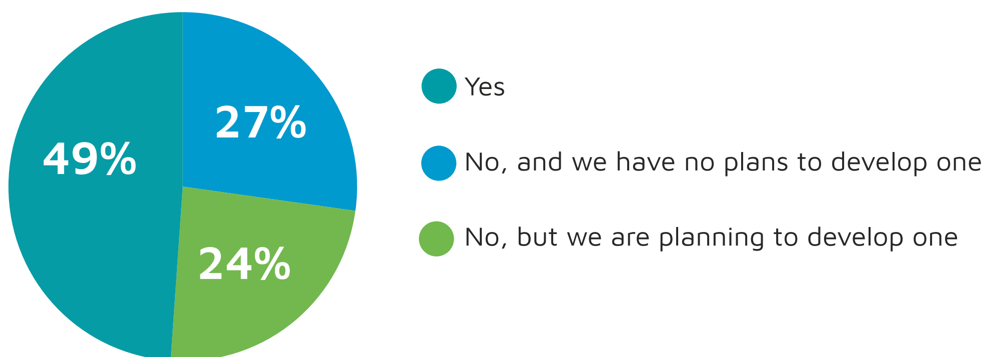
Almost half of this year's respondents (49%) said that their firm had a Centralised Retirement Proposition (CRP) – a framework designed to ensure that clients receive consistent, structured advice on retirement. Another 24% said that they were developing a CRP. Just over a quarter had no CRP and no plans to develop one.

These figures represent a sizeable shift from last year's survey. In 2020, just 38% of respondents had a CRP, and the same proportion had no plans to develop one. But they appear to have been much more flexible in practice: as well as an 11-percentage-point rise in those with a plan in place, we've seen a 14-percentage-point fall in the group with no CRP plans.

Now that we are a few years on from the shake-up of the pensions market and the introduction of greater pension freedoms, it seems that advisers are becoming more comfortable with the new retirement landscape. An 11% rise in the number of advisers seeing a need for a CRP is an encouraging step.

Toyosi Lewis | Retirement Investment Specialist, FE Investments

Does your firm have a Centralised Retirement Proposition?



For clients in retirement, only a small minority of respondents (18%) use retirement-specific investment solutions. But while this is still a modest proportion, it is up from 11% on the previous year. So, the direction of travel seems clear. While 30% still use their usual preferred non-retirement-specific solution, that figure is down from 33% a year ago. Meanwhile, the proportion of those using a mixture depending on the client has fallen from 56% to 51% – indicating that most of the growth in retirement-specific solutions has come from this group.

Bespoke retirement solutions remain popular, with 41% of respondents managing their retirement propositions in this way, down from 43% a year ago. A quarter use an internal investment committee. Outsourcing has risen slightly over the past year, with 14% outsourcing to a third party and 18% using a mix of outsourcing and centralisation. This compares with 11% and 17%, respectively, a year ago. So third-party retirement solutions do seem to be on the rise, albeit steadily rather than spectacularly.

How do you currently manage your retirement proposition?

Response	%
Bespoke for each client	41%
Through an internal investment committee	25%
A mixture of outsourcing and centralisation	18%
Outsource to a third party	14%

When it comes to drawdown strategies, the proportion of advisers saying that they have no strategy and no plans to introduce one is high, at 28%. This is more than double the 12% in the previous year's responses and may represent advisers withdrawing from retirement advice under pressure from rising insurance costs.

A majority still have drawdown strategies in place, however, with 34% using existing investment models and 25% using a unique or standalone model. The total is down from 2020, however (59% vs 69%).

When asked how their CRPs differ from their investment propositions, a range of responses were seen:

> **[Our CRP] takes into account the possibility of short-term loss and how that will affect income stream. Income-generating funds.**

> **Focuses on decumulation, looks at different types of funds, different products (e.g. annuity, fixed term annuities, annuity under drawdown rules) as well as pensions and drawdown.**

> **It has more of a focus on managing client withdrawals with different tiers of risk/cash holdings within portfolios rather than fully focusing on just accumulation.**

Do you have a drawdown strategy in place?

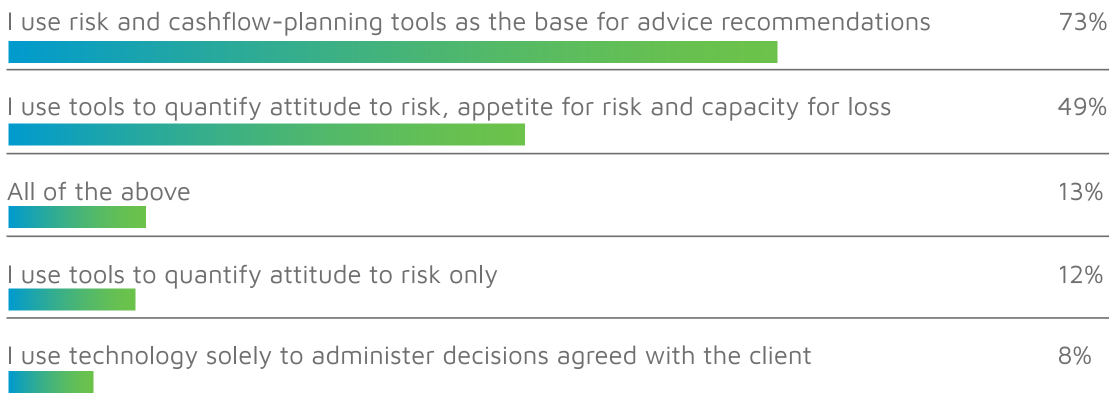
Response	%
Yes – a unique/standalone model	25%
Yes – but we are using an existing investment model	34%
No – but we are planning to introduce one	13%
No – and we have no plans to introduce one	28%

The investment industry has largely repackaged accumulation products for retirees, which is seen in the responses, while a pre-pension freedoms emphasis on de-risking by moving from higher-to-lower risk strategies still pervades. If the sole objective for the client is wealth preservation, then such strategies could still be relevant.

However, individuals are exposed to distinctively different risks in retirement, including longevity risk, and many only have finite investable assets to plan with. Combined with sequencing risk - the consequence of introducing higher growth strategies into retirement portfolios – most notably, which can be realised in the event of a market fall as clients begin their retirement journeys, it's clear there is a requirement for distinct drawdown strategies to help clients achieve their retirement goals.

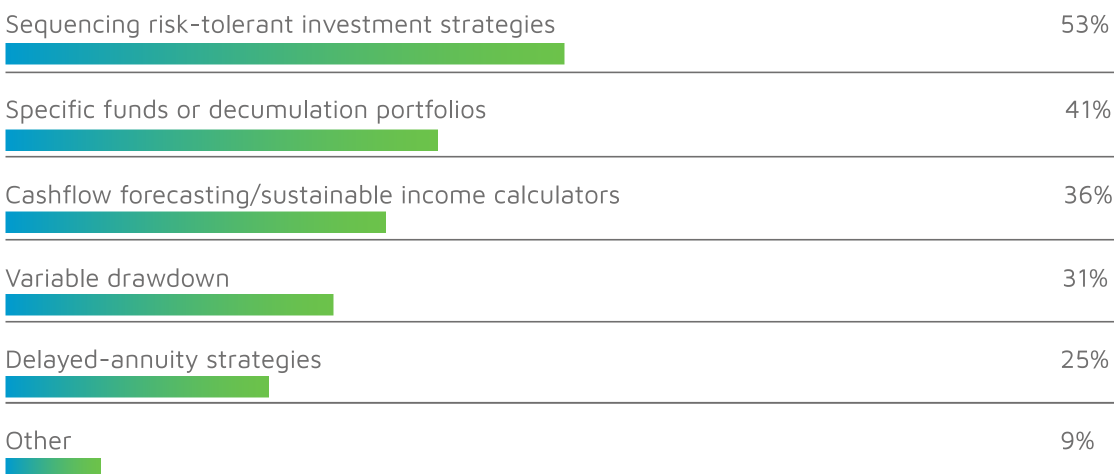
Technology also plays a key part in advising clients in retirement through the adoption of risk-profiling and cashflow-planning tools, which form the basis for recommendations among 73% of advisers operating a CRP. Half meanwhile, use technology to measure their clients' risk attitude and appetite, and their capacity for loss.

How do you use technology (other than as a platform for holding assets) in providing advice to retiring/retired clients?



There is certainly appetite among advisers for more retirement-specific tools to support the retirement advice journey. More than half of those surveyed identify a lack of investment strategies for those with tolerance for sequencing risk. And large minorities see gaps in portfolios and funds designed specifically for decumulation and calculators for cashflow forecasting. A quarter pointed to a lack of delayed-annuity strategies, and almost a third say that there is a gap in the market for variable-drawdown products.

What product gaps do you think exist in the retirement advice market?



When it comes to decumulation, the largest preference is to provide tailored advice while maintaining clients' existing risk profiles after retirement at just over half. This compares with 41% last year who applied the same methodology. Only around a fifth of advisers use a CRP that uses different investment products from those used in the accumulation phase, down from 28% last year. A smaller proportion adjust clients' portfolios to generate more income and take less risk in retirement.

Which of the following best reflects your stance on advising clients in decumulation?

Response	%
We tailor our advice but maintain a client's existing risk profile post-retirement	51%
We have a centralised retirement proposition using different investment products and tools than those used in accumulation	21%
We adjust a client's portfolio to generate more income/natural yield and have less risk exposure in retirement	17%
None of the above	11%

One factor in this may be a lack of enthusiasm for the decumulation products currently on the market. Only a small number of respondents view these as "very good", with almost half rating these products as "average". While clearly subjective, the attitudes of the remainder are fairly evenly split between favourable and unfavourable.

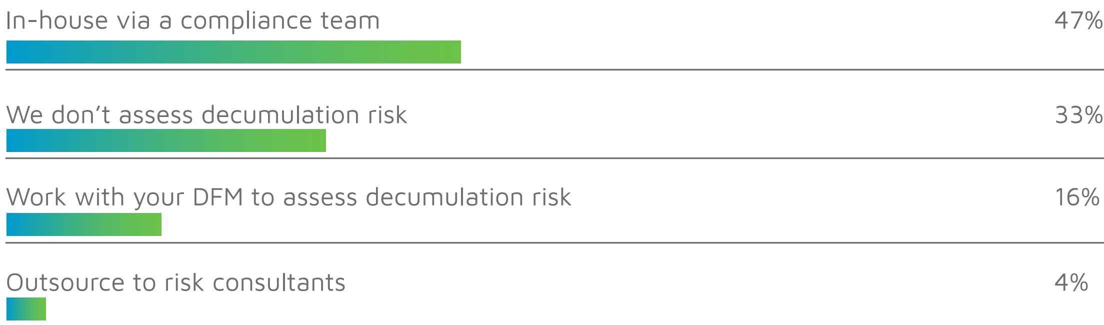
Something else to consider here is the changing make-up of the retirement market, with advisers used to advising DB clients now facing growing numbers of DC clients.

Perhaps then this is why a third of survey respondents don't assess decumulation risk on behalf of their clients, with 20% preferring to outsource to their Discretionary Fund Manager (DFM) or assessment to risk consultants.

The bedrock of pensions wealth has traditionally been in DB pension schemes, but this is rapidly changing. Risk profiles will become more of an issue for the next generation of advisers, who will be working with a different client base. DC pensions are clearly an area for growth, and maintaining existing risk profiles is simply not going to work. Advisers need to ask what impact this will have on the value of their businesses moving forward.

Toyosi Lewis | Retirement Investment Specialist, FE Investments

How do you assess decumulation risk within your business?



More than half of survey respondents now offer at least three investment propositions for the decumulation phase. A full quarter offer more than five. And only 3% offer none.

It's good to see that advisers have a range of solutions to offer in the decumulation phase, but how many of those solutions are different from what they offer in the accumulation phase? With dedicated retirement solutions few and far between, I suspect there is a fair amount of recycling here which may be sub-optimal.

Rob Gleeson | Chief Investment Officer, FE Investments

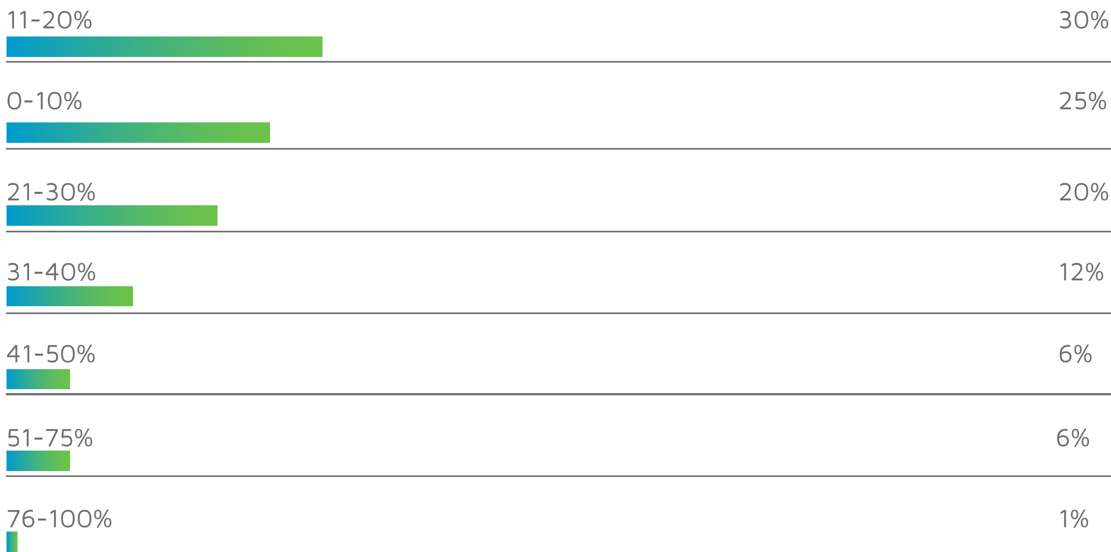
How many investment propositions do you offer for clients in the decumulation phase?

Clients' attitudes to risk in retirement remain conservative. As in the previous year, most advisers (75% of respondents) think that no more than 30% of their clients would be willing to take on more investment risk after they retire. The steadiness of this figure likely reflects the relatively high wealth of advised clients and the fact that many are benefiting from Defined Benefit schemes. However, with bond yields currently depressed and inflation and interest rates devaluing pension pots, many clients will need to take on more risk in order to achieve their desired retirement income.

This highlights a need to look at risk differently in retirement. Risk is often framed as volatility in accumulation, which illustrates how extreme the movements in the value of clients' investments may be and, therefore, the possible losses that could occur. In retirement, however, it is important to frame risk as the chance of the client running out of money.

The FE Decumulation Illustrator tool does exactly this. It allows financial advisers to discuss income drawdown in a way that is relevant, meaningful and understandable to clients so they can devise an appropriate decumulation strategy.

What proportion of your clients would be willing to take on greater investment risk when in retirement?

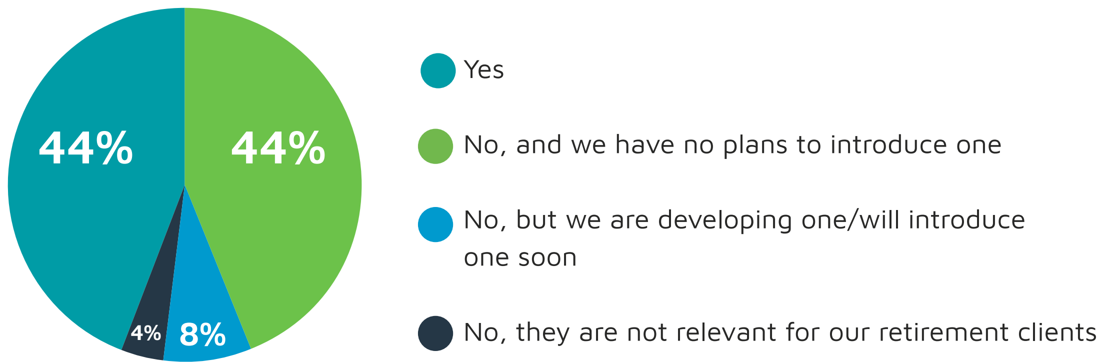


There's an equal split between those advisers who have specific attitude to Attitude To Risk Questionnaires in place for their clients in retirement and those who have no plans to introduce them (both 44%). But while 4% say that such questionnaires are not relevant for their clients, 8% say that they are developing them, tipping the balance towards their use.

ATRQs have always been embedded in adviser toolkits, but there is a distinction between which risk is being assessed. Cashflow planning for example is very different and much more simplistic than stochastic modelling, and increasingly greater sophistication – as we have seen in light of the pandemic – will be needed to manage risk in retirement.

Toyosi Lewis | Retirement Investment Specialist, FE Investments

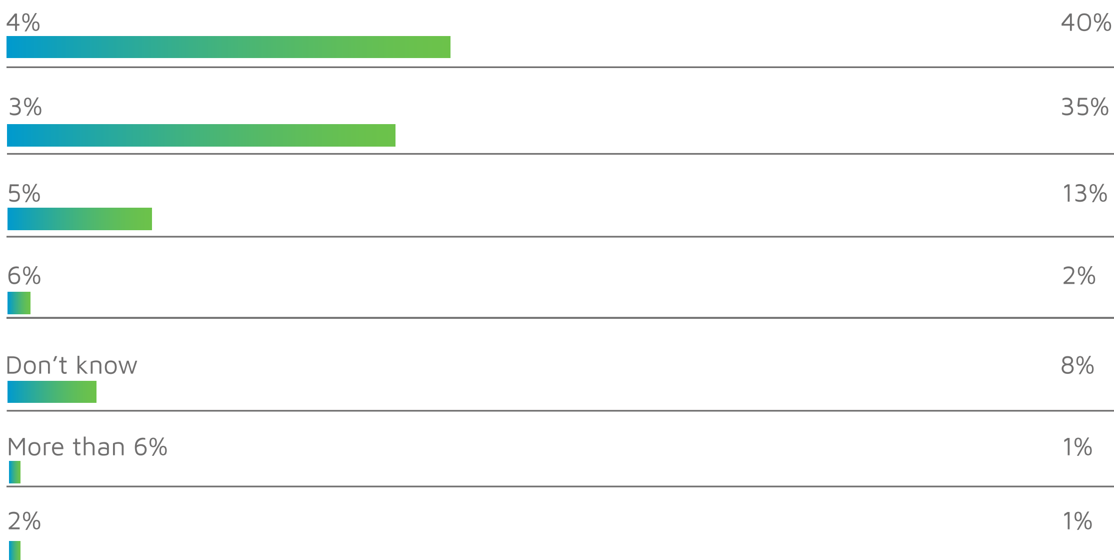
Do you have a specific Attitude To Risk Questionnaire for your clients in retirement?



A crucial question for retiring clients is how much they will be able to withdraw from their pension pot each year without an elevated risk of exhausting their funds. Three-quarters of advisers think that an annual withdrawal rate of 3–4% would be sustainable. But, with volatility, inflation, rising interest rates and other pressures impacting on the size of pension pots, the question may be posed about whether this is indeed sustainable over the longer term. The largest group (40%) identified 4%, in line with the "4% rule" that has often been used in the past.

This proportion is down from 44% in last year's survey, perhaps representing greater acceptance that circumstances are likely to be more constrained in retirement. However, a slightly higher proportion (16% vs last year's 11%) said that more than a rate of above 4% could prove sustainable.

What do you think a sustainable annual withdrawal rate would be in retirement?



For most advisers, sequencing risk is by far the biggest danger for retirees. This is unsurprising: the dramatic market falls of 2020 have underscored how unexpected events can pose stark risks to those who are exposed to them early in retirement. As the geopolitical tensions of early 2022 show, we are living in an uncertain world.

At the same time, our life expectancy continues to rise, so it's also unsurprising that advisers see longevity as the next most pressing risk. Coming up on the outside is inflation risk – again, not a surprise given the surge in prices over the past year. Failure risk – the danger of exhausting portfolio assets – is not far behind, with volatility risk coming in last.

Please rank the following retirement risks in terms of highest to lowest

1. Sequencing risk
(i.e. market falls early in retirement, reducing the length that a portfolio will last)

2. Longevity risk
(i.e. the risk of a client outliving their retirement portfolio)

3. Inflation risk
(i.e. underestimating the long-term effect of inflation on buying power)

4. Failure risk
(i.e. the risk that the client spends more than they have available)

5. Volatility risk
(the need to access a fixed income when the portfolio value has fallen)

Summary

With retirement planning an important area of focus for most advisers and their clients, more firms are adopting CRPs although it's been an area where momentum has been slow.

Retirement-specific investment solutions are used by only 18% of advisers, but this figure represents an increase on 2020's 11%.

Bespoke retirement solutions are popular, and there has been a rise in the use of outsourcing.

Clients and advisers remain averse to risk in retirement. As in the previous year, advisers estimate that only 30% would be willing to take on more investment risk after they retire, which may prove challenging for some clients with smaller pension pots when facing a broad range of risks in retirement, particularly so when the broad consensus that an annual withdrawal rate of 3–4% should prove sustainable in retirement remains steadfast in many advisers' processes.

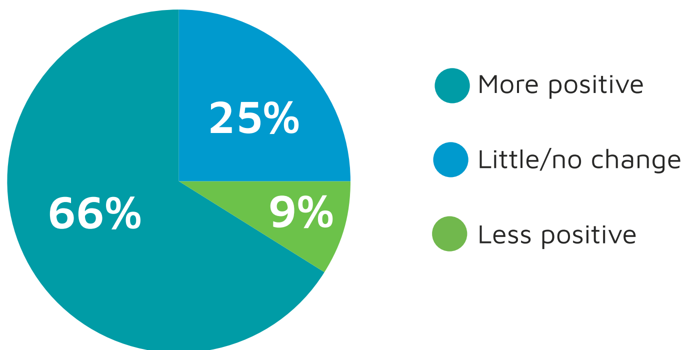
Perhaps because of this, advisers appear sceptical of the efficacy of existing decumulation products to meet the changing needs of retirement clients. There is an appetite for new ways of thinking which encompass retirees taking on greater levels of risk to maintain the lifestyles they want, and it will be up to advisers to facilitate these conversations and change attitudes to risk.

THE BUSINESS OF ADVICE – CHALLENGES AND OPPORTUNITIES IN THE ADVICE WORLD

Most advisers feel that the outlook for their businesses has brightened over the past year. Two-thirds say that they feel more positive than a year ago, and only 9% are less positive. But the 66% figure for those with a positive outlook is a significant decline from the 91% who were feeling positive a year ago.

As the "unchanged + positive" total is the same 91%, a simple explanation may be that while that optimism has persisted, not all have become more optimistic since. Last year's 91%, after all, came as vaccine rollouts began and the route out of the pandemic became clearer – surely cause for higher hopes.

How do you feel about the outlook for your business compared to 12 months ago?

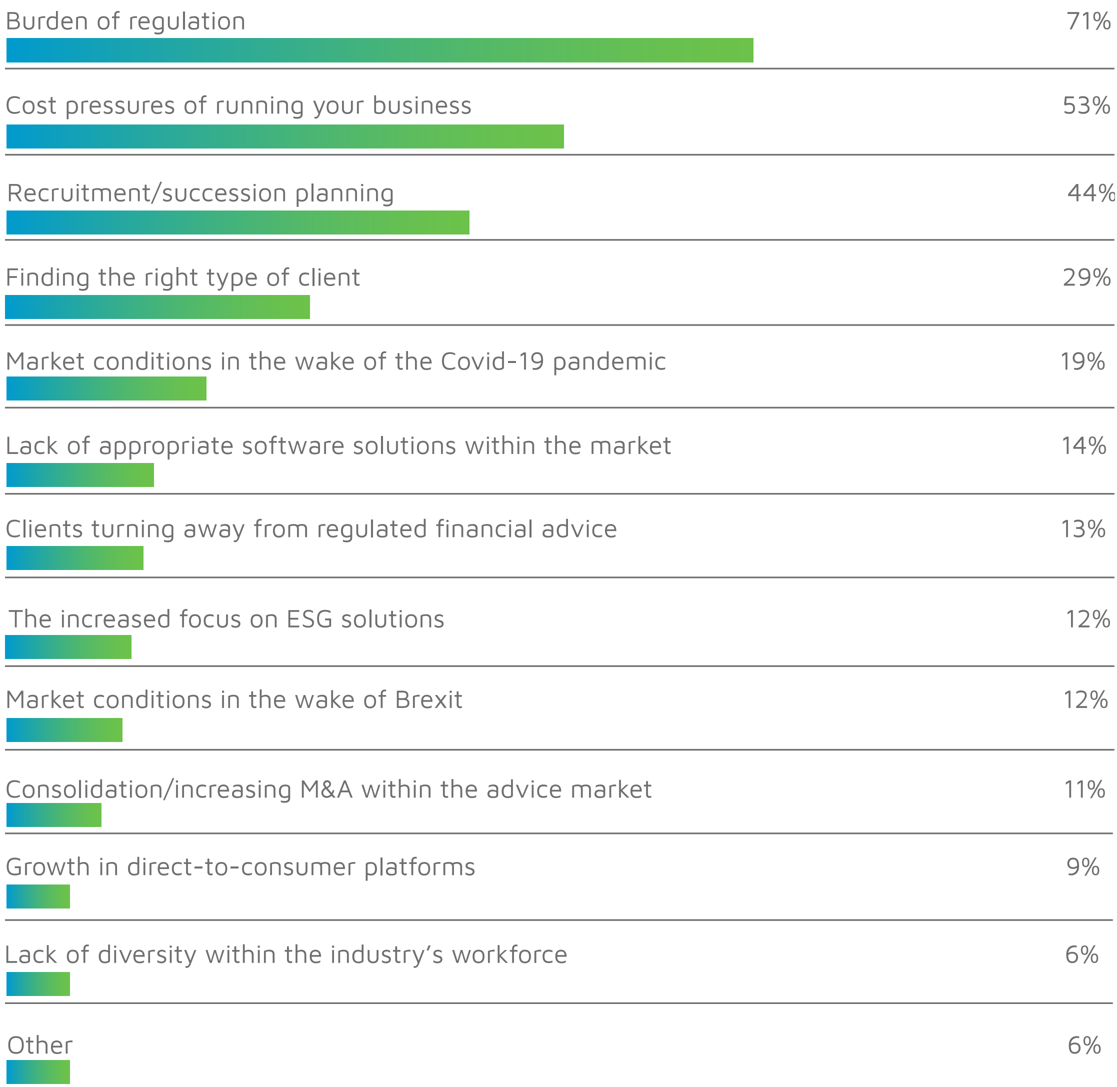


The main concern for advisers is once again regulation, which 71% of respondents cited as their main business concern. Although this figure is down slightly from last year's 74%, perhaps owing to the slowing down of the regulatory calendar during the pandemic, it's clear that regulation is still very much in focus. Cost pressures are the second-biggest concern, with recruitment and succession planning in third place. These three concerns are far out ahead of the others. Finding the right type of client comes in some way behind, showing overall demand for advice is still high.

One clear trend is that concerns about both Brexit and Covid have abated since last year. In our previous survey, Brexit was among the top three concerns for 35% of advisers (particularly as the research was carried out during the "will they, won't they" period of the EU/UK trade deal), but that figure has now fallen to just 12%. The post-Covid landscape is also looking less daunting and is a top-three concern for 19%, down from 34%. The likely context for this includes the success of vaccine rollouts and the milder-than-feared impact of the Omicron strain.

Only 13% of advisers are worried about clients abandoning regulated financial advice, and just 9% are concerned about the rise of direct-to-consumer platforms.
The fall in optimism is therefore strange.

What are the top three concerns currently facing your business?



Advisers are almost equally split on the biggest cost they face: increasing Professional Indemnity (PI) insurance (29%) or operational expenses (28%). That's a change from our last survey, in which PI insurance was out in front as the main cost at 41%. The rise in operational costs, including the increasing cost of regulation, staffing and office costs, previous MiFID II regulations and the impending consumer duty regulation, more than explains this. Meanwhile, the FSCS has fallen back as a leading cost, from 15% to 12%.

Regulation and cost – two of the advisers' leading concerns – are intrinsically linked. It has now been 10 years since the introduction of RDR and each year advisers have faced increasing cost pressures being applied to their businesses. While some networks might be able to meet these compliance burdens more easily than smaller businesses, the impact should not be dismissed.

Mikkel Bates | Regulations Manager, FE fundinfo

What has been the biggest cost your business has faced over the past year?

Cost	%
Increasing PI insurance	29%
Operational costs	28%
FSCS fees	13%
FSCS Levy	12%
Investment in/maintenance of technology or software solutions	9%
Recruitment	7%
Loss of income/losing clients	2%

One of our most striking findings comes in the top three opportunities that advisers see in the year ahead. New technology is way out in front here, with 67% of respondents putting it in their top three. That's a considerable advance on last year's 42%.

Remote working is still seen as a significant opportunity, but has perhaps lost some of its lustre – or been factored in as part of the post-pandemic "new normal". But ESG is seen as a top opportunity by 50% of advisers, up from 46% last year. Its sustained rise as an opportunity looks to have further to run.

Interestingly, after several years of to-ing and fro-ing, Brexit has gone from being one of the leading risks to one of the smallest, and in some cases, with the reduction in compliance measures from the EU, is seen as an opportunity.

Many advisers have found EU regulations to be overly prescriptive. But with divergence and a move to the FCA's guidance approach, some advisers are seeing opportunity where previously they only saw a burden.

Mikkel Bates | Regulations Manager, FE fundinfo

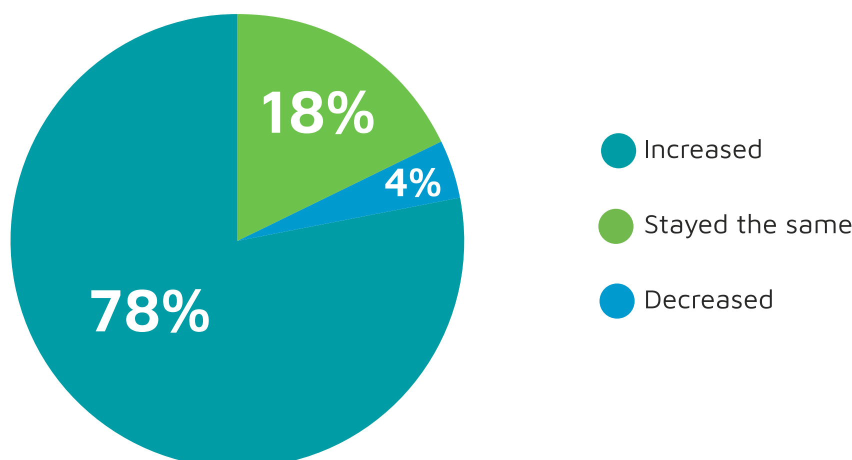
What are the top three opportunities for your business in the year ahead?

Opportunity	%
New technology/software within the industry	67%
Increased interest in ESG investing among clients	50%
Greater use of remote working to reduce office costs	49%
Increased ESG offerings from fund providers	31%
Potential separation of advised and non-advised markets creating opportunities to attract new clients	30%
Merging, acquiring or being acquired with or by another firm to boost economies of scale	29%
More diversity in the workforce	13%

Another eye-catching finding is that most advisers have increased their number of clients over the past year. Just 4% have seen a decrease here; meanwhile, a full 78% have enjoyed growth; an incredible figure when taken in the context of the global pandemic. This tops the 60% whose client numbers grew in 2020 and shows that the optimism in last year's survey was well founded. It also shows that with rapid growth comes the need for a rapid increase in efficiency and the ability to meet client need. On this simplest of metrics, then, the pandemic years have not been a struggle for advisers.

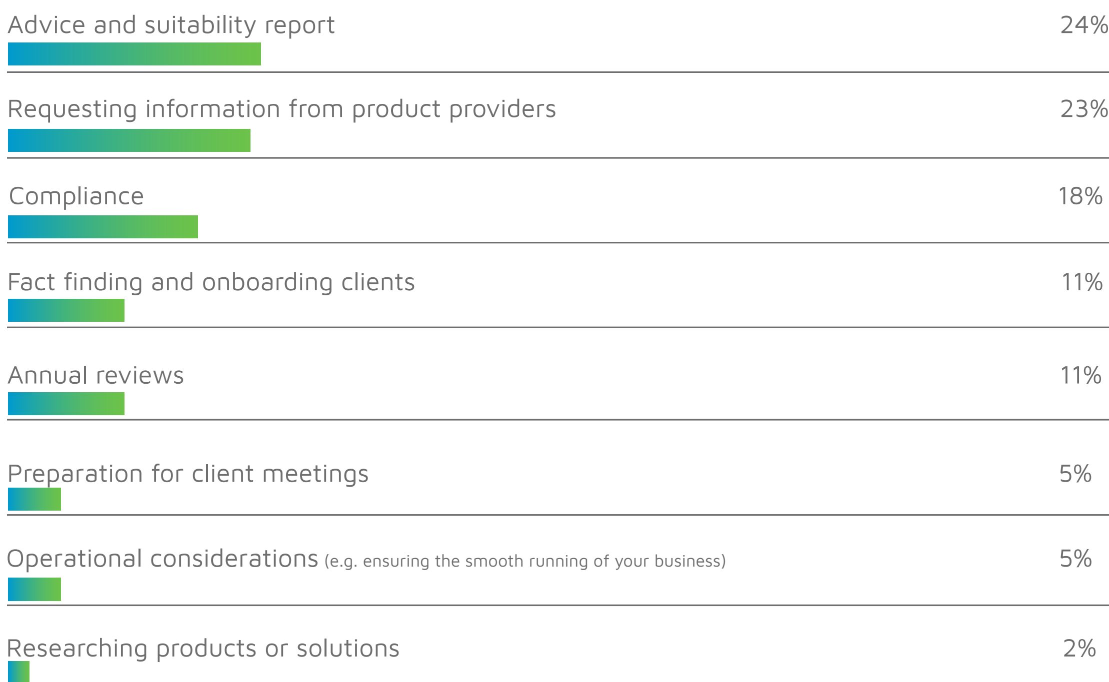
How should we reconcile 2021's stronger growth in clients against the decline in business positivity since a year ago? One factor might be an assumption that some growth has been driven by the pandemic, perhaps because people have had time to think about their finances during lockdown. So, as with some online entertainment companies, advisers may believe that client growth has been "taken from the future".

How has the number of clients your business advises changed over the past year?



Our survey identified the preparation of advice and suitability reports as the most time-consuming part of the adviser's role, with 24% of respondents identifying it as such. Requesting product information from providers came a close second, at 23%. With compliance at 18%, these three accounted for almost two-thirds of responses. Only 2% said that researching products or solutions was the main drain on their time – suggesting that product material is clear and useful when it is eventually obtained. It seems clear then that technology providers may have a part to play in solving some of these ongoing challenges faced by advisers in creating further efficiencies in their firms day to day.

What is the most time-consuming aspect of the advice process?



Client segmentation is an area where progress appears to have stalled or even gone into retreat. Since 2018, the Product Intervention and Product Governance Sourcebook (PROD) rules have required advisers to segment their clients according to their sophistication in understanding investments.

In our previous two surveys, advisers fell well short of this, with only 19% doing so in 2019 and 17% in 2020. In our latest survey, this figure has plunged to just 4%.

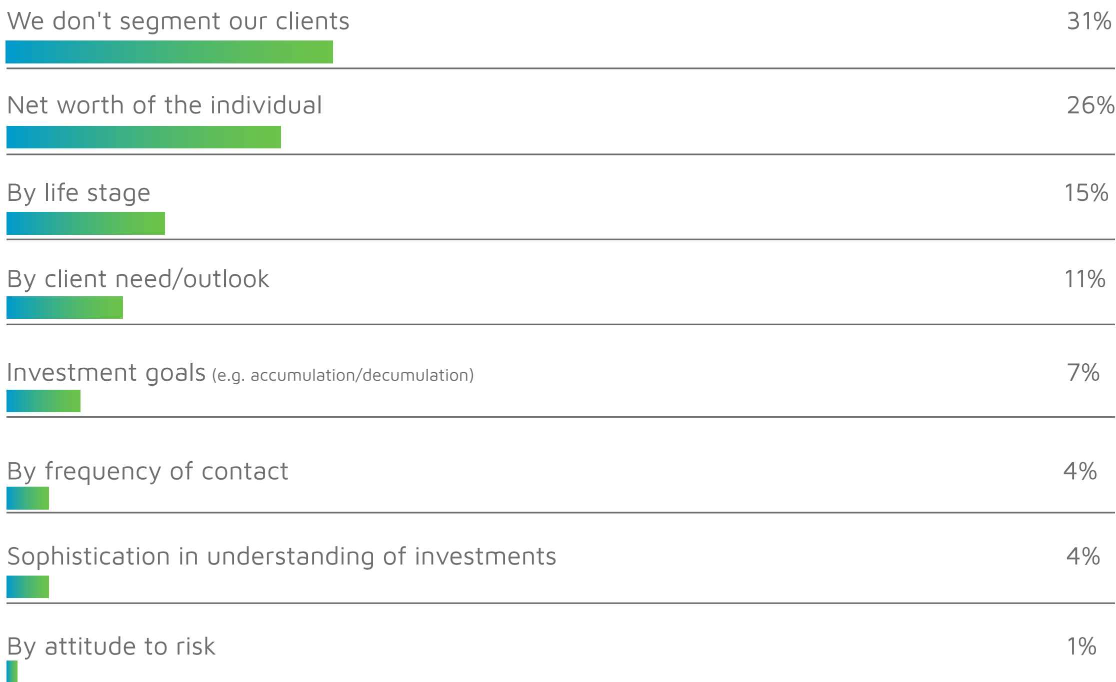
In fact, it looks very much as if some advisers are giving up on segmentation altogether. The percentage who do not segment their clients fell from 32% in 2019 to 22% in 2020. In 2021, however, it was back up to 31%. This is somewhat alarming given the regulator's focus on the PROD, and perhaps shows a lack of understanding among advisers on what a good Centralised Investment Proposition (CIP) should look like, and on how to integrate solution-based products such as income and, specifically, decumulation-focused portfolios, which can provide a foundation to build a CIP on.

For those who do segment their clients, net worth is still the main criterion (26%). Life stage (15%) comes a distant second.

The FCA is clear on how important it views appropriate segmentation, and this is only reinforced by the new consumer duty paper. Net worth fails to accurately capture the needs and requirements of the investor, although I suspect it is being used as a crude proxy for sophistication. However, with retirement planning and responsible investing adding additional dimensions to the investor profile, it is less suitable than ever.

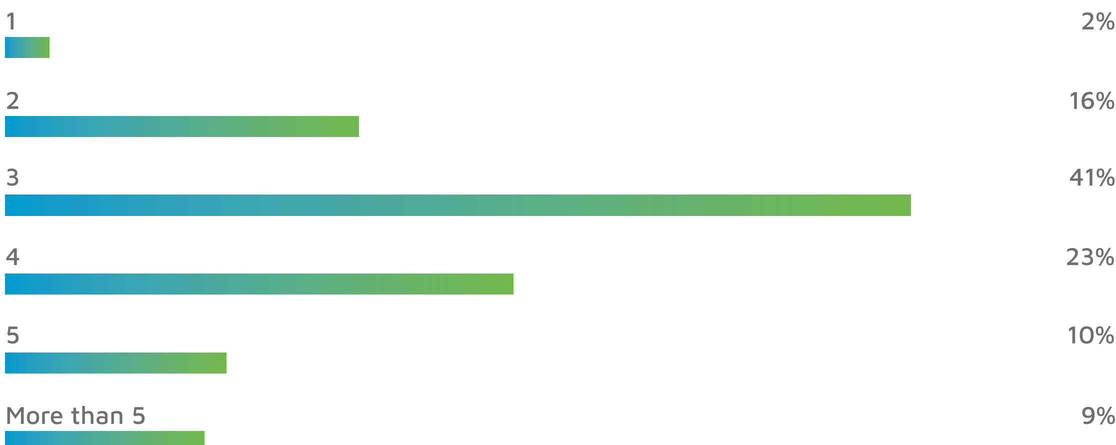
Rob Gleeson | Chief Investment Officer, FE Investments

How does your business segment your clients?



Among those who segment their clients, most (41%) have identified three segments. Four and two are next in line, at 23% and 16%, respectively. A significant minority (19%) have five or more, however.

How many client segments have you identified in your business?



Summary

Advisers are optimistic on the outlook for 2022. While only two-thirds are more optimistic than they were last year, a full 91% are either as positive or more positive than they were back then.

Regulation is the main concern at present, followed by cost pressures and recruitment/succession planning.

The major cost concerns are PI insurance and operational expenses. Very few advisers are concerned about client losses.

New technology is seen as a major opportunity, along with remote working and ESG.

Most advisers have boosted their client numbers over 2021. Only 4% registered declines.

Advisers' client segmentation continues to fall far short of the PROD rules. Some advisers appear to have given up on segmentation altogether, and the dominant form of segmentation is by net worth rather than client sophistication.

CHAPTER 4

THE ROLE OF THE ADVISER IN ESG INVESTING

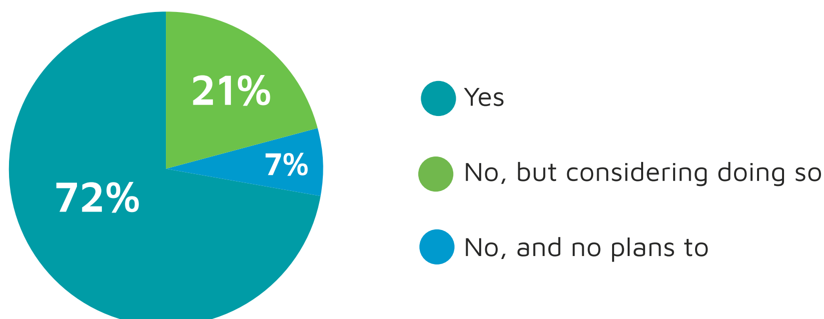
The rise of ESG investing continued in 2021. The great majority of advisers (72% of respondents) now incorporate ESG into their investment proposition. That represents 7 percentage points of growth on the previous year. It appears, however, that virtually all this growth has come from those who were considering the incorporation of ESG. The proportion of such advisers has fallen from 26% to 21%. Meanwhile, the figure for those who have no plans to incorporate ESG has scarcely budged: from 8% in 2020 to 7% in 2021.

We noted last year that it was surprising that some advisers were holding out against ESG incorporation. Given that from August 2022 advisers are supposed to assess their clients' ESG preferences using the information that asset managers report, this figure remains stubbornly high.

Despite the SFDR not longer applying in the UK, the government have made no bones about their direction of travel when it comes to ESG. It has already been flagged in the SDR discussion paper that advisers will have a role in ensuring the products and services they offer are suitable from a sustainability point of view and that clients are asked what their preferences are.

Mikkel Bates | Regulations Manager, FE fundinfo

Do you currently incorporate ESG factors into your investment proposition?



More advisers are actively promoting ESG or ethical funds. Some 33% of our respondents describe their ESG offering as "active promotion", a 6-percentage-point increase from the previous year's 27%. Another 29% present a list of ESG/ethical funds to clients – also up from 27% in 2020.

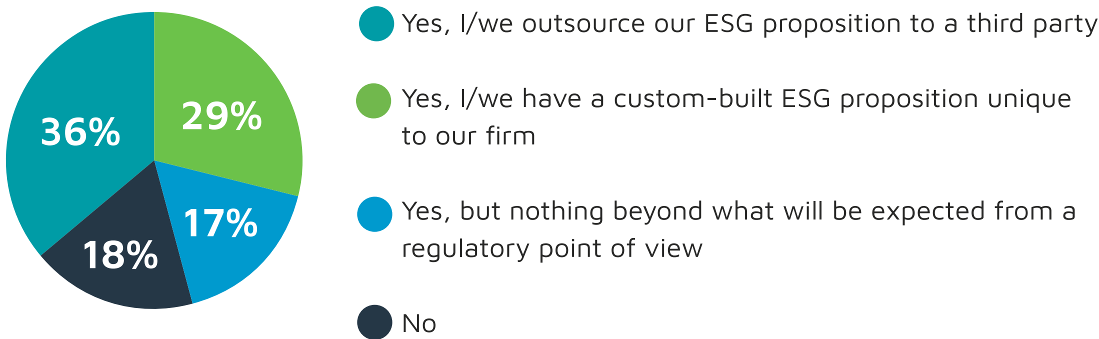
The proportion of advisers with no ESG offering has fallen from 21% to 16% over a year. Again, the story here is the continued ascent of ESG, despite a hard core of holdouts.

Which of the following best describes your ESG offering?

Response	%
Active promotion of ESG/ethical funds	33%
Presenting a list or range of ESG/ethical funds to clients	29%
None of the above	16%
Screening of potential investments with clients only	16%
Other	5%

A total of 82% of our respondents have a specific ESG investment proposition in place. Within this, 36% outsource their ESG proposition to a third party while 29% use custom-built propositions. The remaining 17% do so only to a minimum level. That leaves 18% – still a sizeable minority – without any ESG proposition in place.

Do you currently have a specific ESG investment proposition in place?



Clear confirmation of ESG's move into the mainstream comes from clients' increased interest. Some 79% of respondents say that their clients are showing growing interest in ESG, and 19% say that this is significant. For 14%, however, this interest arises only when the concept is explained to clients. Nevertheless, these figures are an advance on the previous year (79% showing growing interest vs 73%). Just 10% of respondents say that they have seen no change, against 16% in our 2020 survey.

It is interesting to see that 7% of advisers don't have any plans to incorporate ESG into their propositions, which appears correlated with the 10% of clients that advisers on the whole say have no interest in ESG investing. Perhaps the two are linked; it may be the case that there will never be 100% adoption, despite the best efforts of the regulators.

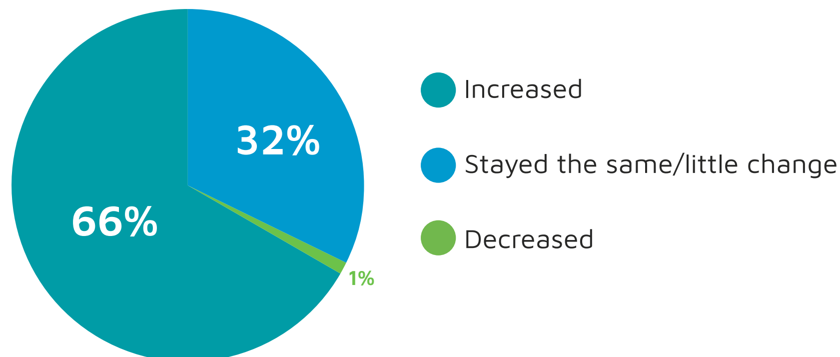
Sebastian Brinkmann | ESG Strategist, FE fundinfo

Would you say your clients' interest in ESG investing has changed over the last 12 months?

Response	%
Yes, but to a limited extent	26%
Yes, but only for certain types of client	20%
Yes, significantly	19%
Yes, when ESG investing is explained to them	14%
No, most clients remain unconvinced	10%
There has been no noticeable change	10%

Almost two-thirds of respondents say that they have invested more money for clients in ESG investments over the past year. Only 1% of respondents said that ESG investments had decreased. These figures are unchanged on the previous year, indicating that growth in ESG investment remains strong and steady. The strong performance of ESG investments during the pandemic is likely to be the driving force here.

How has the amount of client money you have invested in ESG investments changed over the past 12 months?

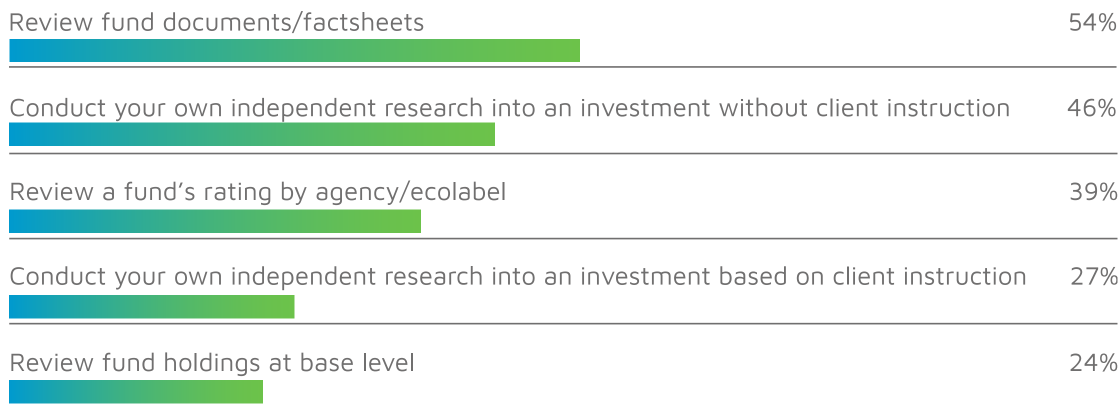


The most common approach to ESG due diligence is reviewing fund documents and factsheets; 54% of respondents engaged in this. Meanwhile, 46% undertook their own independent research into investments without having to be instructed by clients – up 14 percentage points on the previous year. Another 27% conducted such research after being instructed.

Third-party ratings remain fairly popular, with 39% using these to review funds. Just under a quarter go so far as to review individual fund holdings, and this figure is down on the previous year (24% vs 29%).

To help advisers analyse funds with ESG factors in mind, we will shortly be incorporating ESG ratings from MSCI, Climetrics and ISS ESG in FE Analytics. We believe these added metrics will give advisers more tools at their disposal to assess funds for their ethically conscious clients.

What due diligence do you currently undertake to review an investment's ESG credentials?



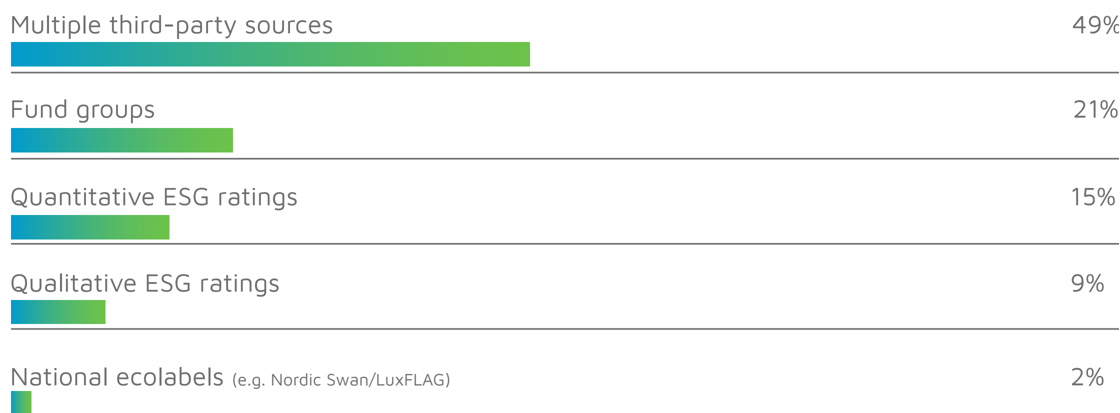
Multiple third parties constitute the largest source (49% of respondents) of information on funds' ESG credentials. That figure is broadly in line with the previous year's 47%.

Where there is significant change, however, is in the reliance on fund groups. This fell from 29% in 2020 to 21% in 2021. So advisers seem to be less trusting of fund managers' assertions and more prepared to conduct their own research. Use of quantitative and qualitative ESG ratings is also up.

On the surface it is great that advisers are conducting their own research into ESG investing and analysing a number of different sources, but perhaps the bigger story is that advisers are having to go to numerous sources to find the data they need. There is a clear gap in the market for a trusted, single source of data and information, which could explain why some advisers and their clients are reluctant to actively pursue ESG investing further.

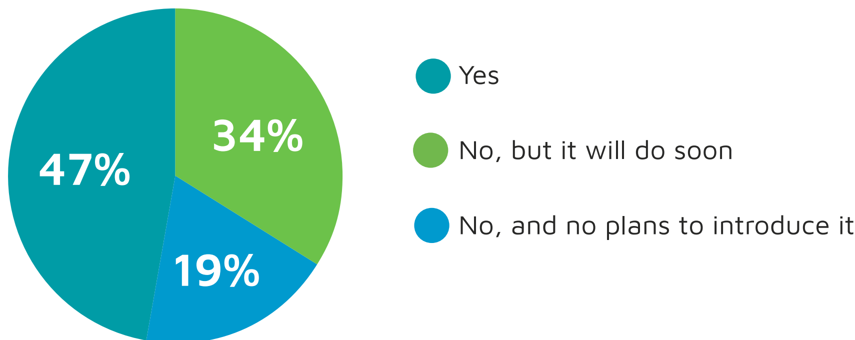
Christoph Dreher | Head of ESG Product Group, FE fundinfo

What is your main source of information on a fund's ESG credentials?



Almost half of respondents include ESG factors in their attitude to Attitude To Risk Questionnaires. A further 34% are planning to introduce this soon, leaving only 19% with no plans to do so. While there are many risk questionnaires to aid conversations with clients, there is no set format for conversations around ESG, with many advisers creating their own criteria for assessment in this area. FE fundinfo is developing its own questionnaire which advisers can use to facilitate conversations on ESG to better understand how important ESG factors are to the client alongside their other investment outcome goals.

Does your Attitude To Risk Questionnaire include assessing ESG factors?



Despite this, clients' understanding of ESG investing still seems limited, according to the advisers questioned. Most respondents indicate that their clients have only some understanding of ESG, and the assumed level of client understanding has fallen since last year. This, of course, could be a function of the rise of ESG investing, which may have led to broader awareness with less depth of understanding.

A lack of clear standards and definitions remains the main barrier to greater understanding of ESG, with 56% identifying it as such. Although the big three barriers are the same as in 2020, greenwashing has pulled ahead of a lack of data, perhaps owing to recent headlines about the nature of the problem.

Despite the strong performance of ESG investments during the pandemic, 29% of respondents identify clients' concerns about returns as a barrier. This is little changed from the 30% in 2020.

There are essentially three barriers preventing greater adoption of ESG investing. The first is client and adviser understanding and it is clear that the market needs to provide more education respectively that clients are able to access such kind of information in an easy way. The second is a lack of data and transparency, which is leading to greenwashing concerns. The third is a regulatory perspective; what is needed so that client advisers understand the impact of regulation and how it affects the compliance process.

Christoph Dreher | Head of ESG Product Group, FE fundinfo

Adviser understanding is now somewhat less of a barrier, suggesting that advisers are growing increasingly comfortable with ESG.

What do you think are the main three barriers currently preventing financial advisers promoting ESG investing further?

Summary

Most advisers now incorporate ESG into their investment proposition. Only 7% of advisers now have no plans to incorporate ESG, so despite the barriers to further adoption, it is clearly here to stay. And, with greater data and reporting solutions entering the market, we can only expect the pace of change to continue.

Some 82% of advisers now have a specific ESG investment proposition in place.

Clients continue to show interest in ESG investing, although in some cases this interest only arises when the concept is explained to them.

Advisers report that they put more of their clients' money in ESG-related investments over the past year. Encouragingly, advisers are increasingly undertaking their own ESG research. Third-party ratings are also popular.

Despite all this, clients' understanding of ESG remains limited. Advisers identify a lack of clear standards and definitions as the main barrier here. Greenwashing is also growing as a concern.

CONCLUSION
SEIZING THE OPPORTUNITY

In 2021, financial advisers continued to build on the remarkable growth that they had seen in 2020. For many advisers, business is still booming.

Achieved in the face of a devastating pandemic, this progress is remarkable. It rests on the swift and successful adoption of technology, which has allowed advisers to harness the potential of remote working and increased business efficiencies. The research points to further progress to be gained in this area, with integration cited as a key area in which further progress can be made.

There have been other favourable winds too: the rise of ESG has presented clients with a compelling story but a difficult course to chart without help. And the growing need for quality retirement planning in the face of growing inflation has heightened the demand for informed financial advice.

While regulation remains the dominant concern for the industry, its impact has been averted for the time being.

Nevertheless, advisers should not be complacent. They have enjoyed two good years in the most testing of circumstances, but if there’s one thing that the pandemic has taught us, it’s that things can change fast.

As our research shows, advisers face plenty of challenges in educating clients – not least about ESG – and in sounding out and rounding out their understanding of risk in retirement. The regulatory threat has been suspended, not removed, and rising costs present challenges of their own.

That’s why advisers should be looking to build on the rapid take-up of technology that helped them to succeed in the extraordinary environment of the past two years. Active engagement with current and prospective clients, targeted education on topics ranging from returns to retirement, and further operational and financial efficiencies: all of these are possible if advisers keep their fingers on the pulse of technology and ensure that they make the most of new developments as and when they arise.

Furthermore, by utilising technology during the advice process through digital fact finds and onboarding, advisers are able to actively engage their clients, not only by making them part of the process itself, but by also providing cost savings to them and by creating time-saving efficiencies.

Advisers have come through the pandemic in good shape. The challenge for the years ahead is to maintain the appetite for innovation that has served the industry so well.

CONNECTING FINANCIAL ADVICE.

Every day, thousands of financial advisers rely on our data and products to help their clients meet their financial goals.

Trusted for our technology solutions, research & analysis and expert insights, we provide transparency and enable efficiency to streamline the advice process – giving financial advisers more time to focus on their clients.

Our FE fundinfo Financial Advice Hub helps advisers onboard and engage their clients, create financial plans, analyse investment options and invest in managed portfolios.

We believe in making the industry Better Connected and Better Informed to help you and your clients make better investment decisions.

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