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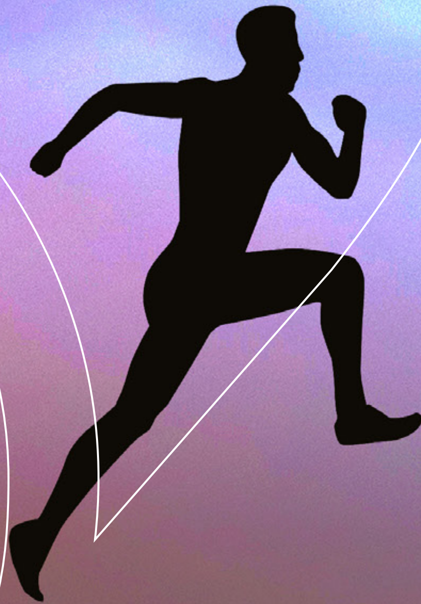
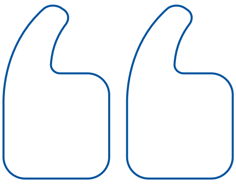


EMBARK INVESTOR CONFIDENCE BAROMETER 4

OCTOBER 2022



Not just another adviser or investor survey...

Welcome to the latest edition of our Embark Investor Confidence Barometer. Not just another adviser or investor survey. The Barometer is rare, and quite possibly unique, in being the only place where advisers can compare and contrast the views of their peers, advised investors and non-advised consumers on a range of critical financial and advice industry issues.

We surveyed over 1000 individuals (252 advisers, 250 advised investors and 506 non-advised investors) so you can find out what your peers think, your clients think and what your prospective clients think. The data is rich, not only in terms of its breadth and depth, but also for the anomalies and gaps it reveals when the same questions are asked of our different audiences. Why, for example, are advisers more bullish than investors? And, do adviser estimations of client base vulnerability match up with what advised investors are self-reporting?

After appraising the answers to more than 40 questions, we have focused our attention on four key themes: investment and retirement confidence; the cost of living; M&A in the advice industry; and Consumer Duty and vulnerable customers.

Our previous Barometer was in the field in February 2022 when UK stock markets were still close to their highs. Much has changed since. We have had a significant correction not just in equities but, unusually, in bonds too as central banks have raised interest rates to counter sticky inflation.

This fourth edition of the Barometer is set squarely amid these more challenging conditions. It reveals falls in investment and retirement confidence consistent with the decline in markets. Might falling asset values trigger another opportunistic wave of consolidation as advice firms continue to search for scale? And is the cost of regulatory compliance one of the drivers of that need for scale? Read on for our four key insights, each with an expert take.

Who took part?

	HOW MANY?	CRITERIA:
FINANCIAL ADVISERS	252	• Firm assets <£500m
ADVISED INVESTORS	250	• At least £100k investable assets • Pension • Aged 35-70
NON-ADVISED INVESTORS	506	• At least £100k investable assets • Pension • Aged 35-70

Fieldwork between 7-15 September 2022

Nick Armet
Content Strategy Lead, Embark Group

CONTENTS

KEY INSIGHT

Challenging times for retirement & investment confidence

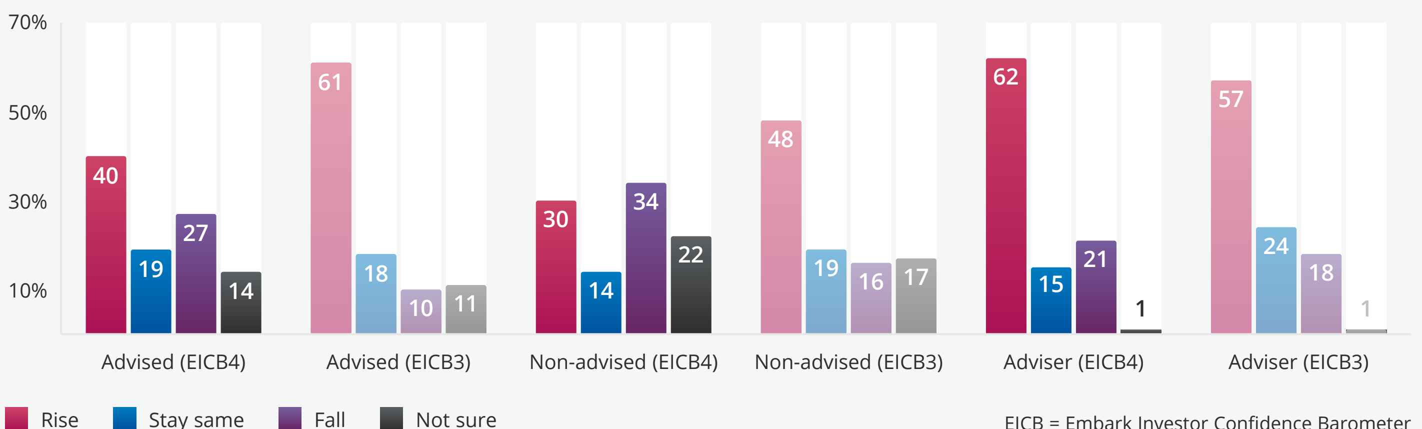
- Investors turn more bearish on stock markets
- But advisers turn more bullish as markets correct
- Retirement confidence dips, but advised clients more confident than non-advised

Investment confidence diverges

Our latest Barometer reveals an interesting divergence between adviser and investor confidence. After a torrid time between surveys, investor confidence has taken a significant knock. Advised clients are much less bullish, with those expecting a rise in equities in the next 12 months falling to 40% from 61%. Non-advised investors are more bearish – only 30% expecting a rise, down from 48%.

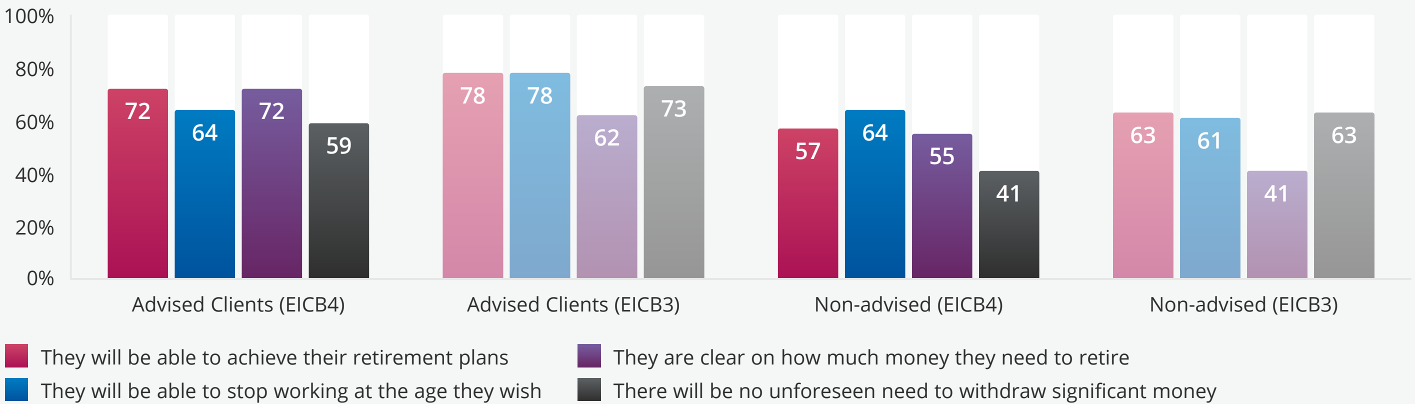
These declines are understandable given how equity and bond markets have fallen this year against a relentlessly gloomy news-flow dominated by rising interest rates, the war in Ukraine, and rising energy and food prices. Indeed, the news is a very important influence on investor psychology. When asked if the news influences their investment decisions, 54% of advised clients and 51% of non-advised investors agreed that it did. Younger investors were more easily influenced than older investors.

WHAT MOVEMENT DO YOU EXPECT IN GLOBAL EQUITIES IN THE NEXT 12 MONTHS?



EICB = Embark Investor Confidence Barometer

THE PERCENTAGE OF INVESTORS WHO ARE CONFIDENT THAT THEY WILL:



What may be surprising is that adviser confidence has moved in the opposite direction to investors, as stock markets have corrected. The percentage of advisers predicting a rise over the next 12 months increased to 62% from 57%. Similarly, adviser confidence for a rise in markets over five years moved up to 63% (from 55%) and over ten years to 67% (from 47%). Why might this be?

Well, advisers are experienced enough to know that corrections have historically been a good time to enter the market. Advisers are also less likely to be influenced by the news, knowing that markets typically bottom when it's most gloomy. Interestingly, this contrarian philosophy appears to be influencing their clients. The fact that 52% of advised clients believe that 'market corrections are a good time to buy' compared to only 42% of non-advised investors underlines the strength of the adviser-client relationship in promoting what history has shown to be sensible long-term investing behaviours.

Retirement confidence dips, but benefits of advice still shine through

It is not surprising to see retirement confidence levels dip since our last Barometer. The percentage of investors who are confident they will be able to achieve their retirement plans has fallen from 78% to 72% for advised clients and from 63% to 57% for non-advised. We have also seen a large drop in how confident investors are that there will be no unforeseen need to withdraw significant money. These declines are likely to be a function of the higher levels of uncertainty created by more volatile markets and rises in the cost of living.

There is still a notable difference in retirement readiness between investors who seek advice and those who go it alone. Advised consumers are 15 percentage points more confident than non-advised investors about achieving their retirement plans, 17 percentage points clearer on how much money they need to retire and 18 percentage points more confident that there will be no unforeseen need to withdraw significant money. These results point strongly to the benefits of financial advice.

ANALYSIS

...this is the time when the benefits of an adviser come to the fore...

It has been a challenging year for investors, but this is the time when the benefits of having an adviser come to the fore and we see that clearly in these results. Advised clients have greater clarity on how much money they need to retire than non-advised investors, and they have greater confidence that they will achieve their retirement plans.

Advised client investment confidence has also held up relatively better and, thanks to the experience of their advisers, advised clients are more likely to take advantage of the more reasonable stock valuations that market corrections create. This speaks to the work that advisers do to prepare their clients for market drawdowns and ensure they have the willpower to stay the course with their investments.

Ranila Ravi-Burslem
Intermediary Distribution Director

KEY INSIGHT

The rise of the networks: M&A in the Advice Industry

- Advisers see industry consolidation as a positive for advice firms and clients
- Rising costs and regulations mean small firms see the inevitable need for scale
- Industry-wide quest for scale may begin to address consumers in the advice gap

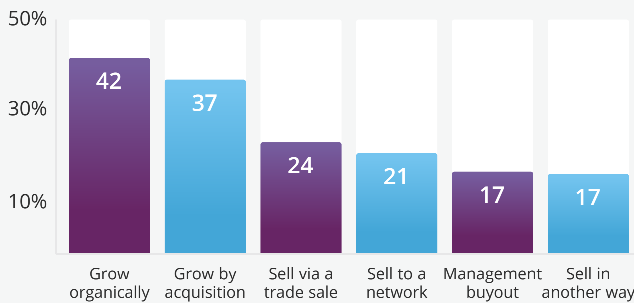
Bigger is better

Our survey paints a picture of a search for scale against a backdrop of tough competition, rising costs and the onerous impact of regulatory compliance. 72% of advisers believe that joining a network is now inevitable for small firms to protect against rising costs and regulations. Notably, the strongest agreement came from the firms with the fewest assets; 87.5% of adviser firms with assets under administration (AuA) under £500k. This strongly suggests the smallest firms know themselves that the conditions are against them if they cannot achieve critical mass fast.

Most advisers (70%) also believe that large firms should be looking to grow via acquisitions of smaller firms. Here, we saw the strongest agreement (92%) in the £400m-£500m AuA range – the very firms that might be doing the buying. Meanwhile, smaller firms who would most likely be the target of that buying (in the £500k-£10m AuA range) had the weakest agreement (64%). Overall, we see a picture of advisers everywhere admitting that scale is a 'must have' in the advice industry.

TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?

IN THE NEXT 10 YEARS, DO YOU/YOUR FIRM PLAN TO DO ANY OF THE FOLLOWING?



The strongest result on M&A was the 77% of advisers who agreed that consolidation in the advice industry is ultimately a good thing for consumers. This chimes with our findings on Consumer Duty, which advisers also believe will be a good thing for consumers. But compliance costs money due to the new processes required to evidence good outcomes and value for money. Joining a network that provides a greater level of centralised resource in these areas is seen to be a good thing for clients as well as advisers, if it makes 'good customer outcomes' more likely.

Grow or sell!

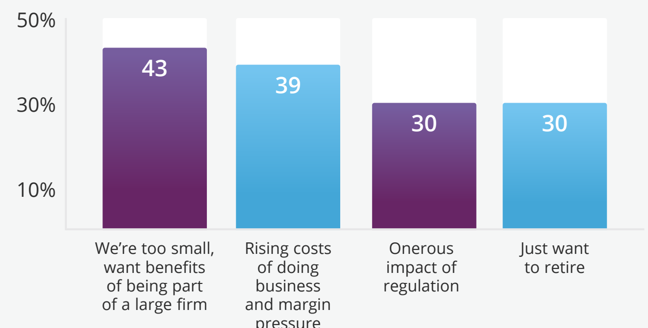
The need for scale is having a clear impact on business strategy. We see a picture of growth by any means, with a notable part of the industry prepared to sell their business if they cannot achieve the critical mass required to go it alone. Asked about their business plans for the next ten years, the most popular strategy among advisers surveyed was to grow organically (42%), followed closely by growth by acquisition (37%). On the other hand, around 1 in 5 adviser firms are prepared to sell, with trade sales and selling to a network being the leading options.

Of those advisers who are interested in selling, the need for scale comes out top again; the most popular reason (43%) was 'we're too small and we want the benefits of being part of a large firm'. The second but related reason was 'the rising costs of doing business and margin pressure'.

This 'achieve growth or sell' trend describes and cements the rise of the large networks, which can take advantage of the economies of scale provided by larger AUAs, greater spending power and centralised costs. Advisers are also drawn by the opportunity to access exclusive centralised investment propositions, with model portfolios that can be tailored to clients alongside packaged risk profiling and cashflow tools.

The shared costs and resources a network provides means that advisers who join may be able to target a greater amount of clients under the Consumer Duty's value for money focus than they could otherwise do as a standalone small firm. In this way, the industry's accelerated search for scale could be a sensible response to higher regulatory burdens and a positive development for consumers in the advice gap.

WHY ARE YOU INTERESTED IN SELLING YOUR BUSINESS?



ANALYSIS

the need for scale... could trigger a further wave of M&A in the industry.

The need for scale comes out strongly in our survey. Indeed, the cost of regulatory compliance is making scale and delivering good client outcomes increasingly interlinked. Combined with tighter financial conditions and falling asset values, it could trigger a further wave of M&A in the financial planning industry as vulnerable firms are swallowed up opportunistically by the strong.

We are likely to see further horizontal integration of smaller advice firms into networks. Vertical integrations have also become more prominent, as large advisers and networks explore white labelling platform services and acting directly as a platform service provider. Of course, this will radically change the risk profile of adviser firms adding new regulatory and capital requirements.

White-labelling of platform technology and the centralised investment proposition can be a smart solution for medium-to-large, fast-growing adviser firms since it provides access to robust infrastructure and capability at a fraction of the time, cost, and risk associated with developing and running their own platform kit and investment products from the ground up.

Jonathan Sandell
Group Head of Propositions, Embark Group

KEY INSIGHT

The cost of living and inflation

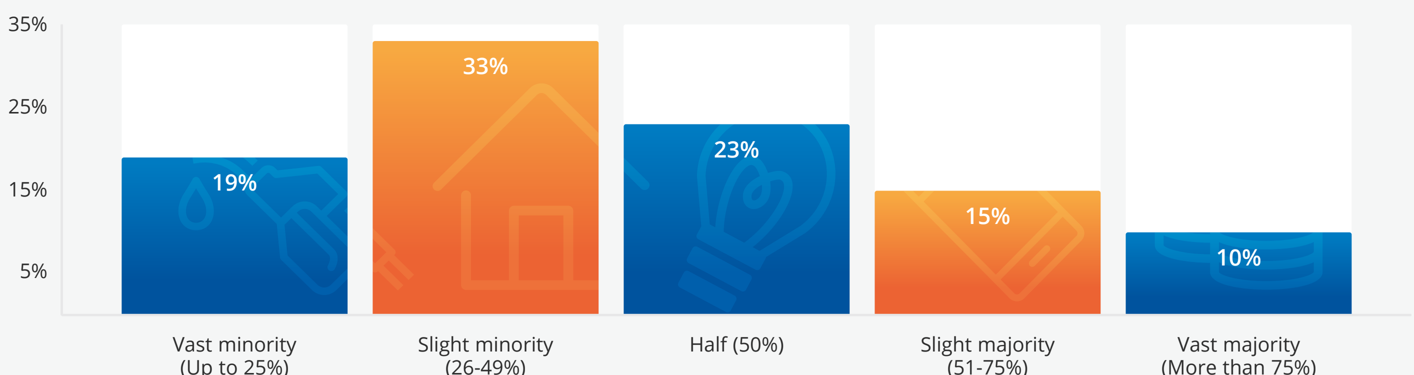
- Advisers and investors expect rises in the cost of living to have a material impact
- Advisers are concerned about the impact it could have on clients' savings
- This is a time for advisers to proactively reach out to clients to help them stay on track

Advisers are worried about the impact on savings

Advisers are pessimistic about the impact that the higher cost of living could have on their clients' savings. Asked what percentage of clients they are confident will *not* be forced to adjust contributions or sell investments, most advisers chose the 26-49% range. In fact, over half chose a minority of clients, with only 25% believing that a majority of their clients would be unaffected.

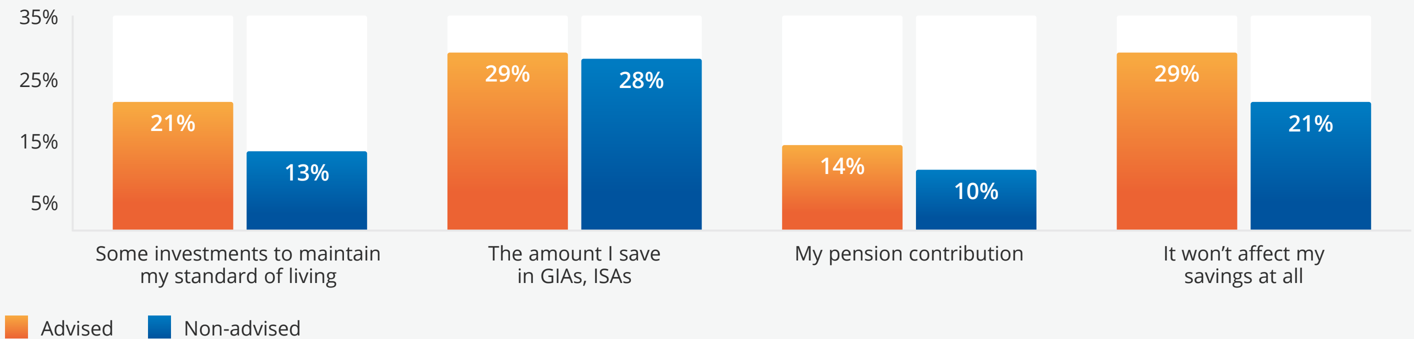
The reasons are clear. Since our last survey, the pressures on households have ratcheted up steadily. The combined impacts of QE, fiscal spending, and commodity supply-chain disruptions due to the war in Ukraine created a perfect storm for inflation. And, as the rises in energy and food prices have proven to be sticky, the Bank of England has had to raise interest rates several times. That, in turn, has not only hit investors' portfolios, but also increased mortgage payments and reduced disposable incomes.

FOR WHAT PERCENTAGE OF CLIENTS ARE YOU CONFIDENT THE HIGHER COST OF LIVING WILL NOT FORCE THEM TO ADJUST CONTRIBUTIONS OR SELL INVESTMENTS?



THINKING ABOUT THE CURRENT COST OF LIVING AND RISING ENERGY COSTS, WHICH OF THE FOLLOWING STATEMENTS DO YOU RELATE TO?

I have reduced/will reduce/will have to sell:



Will the higher cost of living encourage people to seek advice? Our survey suggests it will. A 53% majority of advisers believe it has increased the amount of people seeking advice as they recognise their savings must do more. Only 33% of advisers believe it has reduced the number of consumers seeking advice due to pressures on their finances.

Our survey also suggests advisers are reacting to a regime change from sustained low inflation to stickier inflation and higher interest rates. That's evidenced by the **66%** of advisers who report they have introduced inflation modelling into their advice process within the last two years.

Investors are concerned too – some are already cutting back on savings

A clear majority of investors are worried about the impact of inflation on their ability to save and maintain their standard of living. Only 29% of advised clients and 21% of non-advised investors believe that it will have no effect on their savings at all.

The benefits of advice are evident in the finding that twice as many advised as non-advised consumers (28% v 13%) have changed their strategy to target a higher inflation-adjusted return. Since the pandemic, around 1 in 3 advised clients have discussed inflation protection via inflation-linked bonds and commodities with their adviser, while 1 in 4 have discussed infrastructure, REITs and cryptocurrencies. These strategy-focused conversations are encouraging, but the absolute numbers suggest there are opportunities for advisers to have more inflation-focused adviser-client reviews.

Our survey reveals some investors have already made the decision to sell investments or cut back contributions. 29% of advised and 28% of non-advised consumers have reduced or will reduce the amount they save into GIAs and ISAs due to the higher cost of living. While it is reassuring to see that fewer investors are prepared to reduce their pension contributions, the fact that 14% of advised and 10% of non-advised investors have reduced or will reduce this critical part of their tax-free savings is a concern.

ANALYSIS

Advisers can work with clients to make the right compromises...

This is a challenging time for investors looking to strike a balance between protecting long-term savings and investments whilst maintaining living standards, at a time when household costs are rising steeply. Each household will have different circumstances and therefore may need an individual solution and clients will be looking to their advisers to guide them through the options available.

Advisers can work with clients to make the right compromises by, for example, supplying the illustrations that show the impact that reduced pension contributions would have on their retirement pots. Equally, advisers are sympathetic to the heightened pressures on household finances and the need for certain clients to provide for the 'here and now.' The critical thing is to have conversations early to discuss the options and agree a plan. By reviewing the full financial picture, advisers can help clients maximise the most tax-efficient options and consider the timing of any essential sell downs.

Jackie Leiper
CEO, Embark Group

Still work to do on Consumer Duty and Vulnerable Customers

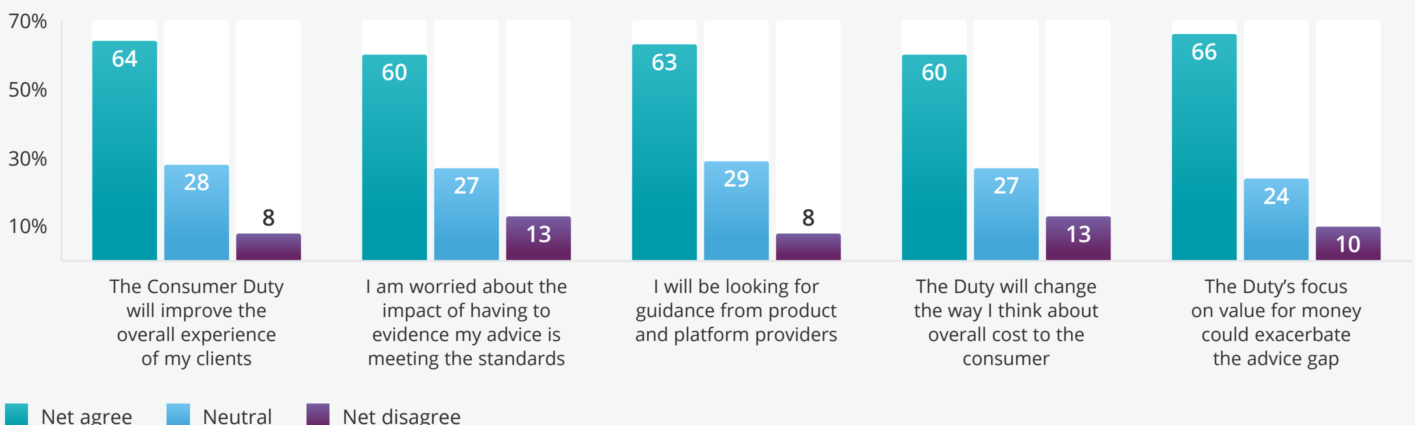
- Advisers believe Consumer Duty will change the way they think about overall consumer cost
- But they also believe that the impact of the Duty could exacerbate the advice gap
- Advisers are confident they can identify vulnerability, but are still underestimating the extent

Advisers say Consumer Duty will be good for clients, if you are still a client!

Our Barometer suggests advisers have mostly bought into the vision of the Consumer Duty, if not entirely comfortable with the nuts and bolts of how it will work in practice: a 64% majority of advisers believe it will improve the client experience, but a similar 60% majority are worried about the impact of having to evidence that they are delivering good client outcomes. It follows then that 63% of advisers would be looking for help with compliance from product and platform providers; the latter have a clear opportunity to strengthen their relationships by assisting advisers.

The fact that 60% of advisers agree that the Duty will change the way they think about overall cost (and value) to the consumer is confirmation that the Duty is having the FCA's desired effect. As the client-facing part of the distribution chain, advisers have to consider not only their own fees but all charges in the chain.

THINKING ABOUT THE FCA'S NEW CONSUMER DUTY, TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?

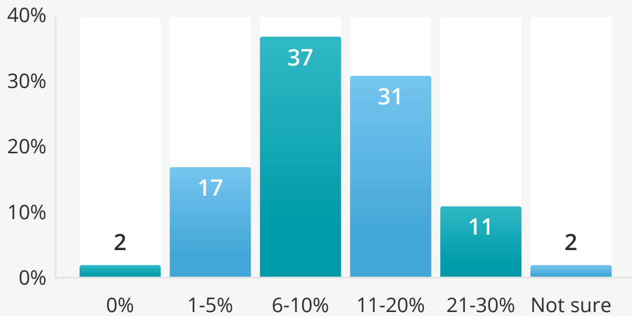


The unintended consequence of this is that 66% of advisers believe that the Duty's focus on value for money will mean marginal clients may go unserved and drop into the advice gap. The better economies of scale enabled by robo-advice models could be part of the answer in serving these consumers. Nevertheless, if there is a growing segment of investors seeking advice that cannot access it, in part due to the impact of the Duty, this would be a worrying development for the FCA.

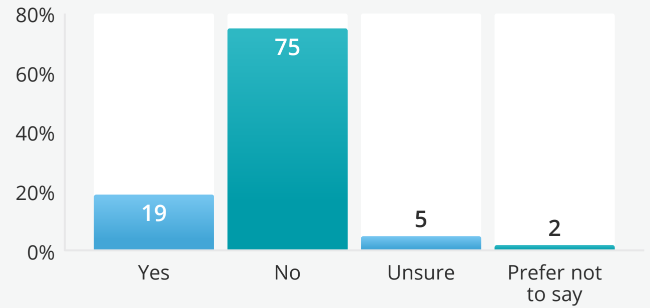
Advisers are more confident on VC strategies, but they are still underestimating the true numbers

An impressive 86% of advisers are confident their firms have a strategy in place to identify vulnerable customers (up from 72% last time). Most advisers estimate between 6% and 20% of their customers as vulnerable, with the average being **11.5%** – this is consistent across age groups, geographies, and assets.

ADVISERS: WHAT PERCENTAGE, IF ANY, OF YOUR CUSTOMER BASE DO YOU CURRENTLY IDENTIFY AS VULNERABLE?



ADVISED CLIENTS: ARE YOU A VULNERABLE CUSTOMER?



How does this compare to how advised clients identify themselves, however? Amid a cost-of-living crisis, with ongoing impacts from covid and new ways of working, **19%** of the advised clients we surveyed currently identify as vulnerable. This is a big increase from the 12% figure in our last survey.

When we dig into the advised client data, it reveals some interesting findings that may go against ingrained thinking. Younger clients were *more* likely to identify as vulnerable. Over 20% of 35-44 and 45-54 cohorts identified as vulnerable. This compares to only 6% and 7% for the 55-65 and 65-70 cohorts. The non-advised investor data showed a similar pattern (10% of 35-44 and 16% of 45-54 identified as vulnerable but only 6% of 55-64 and 8% of 65-70).

This large gap could be explained by a greater reluctance on the part of older generations to admit they are vulnerable. If that is the case, the real extent of vulnerability could be greater than these numbers imply. This finding also emphasises how critical it is that financial firms have systems in place to flag potential vulnerability in their client interactions.

ANALYSIS

The industry may still be under-estimating the true extent of vulnerability.

That the Duty will change the way many advisers think about the total cost to the consumer is a big positive on the face of it. However, the fact that advisers believe the focus on value for money could worsen the advice gap should be a serious concern for the FCA. These two findings highlight the intended and unintended effects that policies can have.

The industry may still be under-estimating the true extent of client vulnerability. The current economic, geo-political and social conditions may be acting as a trigger for heightened levels of vulnerability. Discouragingly, that view looks to be backed up by the latest UK stats that show those on long-term sickness hit a record high of 2.5m in summer 2022.* Advisers may need to review their VC strategies to give greater weight to these factors.

Andrew Phipps
Product Marketing Manager, Embark Group

* Source: Office of National Statistics, www.ons.gov.uk

Focus on... engagement

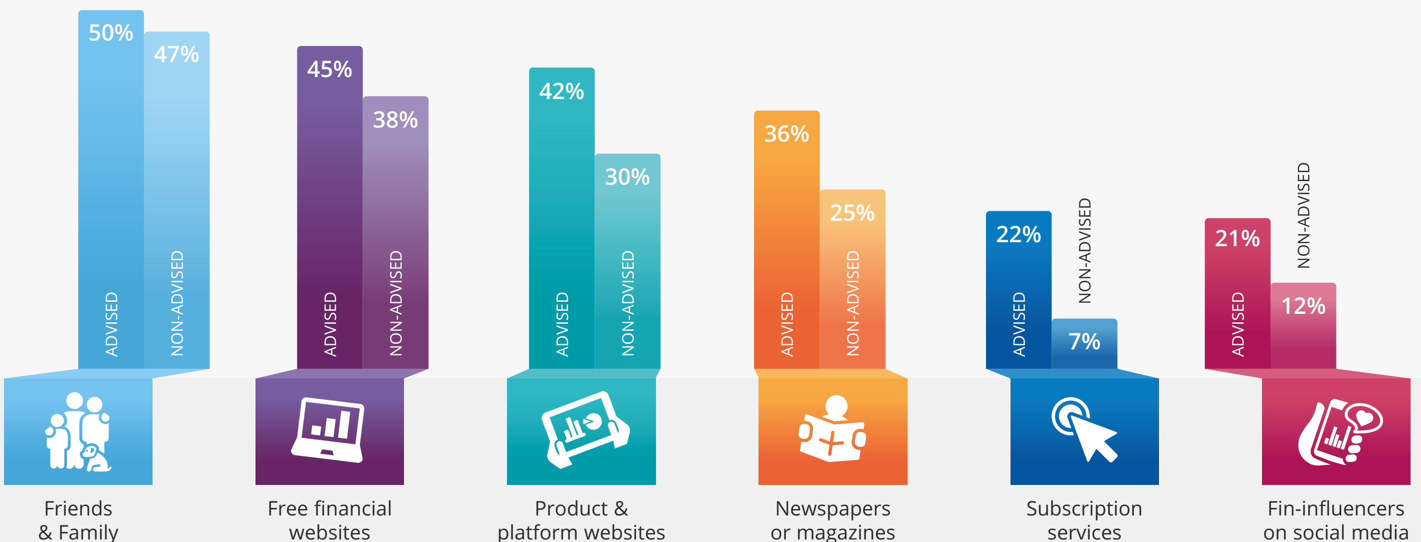
The Barometer captured a range of insights into how investors engage with the subject of investing, how often they check their portfolios and whether the feel their views can be influenced.

How do you engage with investing?

Advised investors are more engaged with investing than non-advised investors. While 21% of advised and 12% of non-advised investors would engage with fin-influencers, these numbers rise to 32% and 18% respectively for the youngest age group of 35-44. One reason why an impressive 80% of advisers would consider engaging with social media to reach new clients.

80% **ADVISERS:** I WOULD CONSIDER ENGAGING WITH SOCIAL MEDIA TO REACH NEW POTENTIAL CLIENTS

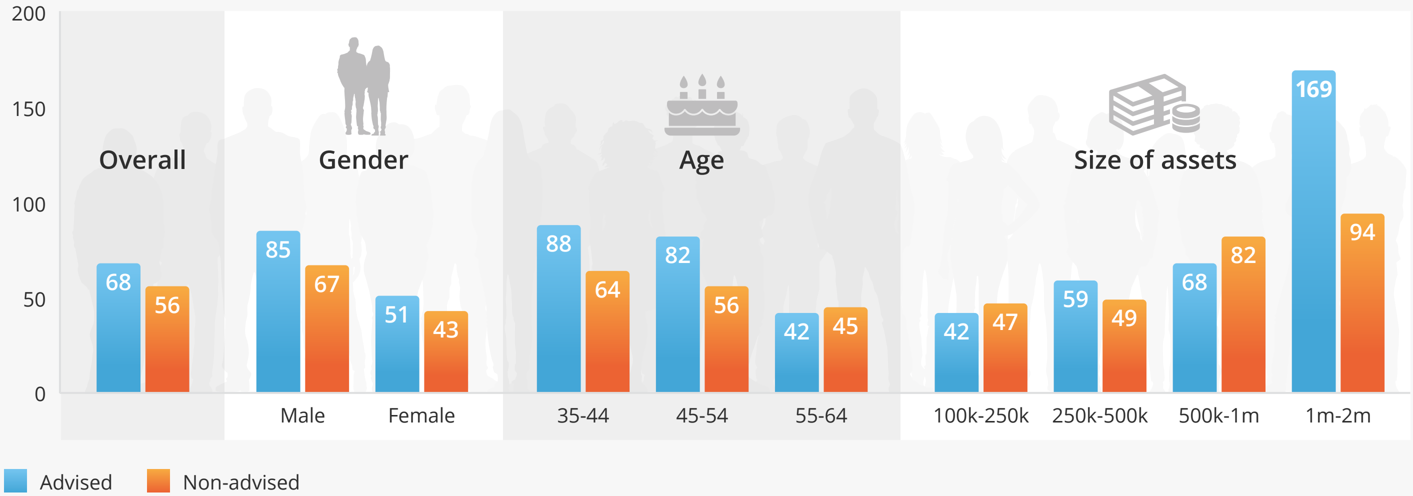
INVESTORS: WHICH/WHO OUT OF THE FOLLOWING DO YOU ENGAGE WITH ON THE SUBJECT OF INVESTING?



How often do you check your portfolio value?

Advised investors check their portfolios more than non-advised investors; men check significantly more than women; younger investors check a lot more than older investors; but the most frequent checkers are those investors with the most assets.

AVERAGE NUMBER OF TIMES PORTFOLIO IS CHECKED PER YEAR BY AGE, GENDER AND ASSETS

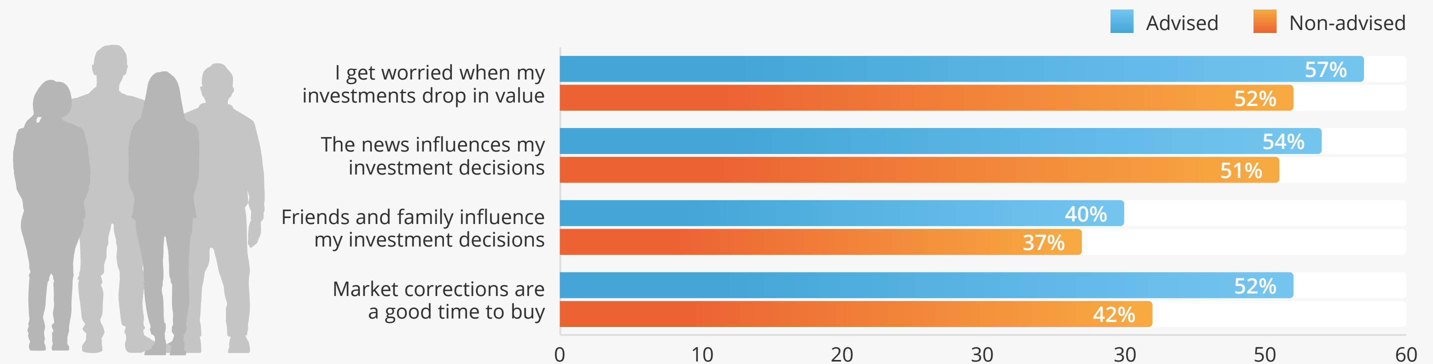


Advised Non-advised

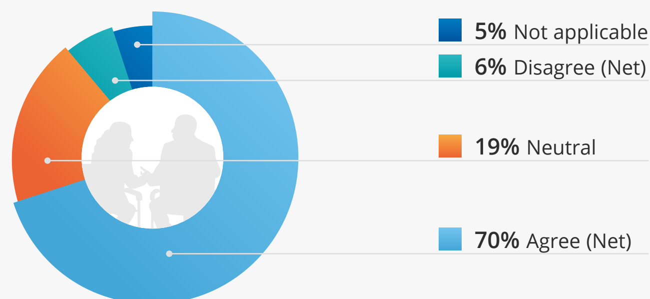
How do you feel about investing?

While advised investors worry slightly more about drops in the value of investments, that is set against their greater belief that market corrections are a good time to buy. We can put this down to the influence of advisers in building client staying power – one of the reasons a clear 70% majority of advised investors believe their adviser helps them to avoid the emotions associated with investing.

INVESTORS: THE PERCENTAGE WHO AGREE



ADVISED INVESTORS: MY ADVISER HELPS ME TO AVOID THE EMOTIONS ASSOCIATED WITH PERSONAL INVESTING



BAROMETER SURVEY DETAILS

The Embark Investor Confidence Barometer surveyed the following groups:

- 250 advised consumers (those that have a financial adviser) with a minimum of £100k investible assets, who have a pension and are aged 35-70
- 506 non-advised consumers (those that do not have a financial adviser), with a minimum of £100k investible assets, who have a pension and are aged 35-70
- 252 financial advisers (18+) who have clients, whose company/firm has assets of less than £500 million

The survey was conducted by Censuswide. Censuswide abides by and employs members of the Market Research Society which is based on the ESOMAR principles.

censuswide.com

Thank you

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