Lessons from the UK advice market

BT UK Study Tour 2023

Introduction

In October 2023, BT hosted Australian financial advisers on a study tour of the United Kingdom. The five-day trip included meetings with advisers, investors and industry bodies. Some of the companies visited included Wellington Management International, Mercer Private Wealth, BlackRock, St. James's Place and Square Mile.

The lessons from the study tour are contained in the following whitepaper. It starts with the all-important notion that for a financial adviser, that contact is their best currency. Having constant touch points with clients, over years and sometimes generations, is critical to the success of an adviser-client relationship.

Another critical lesson is the need to develop and live values within a firm. UK firms are actively trying to engage with not just clients, but with the broader community to improve financial education. That in turn has a flow on effect to their own businesses.

Building a network of advisers is a challenge for UK firms, just as it is in Australia. The number of advisers has fallen, but demand remains strong. The whitepaper considers ways UK firms attract and retain advisers, and the training methods they use. It also considers consolidation of the industry, and the trend in the UK to build, buy or scale.

The whitepaper considers vertical integration of firms – something that is part of the UK landscape but is actively discouraged in Australia. It looks at some of the best uses of technology among British firms and how digital marketing via social media is winning clients.

Finally, the following study considers investments – where there are long term opportunities for advisers and their clients.

Jason, Matt and Tara.

Jason Brown
Head of Distribution

Matt Rady
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Lesson 1: Our best currency is contact

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It's self-evident for financial advisers, but that doesn't mean advisers spend enough time staying in touch with clients.

Advisers should be looking for every opportunity to talk to clients, and that means more than normal scheduled reviews. There needs to be constant contact that adds value.

Even in a digital age, face-to-face meetings still matter. Clients want to know their adviser.

As Fidelity put it, if the only contact with a client is what an adviser is contracted to do, then they don't have a relationship. Rather, they have a transaction.

Another adviser, during bond market turbulence following the release of a very poorly received mini budget in the UK last year, suggested his team ring every client to check in to see how they were faring amidst the political and financial drama.

The responses from clients to the calls were very positive, not because of financial outcomes, but because the advisers cared enough to make contact.

The BT UK Study Tour attendees heard several examples of the benefit of knowing your clients and understanding details of their lives. Knowing that a client has a new grandchild, for example, shows that you care. But it's also important when making those calls you have something meaningful and relevant to say.

Levels of service

The Tour demonstrated that different firms have different levels of service, depending on the client. At the very top end, some act as financial concierges, helping clients be financially organised. The adviser provides a range of services, above and beyond expectations.

The next level is core clients, where general financial planning is provided.

And then there are clients who are not as profitable. There is a cohort of clients that want simple, low cost and sometimes episodic advice – but regulations mean that the cost to serve these clients make them unprofitable.

Neither Australia nor the UK have found an adequate solution for these clients.

One UK company, True Potential have spent time thinking about ways to deliver lower cost advice, and are using content including seminars, workshops and podcasts, to reach a broader audience.

This includes next generation customers who may not currently be profitable as clients. The True Potential model, which captures beneficiaries, essentially provides an incubation service for the next generation of clients.

Another solution among the firms visited is different types of service for the various levels including one who is leveraging digital channels, such as videos, to provide a service to less profitable clients at a lower cost.

Another UK firm heavily focusing on continual engagement with clients is First Wealth. It has developed a precise assessment tool so advisers can better understand their clients. It is based on financial wellbeing, which First Wealth defines as "being and feeling financially secure so you can focus on what matters most to you".

First Wealth has codified engagement with clients, including emails, calls and meeting template scripts to deliver consistent messaging.

Lessons for Australian advisers

Know your clients and segment them within your business. Use technology to become efficient in servicing clients and for the less profitable clients, keep working on a solution.

Viewpoint

"The UK financial services market faces different challenges and operates in a different environment to Australia. They don't have our superannuation scheme and have much lower investable assets. That must be kept in mind when thinking about how they structure their financial services practices.

"One of the key takeouts for me is that we are all trying to solve the same technology challenges, and there isn't one, clear, holistic solution. There are some great instances of technologically based solutions that were really impressive – for example, using technology to engage with lower advice needs clients. High net wealth clients, and clients with simpler needs, all want advice in different ways and technology can help us at Invest Blue."

"Another is how they engage with what they call beneficiaries, though we think of them as more likely to be family members. Because the UK has inheritance taxes on property transfers to the next generation, they've had an impetus to engage with the next generation in the advice process. While we don't have the inheritance tax issue, the need to engage families is still there and I want to embed that in our processes."

Steve Fort, Head of Advice, Invest Blue

"We are all trying to solve the same technology challenges , and there isn't one, clear, holistic solution... [Clients] all want advice in different ways and technology can help us."

Lesson 2: Consolidation gold rush

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There is a recognition in the United Kingdom, like Australia, that scale is key to success in financial planning.

As a result, there is a rush to consolidate, including business succession. A well-thought through succession plan will often result in a higher multiple, ultimately being paid for a business.

Given the regulatory changes and compliance needs in the UK, senior advisers can either reinvent themselves, or tack onto a larger business and leverage their scale. This is playing out in Australia too.

The notion of 'consumer duty' is driving some of the change and consolidation within the UK market. Consumer duty requires firms to put consumers at the heart of their business and focus on delivering good outcomes for the client.

What a buyer wants in an advice practice

The global Azimut group, better known in the local market as AZ Next Generation Advisory (AZNGA). AZNGA is a buying group. It takes stakes in financial advice firms and owns ~50 practices in Australia, and gave the BT UK Study Tour an insight into what it looks for in an acquisition.

Azimut says that adviser numbers are decreasing, and the remaining members of the industry are in a position to be more selective about clients. That allows them to push up client fees, so the net result is advisers take on clients that can afford advice and can pay higher fees.

Azimut's representative, Massimo Guiati, said a good financial planning practice in Australia should have around $15 million in revenue, and, when acquiring, his firm is looking for the following four key pillars, of which earnings is only one.

1. A shareholder value proposition of 30 per cent EBIT.
2. A client value proposition that includes formal house pricing models, so you know what each client is costing.
3. A people proposition so all their employees have clear roles and responsibilities, and there are succession plans within the business.
4. An architecture and governance which includes a one-year business plan and a three-year strategic plan.

Underpinning all four is culture. Guiati says a good financial planning practice has clearly articulated values and behaviours that are monitored and measured via key performance indicators.

Lessons for Australian advisers

For Australian advisers, it is a reconfirmation that business succession planning needs to start well before you plan to retire. An adviser will do better, whenever they sell, if they have a succession plan in place.

Lesson 3: Training and building home-grown talent

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While some firms expand via acquisition, others do it more organically, through networking, connecting with professional introducers and centres of influences.

Edinburgh-based Carbon Financial is one such organisation. Carbon said that the best cultural fit, when building staff numbers, is to grow your own talent. Of its 15 planners, only four gained competency elsewhere.

Training commences on day one, normally in client support, and typically a candidate will gain a diploma in 18 to 24 months. The next step is often into paraplanning or as a trainee planner. Not all graduates are destined for planning roles – some will end up in paraplanning or operations.

Carbon's training emphasises compliance, personal organisation, involvement in the whole business and customer service. That's in addition to gaining qualifications. The time taken to become a 'fledgling' planner is five years, though the Carbon program is flexible on timing.

While there are specific roles for trainee planners, they gain exposure to the whole team, and each is assigned a coach to be mentored.

Pinnacle Adviser Academy

Another example is Pinnacle Wealth in London. PW runs the Pinnacle Adviser Academy which takes on current and potential advisers 'from all walks of life' who want a career in wealth management.

The average age at entry is 35 years old and participants include already qualified advisers, people who are new to working in wealth, and experienced financial advisers who bring their clients with them.

The Academy provides support and training to not only become a successful financial adviser, but also to build a business, network and develop a client bank. When a participant goes through the Academy, they are essentially learning a multitude of skills.

A graduate of the Academy has the opportunity to access finance through one of the UK's largest advice and wealth management groups, St. James's Place, to help them set up their own business. For someone that is wanting to build a career, change a career or build a business, the Pinnacle Adviser Academy provides a pathway.

Lessons for Australian advisers

There are many ways to grow your adviser numbers, and organic growth is at the top of the list. Also, future financial advisers can come from many different walks of life, and career changers don't always need to start at the bottom of the business.

Lesson 4: Values

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Core values are critical to any financial advice firm.

They underpin how a company views its strategy – whether that be based on values around people, the environment, the business community or a myriad of other things.

Some of the most successful business models on display in the BT UK Study Tour are those that are very clear in their value proposition and display it publicly.

Firms that show their values, communicate regularly to clients and measure their success continuously are among the most impressive, according to participants of the BT UK Study Tour.

How values work

One example on the BT UK Study Tour is Carbon Financial. They believe in the need to build, and reinforce, its reputation based on values, awards, supporting and developing the team, through clients and via charitable work in the community. It's tag line, Partner for Life, is what it tries to achieve with clients.

Its key values are:

- do the right thing;
- free to be different; and
- be the best we can.

Achieving these values builds Carbon's reputation externally, but also helps support and develop the team internally. Carbon supports the need to do charitable work in the community.

First Wealth's vision is both simple and ambitious: to change the perception of financial services in the UK forever.

The firm works hard to position itself for future clients, as well as current clients. First Wealth continually asks clients, referrers and staff about their perceptions of the firm. It believes that if First Wealth can integrate financial wellbeing to its core, then it can differentiate its offering and command a premium fee.

Lessons for Australian advisers

Developing and understanding core values makes business sense and is good for clients.

Lesson 5: Active engagement in workplaces

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Several practices in the UK have become innovative in the way they engage with other workplaces, whether or not they have a business arrangement with individuals in those companies.

One London-based planning firm actively engages with larger workplaces in its region, offering educational sessions for staff. That gives the employer in those workplaces the opportunity to provide a service to employees, as well as provides the adviser with opportunities to meet prospective clients.

Mercer's active engagement

One example on the BT UK Study Tour was provided by Mercer, which, similar to its practice in Australia, offers retirement products.

Underlying Mercer's workplace engagement activity are three principles – advice, guidance and education.

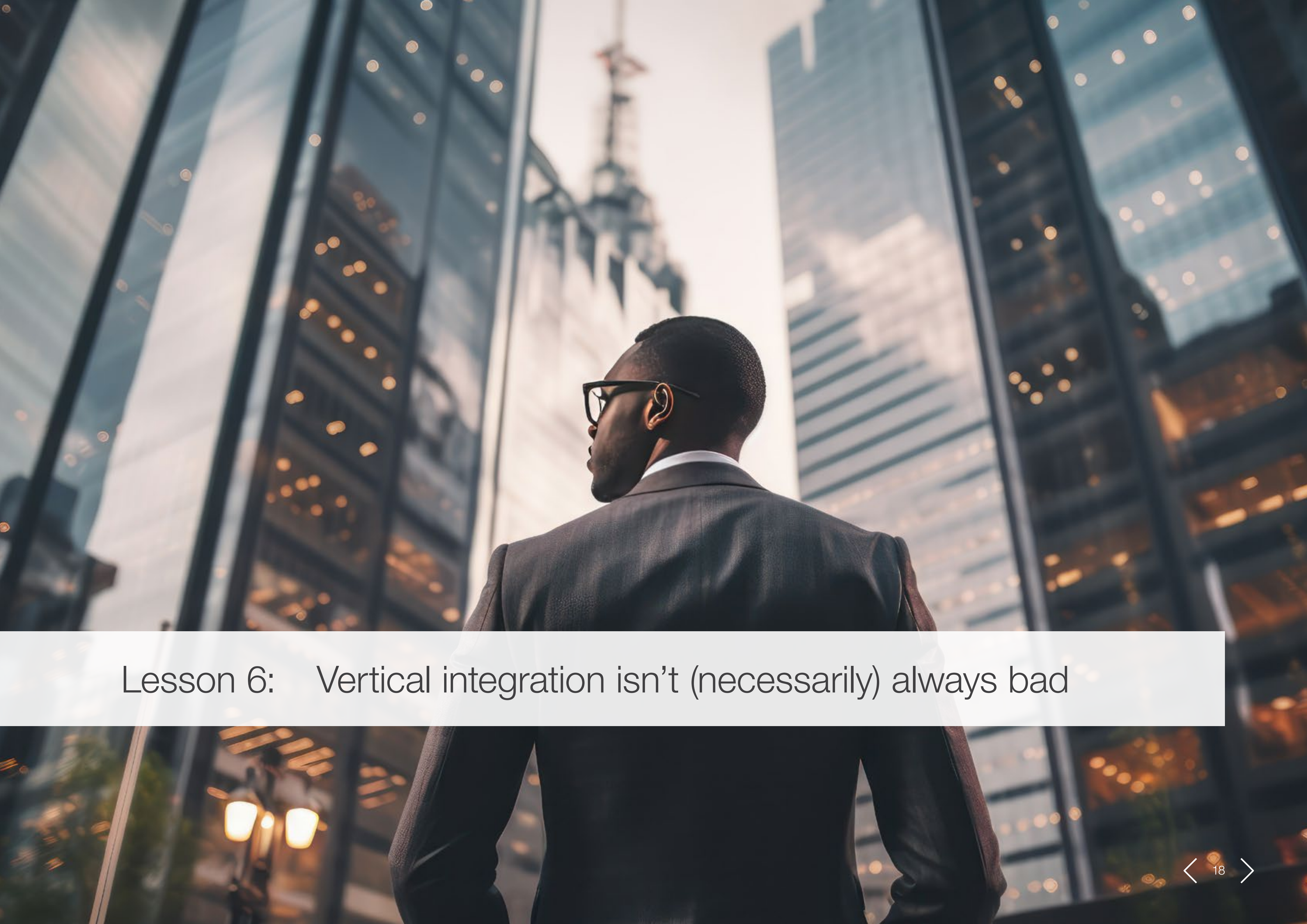
Mercer runs seminars and webinars, and offers small group sessions face-to-face, for team members to discuss topics, such as investment advice, insurance and whether people have enough to retire on.

Mercer puts engagement at the heart of its business strategy. It has shifted from a minimum standards approach to multiple touch points. It meets clients regularly, and subsequently follows up on those conversations. Its approach is to take a holistic view of a client, providing a range of services.

Mercer looks to provide clients with additional services from its parent group, and provides regular newsletters, client webinars, and face-to-face gatherings.

Lessons for Australian advisers

There is an opportunity to engage with large and medium corporates to provide education, which could lead to an opportunity to convert clients.



Lesson 6: Vertical integration isn't (necessarily) always bad

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The accepted wisdom in Australia is that vertical integration in financial planning is not a good idea. In the United Kingdom, it is quite prevalent.

Vertical integration in financial planning refers to bringing processes, production and or execution of advice in-house. Advisers take greater control, and they are remunerated for it.

In Australia, advisers do not collect fees from the investments they recommend. In the UK, advisers can build and distribute their own products and collect a margin which provides another revenue stream for the business.

It is particularly prevalent in the UK among practices looking to grow.

First Wealth solution

One example is First Wealth. First Wealth is a B Corp company, meaning it has received a certification saying it meets high standards of performance, accountability and transparency. One of its values is to 'make a difference'.

First Wealth's business goals go beyond profitability. They include making a positive impact on society and changing the perception of financial services. First Wealth makes no excuses for running a vertically integrated business, saying that advice fees alongside asset-based fees is part of its sustainable business model.

To achieve First Wealth's goals takes scale and money, and vertical integration allows that.

First Wealth is not alone in the UK, in trying to develop a sustainable model. The UK is very similar to Australia in respect to falling adviser numbers and increasing demand for clients to get advice.

The solution for some of the companies visited on the BT UK Study Tour is vertical integration. It allows several sources of income, which in turn enables firms to develop ways to service more clients.

True Potential solution

True Potential is another vertically integrated firm providing investment management, technology and planning services. With 491,000 clients, GBP35 million in revenue and a 98 per cent retention rate, the model works.

True Potential uses multi-asset strategies to attempt to achieve its mission of maximising returns over the long term, managing risk and volatility and lowering the cost of ownership. It's portfolio options run from defensive to aggressive and include cautious, balanced and growth.

Critical to True Potential's success is its communication with clients with daily morning market notes, weekly webinars with the investment team, and a 'Do More with Your Money' podcast as well as monthly and quarterly updates.

Lessons for Australian advisers

Vertical integration is not all bad – in fact it can benefit clients in many instances.

Viewpoint

"In the UK, there's a massive race for consolidation as larger advice firms buy up other practices. It's happening in Australia, but it seems to be more aggressive over there.

"What the 'normal' over there is, is vertical integration, which effectively is where the advice business owns the platform, and they own the product, and they own the advice. So they are making a margin on advice, platform and product. By allowing that to happen, bigger firms are being created and they are using profits to invest in technology. Having scale is allowing them to invest in technology platforms to deliver more advice to people in the UK.

"I think Australian advisers are more advanced in terms of offering a solution and a service which is broader. Many of the UK firms were fairly narrow in the service they provided, whereas our firm, and other participants on the tour, provide a much deeper range of services.

"We have fixed fee arrangement in our business for a 12-month period. But I don't think we met a firm in the UK that didn't just charge a percentage of the funds they managed. That model means you are only ever going to be focused on the investment that you've got for the client."

Peter Stevenson, Managing Director & Certified Financial Planner, Signate Private Wealth – Gold Coast

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Lesson 7: Using education and social media to engage

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In the United Kingdom, many advisers feel they have a social contract to financially educate a broader audience beyond their own client base.

It is a more difficult proposition in Australia where advisers need to err on the side of not giving personal advice without a Statement of Advice. But in the UK, some advisers have been very proactive in their roles as educators.

St. James's Place (SJP) is a large British investment management company that is an adviser, a fund manager and a life insurance business.

SJP estimates that its core advice market is around 3.7 million people, defined as those who want advice or haven't got advice but have money to invest. SJP currently has 941,000 clients.

At the very top of its marketing funnel is building awareness. While it's the marketing funnel, it's also part of SJP's social contract to operate.

For SJP it's about building a community through educating and informing a large audience, and answering questions without jargon, in an approachable, professional manner.

SJP uses traditional advertising as well as digital promotion of educational guides, particularly around small businesses.

It uses social media regularly.

Using social media

SJP's primary target is white collar professionals, mostly via LinkedIn. The top of its marketing funnel involves 'awareness' – answering questions and informing an audience primarily by advertisements, social media and email.

Typically, an awareness campaign includes two social media posts per week, and they offer articles or links to information. SJP also uses paid media.

Next level is 'interest' – offering solutions and making comparisons. It includes guides, presentation slides and bespoke websites.

The narrowest part of the funnel is conversion, and that involves benchmark reports, tax health checks and valuation reports.

The group segments clients (and potential clients) based on data acquired from digital campaigns, into backgrounds, hobbies and interests and expectations. It then uses that information when marketing to individuals.

Thrive Money

London-based First Wealth uses its social media site *Thrive Money* to help provide financial education to as many young people as possible to improve financial understanding.

First Wealth posts regularly on Instagram about basic financial literacy concepts, and profiles individuals, anonymously, explaining their incomes, savings plans and goals. Viewers can align to those profiles and judge themselves against them.

The best users of social media have clearly targeted campaigns to not only capture opportunities to give advice, but also to drive brand recognition.

Lessons for Australian advisers

Firms should act as educators of the broader community, and social media is an efficient avenue to do so.

Have a dedicated resource looking after social media and curating messages. That person may not do it full time but should be a social media native.

Another tip is to have a bank of content ready for social media use. A constant drip feed of content is optimal in social media, rather than a surge of content, followed by a dearth of new posts.

Lesson 8: Future of investments

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Participants on the BT UK study tour heard that increasingly, clients in the UK invest passively. They heard of a surge in demand for ESG and alternative assets. And participants heard of very long-term trends in investing – around the economy, science and society, and what that means for assets.

From the team at Square Mile, the participants heard that passive investing is growing in the UK, providing a challenge for active managers, who typically have a larger share of the investing pie. Adding to the challenge for active managers is that passive has outperformed active in recent years.

Square Mile says few advisers believe the next ten years will be like the previous, low interest rate decade. While that supports the need for active investing, it isn't easy to convince investors of that, particularly if they think they can get a six per cent return being passive.

ESG principles are another increasing focus and the UK's Sustainable Disclosure Requirements will force funds to classify themselves along those guidelines, though details are still pending.

Alternative investments are also popular among some cohorts, such as high net worth individuals chasing returns.

Passive investing with choice

Representatives from Hambro Perks (HP) agree that passive management is growing in popularity, but clients still want choice, particularly the ability to shift into ESG options and alternative assets.

As a firm, HP is edging towards investing almost solely in what it describes as assets that are 'good for the planet'. Half the portfolio of companies HP directly invests in are tied to the United Nations Sustainable Development Initiatives, and that will soon be 75 per cent.

Alternative investments have appeared 'exciting' to many investors in recent months. There is an emotional pull from clients to put money into a compelling story where growth and job creation is often higher, according to HP. Also, for several years, returns among some alternative assets have been strong.

While public markets now look more attractive because the interest rate cycle is turning and equities are again more attractive, it takes about 12 months for that information to filter through, and hence asset re-allocation isn't immediate, according to HP. That is a challenge for advisers to explain to clients the outlook for asset classes.

HP also notes that more women are controlling household finances and taking a longer-term approach. That is an opportunity not only in investing, but also in creating brands that speak to women specifically.

According to HP, women are generally more risk averse, and the engagement model of advisers needs to be different.

Long-term investing themes

Wellington Management has undertaken extensive analysis around future themes that have the potential to provide outsize returns. They are divided into four categories.

1. **Systems** – macroeconomic, financial markets, geopolitical.
2. **Science** – innovation.
3. **Sustainability** – social, environmental and economic.
4. **Society** – future work, leisure and self.

One thesis is that the planet will face a major global water crisis and it will become an asset class where demand outstrips supply. That involves investment risks in asset classes like agriculture and commodities, and certain geographies. It also presents opportunities in recycling, water capture and desalination, as well as sustainable food chains.

Another thesis of Wellington's is that genetic testing and genomic sequencing will fuel a revolution in drug discovery that will transform the health care system. A third is that current financial systems are inefficient and ripe for disruption, which will have a big impact on legacy financial companies and digital money.

Lessons for Australian advisers

For long term investors, it is important to consider structural changes to economies and what that means for long term returns.

Lesson 9: Technology and the next generation

Lesson 9: Technology and the next generation

All firms in the UK study tour talked about the use of technology. While most agree technology is beneficial within firms, its aptitude for some client segments is greater than others.

There is also a sense that technology, and particularly robo-advice, hasn't had the impact expected.

All agreed the industry still has a way to go before fully utilising technology.

At St. James's Place (SJP), the group uses SS&C Bluedoor as its platform, which allows it to have a single client record and attach products to individual clients. It recently introduced a Salesforce client relationship management (CRM) tool.

The Salesforce CRM is 'powerful' with the introduction of the 'consumer duty' rule in the UK. SJP is able to adapt Salesforce to access client information and understand how SJP's partner firms service clients.

SJP also introduced an 'advice assistant' using artificial intelligence. The advice assistant takes into consideration all the information on Salesforce, pulls together an automatic advice recommendation, and sends it to a SJP partner. The partner firm approves it, and then the advice assistant prints off all required documentation.

While it only works on certain products thus far, it is a significant shift forward from robo-advice, SJP says.

Disruptors and tech solutions

Hambro Perks has spent time studying the role of technology in wealth management. The most obvious opportunity is greater efficiency. Client onboarding can be done almost seamlessly using technology.

Regulators have kept up with the pace of change, and when iPhone introduced face verification, onboarding changed completely in the UK, the company says.

The flip side is that technology allows the growth of digital first advisers – companies that begin with new technology, and then build their adviser businesses on top.

While disruptors haven't been as revolutionary as feared five years ago, there are some very capable technology advisers in the market.

HP says the relatively slow adoption rate of technology in the financial advice industry isn't a bad thing, because it gives people time to adjust.

Technology-based solutions are emerging in the mass affluent category, including people who traditionally couldn't afford an adviser but want some kind of support.

They are also being used in the high net wealth and ultra-high net wealth categories, where people want greater control over their finances and demand greater transparency. But that sector also demands a human adviser.

Robo advice in the UK, according to HP, is not being adopted in the high, and ultra-high net worth sectors of the market, though it is being adopted in the middle and upper-middle class of clients, and by younger investors.

Lessons for Australian advisers

For firms introducing new technology particularly for onboarding, ensure the client experience is easy. People want ease of use, and that's something older legacy systems don't always provide.

Particularly among younger clients, phone calls aren't always necessary or wanted and they expect to be technology enabled.

Viewpoint

"One of the learnings for me was that in the technology space, Australia is more advanced than the UK in some areas, such as reporting.

"Vertical integration is encouraged in the UK and there's a sense of building up a conglomerate of advisers to then feed into a platform. The biggest of those was St. James's Place. They're gobbling up practices and building this big funnel to put people into their investments. And they're proudly getting a fee every step of the way.

"I also got the sense that we are more client focused, rather than business value focused, than UK firms. Regulatory change here has forced that.

"Some of the very good advisers over there are trying to systemise the client engagement process. They have automatic systems in place to liaise with the client to get information from them. It means, for example, when you do a review, you are more on top of it."

Michael Hutton,
Partner, HLB Mann Judd

"We are more client focused, rather than business value focused, than UK firms."

Conclusion

As you'd expect, financial advice firms in the United Kingdom have both similarities and differences to Australian businesses. Advisers in both countries are grappling with regulatory changes and how to attract and retain advisers. Advisers in both countries are working on how to service less profitable clients and how to continually engage with clients and their families.

Technology remains a challenge in both countries, from how to best use social media, through to using technology-based solutions to service certain clients.

A main difference between the two geographies is vertical integration in UK firms – something that has been discouraged in Australia. Also, there is an inheritance tax in Britain which is a big consideration, which does not apply in Australia. And consolidation in the UK is gathering steam, more so than in Australia. But even within these differences, there are lessons to be drawn from the experience of both sets of advisers.

The BT UK Study Tour demonstrates that advisers in Australia and Britain can learn from each other and take the knowledge of one geography and apply it back home. It shows that the two cohorts have plenty in common.

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Important information

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