IFA DNA Pulse Survey – June 2020

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How the advice sector is adapting to the coronavirus crisis

Fidelity INTERNATIONAL

Introduction

"It is fair to say that advice firms have faced many challenges in the past – the Retail Distribution Review (RDR) and MiFID II are probably the most notable in recent times. However, the coronavirus pandemic has thrown up challenges like never before.

Social distancing rules have meant that advice firms have had to completely change how they operate – implementing new working practices and, in many cases, teams have had to grapple with new forms of communication and technology. On top of this, recurring revenues are under pressure given lower markets, while new clients may be holding off seeking financial advice until life becomes more like it once was.

As this crisis unfolds, the Adviser Pulse study will assess how adviser attitudes are changing as business and society adapts to the pandemic. It initially compares views in May to those published in our 'IFA DNA' research conducted before the crisis in January 2020. The results certainly reinforce how resilient and adaptable today's financial advisers are and illustrates how they have positively helped their clients through a situation unparalleled in our lifetimes.

The research also highlights that the advice sector – like most others in the UK – faces short-term challenges due to the pandemic. Reassuringly though, the majority of advisers remain optimistic for the future with most anticipating a rise in the demand for their services over the next three to five years. What's more, the study shows that advisers are now more determined to grow their businesses than they were before the crisis. I'm sure this positive outlook will stand the sector in good stead in the months and years ahead."

Jackie Boylan, Head of FundsNetwork

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Methodology

Fidelity commissioned NextWealth to produce this report based on a representative sample of financial advisers using an online survey. Results are compared to a similar study based on a survey fielded in January.

We surveyed 100 financial advisers from a broad cross section of the market between 6 and 12 May 2020. The interviewees were chosen to represent a full range of experience in the industry, from new entrants up to industry veterans.

NEXTWEALTH

Executive summary

64% of advisers say their 3-5 year plans have been affected by the crisis

55% are concerned about their firm's profitability

Future of the firm

While one third of advisers say the pandemic has not affected the plans for their firm over the next three to five years, 10% say their plans have been 'strongly' affected and another 54% say they have been 'somewhat' affected. Of those surveyed, 55% said they were concerned about their firm's profitability.

94% of advisers say they have adapted well to the crisis with only minimal or brief disruption

Responding to the crisis

While the pandemic has created many new challenges for advisers – such as changes to working practices and the inability to meet with clients face-to-face – the vast majority feel they have adapted well to the crisis. Indeed, 94% of advisers say they have either adapted very well or reasonably well with only minimal or brief disruption to their work.

January 48% → 64% **May**

Despite the challenges caused by the pandemic, firms are now more determined to grow their businesses than before the crisis. Our survey shows that 64% of respondents are now planning to grow by increasing client assets over the next five years compared to 48% in January. Similarly, more firms are now intending to take on new staff in the next five years compared to before the crisis.

Clients

Uncertainty in the markets has been an inevitable consequence of the pandemic and 79% of advisers say clients are either very or somewhat concerned about volatility. In order to offer reassurance, 56% of advisers say they have been in more frequent contact with clients over the crisis with many (44%) saying they have been proactive with their communications.

56% **of advisers say they have been in more frequent contact with clients over the crisis**

44% **say they are being proactive with their communications**

Working practices

Social distancing measures have resulted in widescale changes to working practices with the vast majority of advisers saying all the various aspects of the advice process are currently being conducted either online or over the phone.

While this is hardly surprising in a lockdown scenario, it seems these changes to working practices may be long-lasting. Indeed, less than half of advisers expect that fact finding, goal setting and annual review presentations, for instance, will be mainly conducted on a face-to-face basis with clients once the crisis is over.

Investment proposition

The major change between the two studies relates to the expected use of certain investment strategies as a result of the crisis. Most notably, 47% of advisers say they now expect to recommend more ESG, sustainable or impact investments to their clients. On the other hand, 16% say they are less likely to recommend passive solutions.

47% **of advisers say they are now more likely to recommend sustainable or ESG strategies**

16% **say they are less likely to recommend passive strategies than before the crisis**

Career and wellbeing

Career satisfaction amongst advisers remains high and at about the same level as before the pandemic. When asked about the one thing that keeps advisers awake at night, more (26%) name their health and that of family, friends and clients as the most worrying aspect of the crisis compared to 19% who say the prospects for their business is the biggest worry.

Future of the firm

With the pandemic having wide-ranging effects on firms, most advisers are revisiting their business plans for the period ahead.

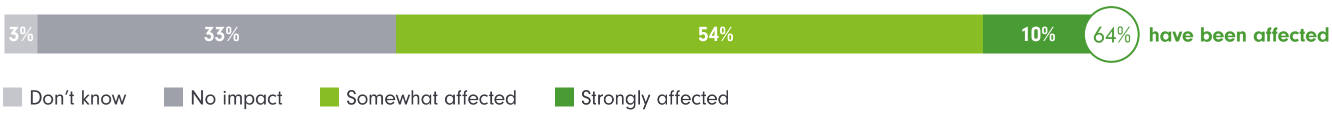
Intentions for the next five years

While one third of advisers say the pandemic has not affected the plans for their firm over the next three to five years, 10% say their plans have been 'strongly' affected and another 54% say they have been 'somewhat' affected. Larger firms are more likely to say long-term plans have been impacted, with 75% of firms with £250 million or more in assets under advice stating this to be the case. This compares to 52% for firms with less than £50 million in assets under advice.

When asked further about how their firm has been affected by the crisis, 27% report a decrease in the value of assets and a reduction in recurring income, while 20% say that future plans have been put on hold (this includes selling the firm and the hiring of new staff).

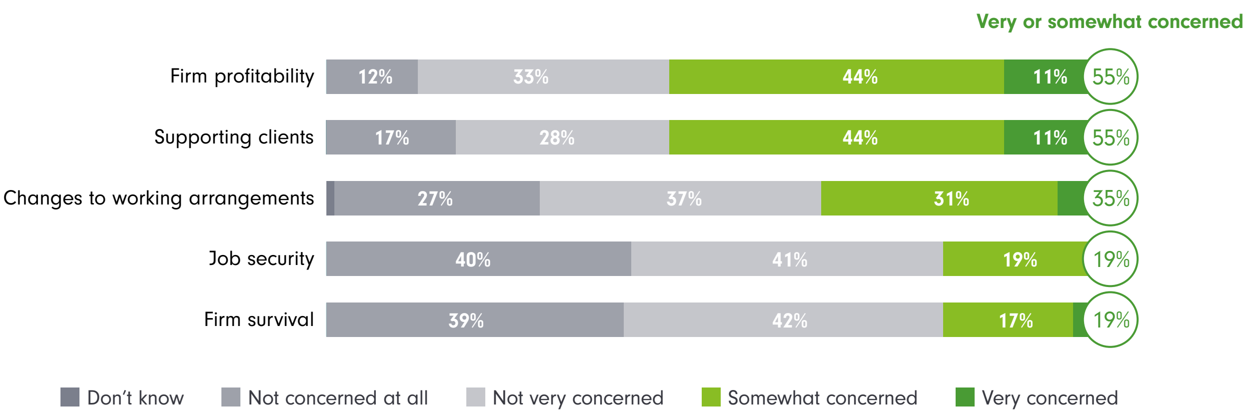
> **"Investment values are down and new business down so income is down"**
>
> **"New business activity has slowed markedly – new clients are unsure of their situation and are not willing to commit"**

COVID-19 effect on future plans



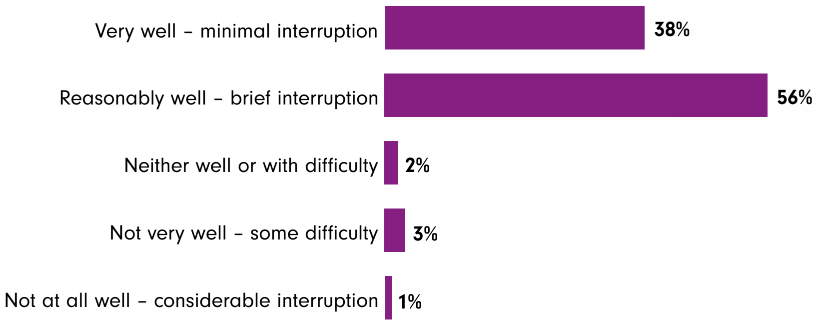
Concerns in the light of COVID-19

Our survey shows that less than one fifth of advisers are concerned about job security or the survival of their firm following the coronavirus pandemic. There is some worry about firm profitability though with 55% either very or somewhat concerned. Just over half of advisers express some concern about supporting clients through a potential economic downturn.



Responding to the crisis

The ability to adapt



The pandemic has created many new challenges for advisers but the vast majority feel they have adapted well to the crisis. Indeed, 38% of advisers say they have adapted very well with minimal interruption, while 56% say they have adapted reasonably well with only some or brief interruption to their work.

Personal challenges

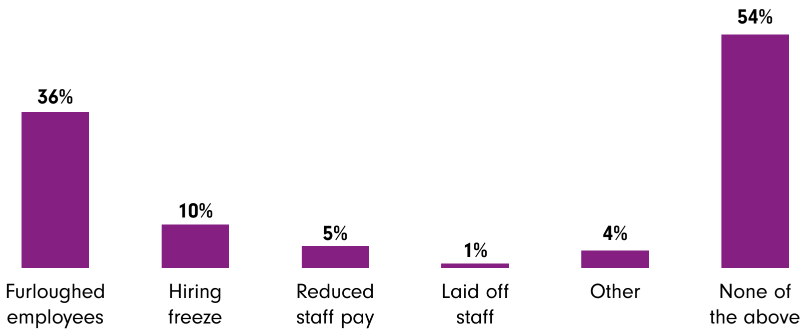
When asked about what aspect of the crisis they have personally found challenging, around half of advisers agree working with clients remotely has been difficult. A significant number (30%) state the reliance on paper-based documents has been tough too.

Personal challenges when adapting

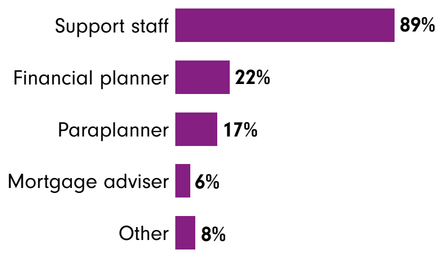
Changes at firm level

With the crisis impacting revenue and ongoing plans, many firms have had to take steps to cut costs. Of the advisers we surveyed, 36% say their firm has furloughed staff as a result of the pandemic. Most of these (89%) say that support staff have been furloughed while 22% say financial planners have been furloughed.

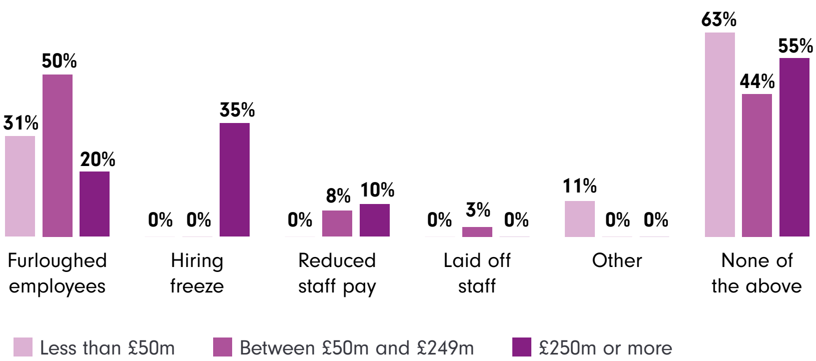
Actions taken (all respondents)



Role held by furloughed staff



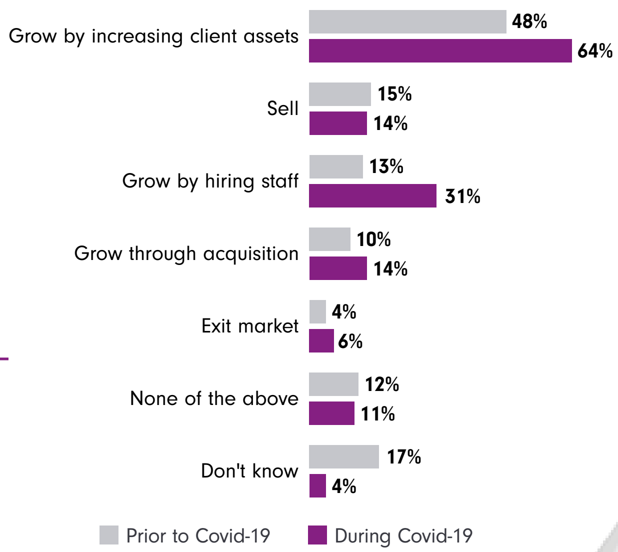
Actions taken (by size of firm)



Mid-size firms are most likely to have furloughed staff, with half of firms with between £50 million and £249 million in assets under advice taking this course of action. These firms were also more likely than average to say their future plans were 'strongly' affected by the pandemic. Larger firms with over £250 million in assets are more likely to have instituted a hiring freeze.

Intentions for the next five years

Despite the challenges caused by the pandemic, more advisers say their firm plans to grow by increasing client assets (64%) than before the crisis (48%). Even though some say that recruitment plans have temporarily been put on hold, significantly more advisers say their firm plans to grow by hiring new staff over the next five years than they did in January.

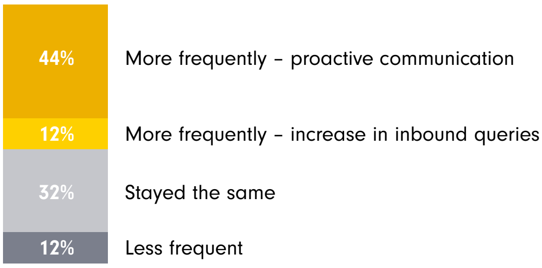


Clients

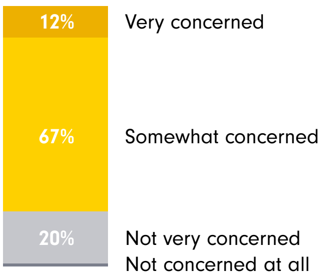
Contact with clients

Market uncertainty has understandably been a major worry – 79% of advisers say clients are concerned about the volatility that has resulted from the crisis. In order to offer reassurance, 56% of advisers say they have been in more frequent contact with clients over the course of the crisis. Many (44%) say they have been proactive with their communications rather than just reacting to inbound queries.

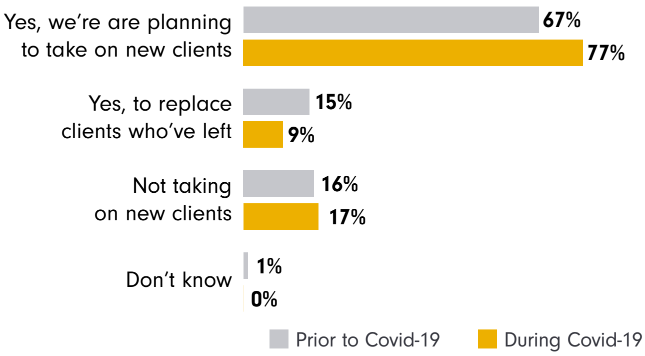
Frequency of contact with client



Client concern with market volatility



Taking on new clients

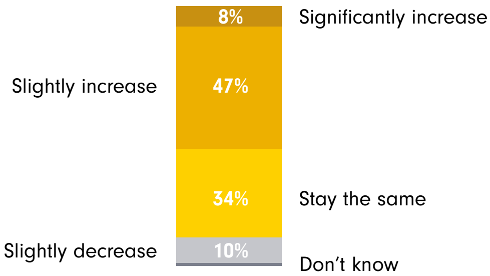


Financial advisers are now more likely to say their firm is looking to take on new clients than before the crisis. This chimes with the earlier table which shows that firms are now more likely to say that their three- to five-year plans include a desire to increase client assets.

Demand for financial advice

The expected demand for advice over the next three to five years remains high and consistent with pre-COVID results. The driver for demand has shifted to awareness and uncertainty though with demographic changes now regarded as less important.

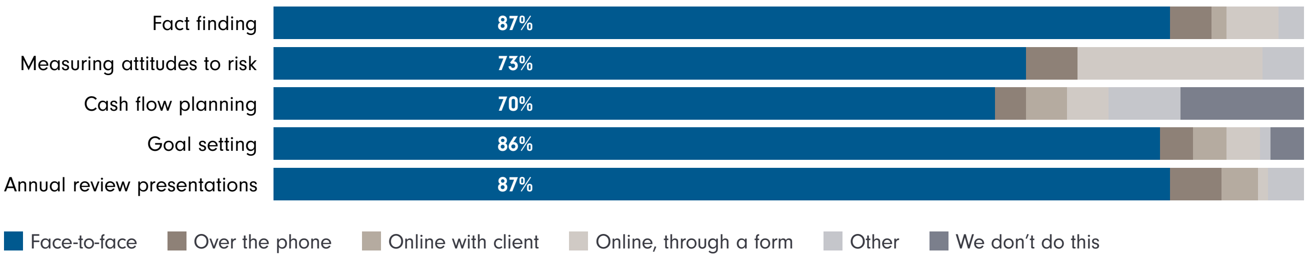
Change in demand for advice in 3-5 years



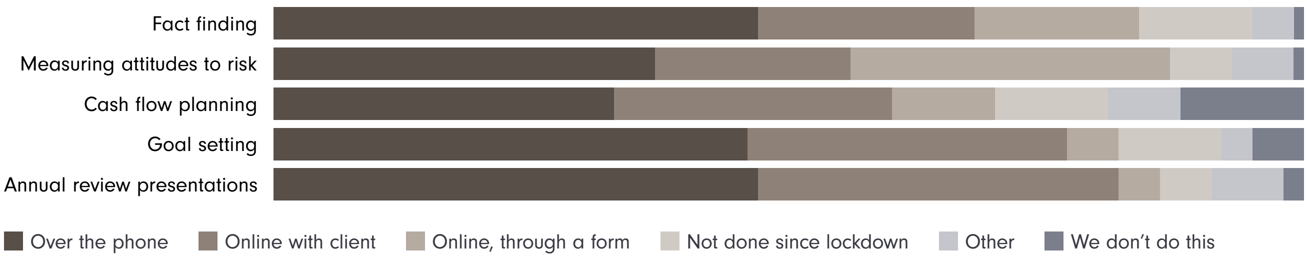
"People are more conscious of their finances – the coronavirus upheaval will have focused their minds"

Working practices

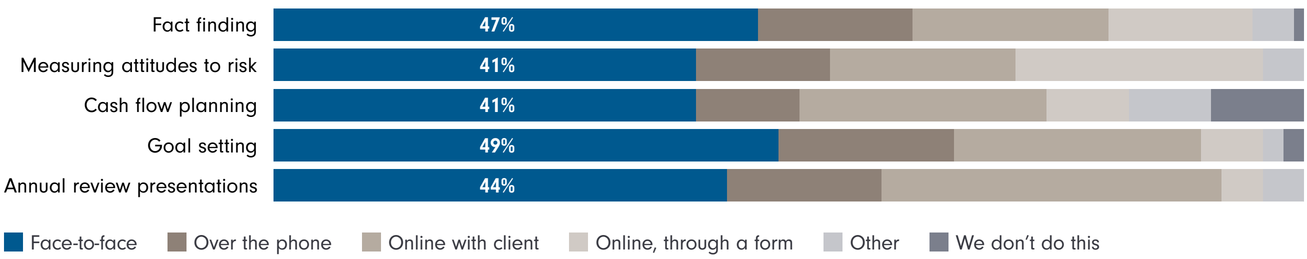
Method used prior to crisis



Method used during lockdown and social distancing



Expected method after the crisis



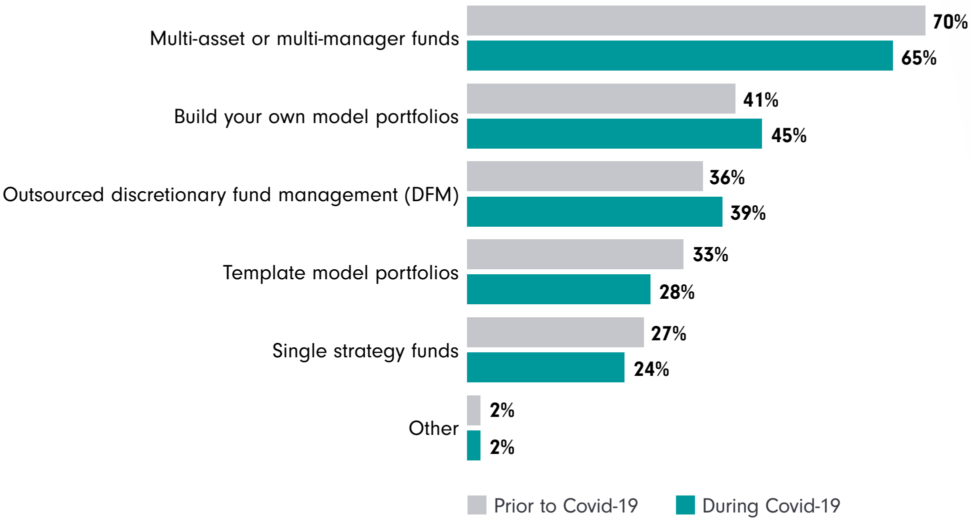
Before the crisis, all aspects of the advice process were typically conducted on a face-to-face basis with clients. Social distancing measures have forced many firms to change the way they conduct business and most advisers expect new working practices to remain in place once the pandemic is over. Most notably, less than half of advisers expect that fact finding, goal setting and annual review presentations will be mainly conducted on a face-to-face basis with clients once the crisis is over. Before the pandemic, over 85% said these activities were mostly conducted face-to-face.

Interestingly, advisers who have moved to phone meetings during the pandemic say they are much more likely to return to face-to-face meetings. Typically, just over 50% of this group plan to go back to the traditional way of conducting the various aspects of the advice process. Conversely, the vast majority of advisers who have been using online video over the pandemic plan to keep using this new technology once the crisis is over.

> **"It has made me think how I approach client meetings"**
>
> **"I've made the discovery that working from home is just fine"**

Investment proposition

Investment strategies used

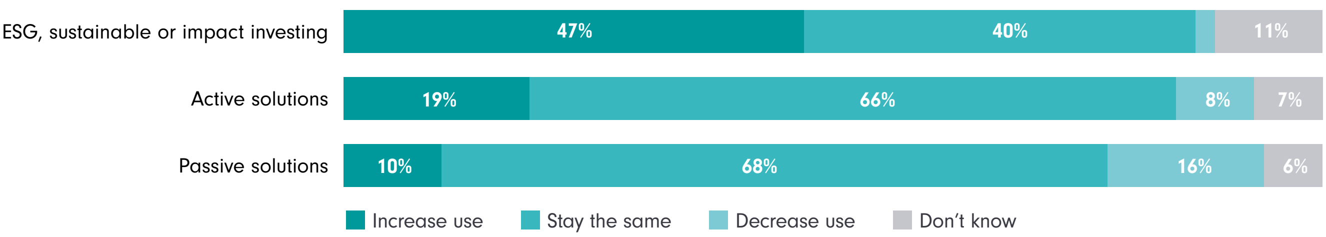


Over the course of the two surveys conducted in January and May, there is little change in the investment strategies used by advisers. Multi-asset and multi-manager funds remain the most commonly-used strategies over the crisis (65%), although this is lower than before (70%).

Changes to investment strategies

In terms of specific types of investment, there has been a noticeable shift in which strategies advisers expect to recommend as a result of the coronavirus pandemic. In particular, 47% of advisers expect to increase their use of ESG and sustainable strategies while 16% foresee a decrease in the use of passives.

Expected changes to general investment strategies



"Clients are more aware of the impact reduced human activity has had on the planet and are keen to support businesses that have an ESG focus"

Career and wellbeing

Career satisfaction

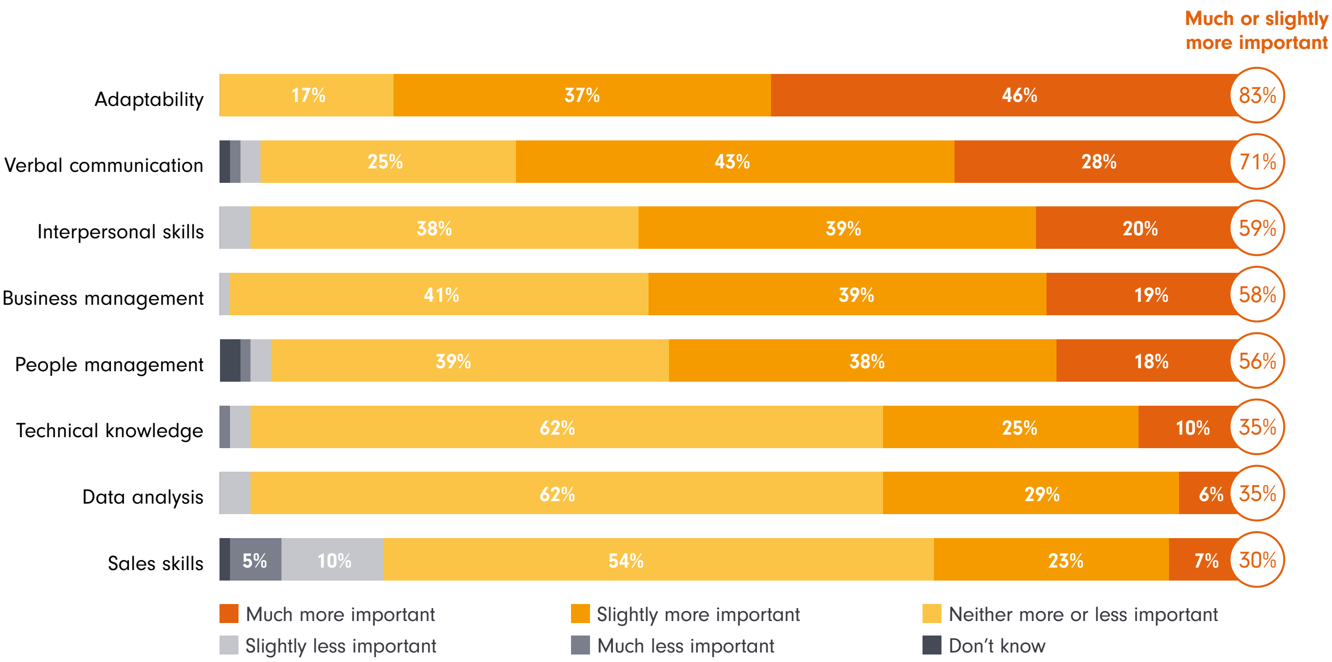
Career satisfaction remains high and most advisers say their view of financial planning is 'about the same' now as pre-pandemic. A positive from the crisis is that clients are showing their appreciation for advice, leading some advisers to feel a greater sense of pride in their work.

"Clients are happy that we are still in touch and can offer calm advice"

"Clients have really appreciated and benefited from the reassurance of advice and helping maintain long-term discipline and perspective"

The change in the importance of skills

When asked which skills have become important over the crisis, adaptability tops the list but verbal communication and interpersonal skills continue to rank highly. Sales skills ranked as the fourth most important skill before the crisis, but this has become less important in the eyes of 15% of advisers.



The issues keeping advisers awake at night

26% say concerns for personal health and that of friends, family and clients

19% say the prospects for their business

15% say market volatility and economic downturn

Personal and professional perspectives

When asked which one aspect of the crisis is the most worrying, more (26%) name their health and that of family, friends and clients than those who say the prospects for their business is the biggest worry (19%). When asked to name the one aspect of the crisis to have a lasting positive impact, 49% of advisers name flexible and remote working.

Positive aspects of the pandemic that will outlast the crisis

49% say flexible remote working

10% say an improved community spirit

9% say an improvement in the perception of advisers and the value of advice

"I'm able to work from home more and create a better work/life balance"

"There's more sense of community; people being kind to each other"

Conclusion

Optimism shines through despite short-term challenges

The results of this survey reinforce how spirited and flexible today's financial advisers are. Notwithstanding the challenges thrown up by the pandemic – such as remote working and the inability to meet with clients face-to-face – the vast majority of advisers say they have adapted well to the crisis. Indeed, the enforced changes to working practices may result in longstanding changes to the way advisers operate going forwards. This is evidenced by the fact that less than half of the advisers we surveyed foresee that the advice process will be mainly conducted face-to-face once the crisis is over. It appears that online and telephone consultations are here to stay.

At times of market turmoil advisers have traditionally acted as financial coaches to their clients, helping them through periods of uncertainty and preventing them from making potentially rash investment decisions. As this survey shows, advisers have once again played a crucial role throughout the current crisis, offering reassurance and solid advice to clients who are worried about their investment portfolios and long-term financial prospects. It is therefore no surprise that many advisers say helping clients through times of crisis is one of the most satisfying aspects of their role.

Of course, this study also highlights that the advice sector faces short-term challenges due to the pandemic. Many firms have furloughed staff and have either revised or put their long-term plans on hold. The good news is the majority of advisers remain optimistic for the future. Indeed, most anticipate a rise in the demand for advice over the next three to five years with more advisers now saying their firms are planning to grow than before the crisis. This positive outlook is very reassuring and we very much hope to find similar – or even greater – levels of confidence in the sector when we publish the next update to the Adviser Pulse study later this year.

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