FE fundinfo

Adviser Survey | 2024

Accelerating through change

How financial advisers are responding to regulatory and technological change to enhance outcomes for their clients.

FOR FINANCIAL ADVISERS ONLY

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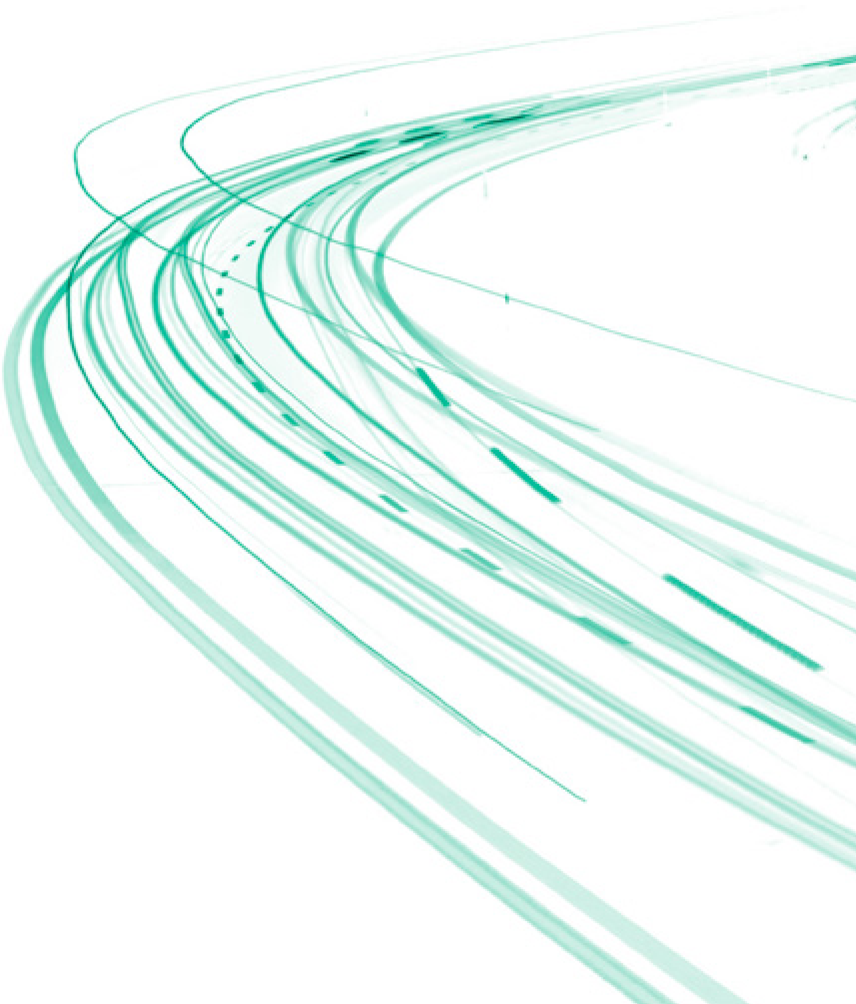
Contents

About this research

This FE fundinfo survey was conducted between November 2023 and February 2024. It consisted of 55 questions and was completed by over 160 financial advisers.

The survey spanned a broad range of subjects, including Consumer Duty, adviser technology and artificial intelligence (AI), communicating with clients and the outsourcing of investments. This year, we put particular emphasis on the effects of both Consumer Duty and AI on financial advisers.

This is the ninth annual survey conducted by FE fundinfo.



Executive summary

- Some 56% of advisers feel more positive about their business outlook than 12 months ago. This figure is up by three percentage points on the previous year, suggesting a positive direction of travel despite greater regulatory burdens and an accelerating rate of technological change.
- With the launch of the FCA's Consumer Duty, regulation was front and centre in 2023. Although many advisers (33%) are unsure of the Consumer Duty's impact, the largest group of respondents (45%) see it as having had a positive impact on the advice provided to clients.
- Most advisers appear to see the Consumer Duty as an opportunity to demonstrate the value that they offer to clients. This, rather than an increase in fees, appears to be the main focus at present. Advisers generally appear confident that they can justify their fees.
- So far, the Consumer Duty has had little impact on advisers' preferred investment solutions. Rather, the emphasis has been on improved communications, with a divergence of views as how best to achieve this.
- Many advisers see opportunities in the rise of artificial intelligence (AI). Although its uptake has been limited so far, advisers are keen to use AI to enhance their client communications and streamline their back-office operations.
- The main technological challenge that advisers face is the integration of systems and software. Some are hopeful that AI will eventually offer a solution here.
- Despite the advances in AI, the prospect of the "robo-adviser" is receding. Clients continue to value human interaction, and advisers are looking to utilise AI and other technologies to inform these interactions.
- Environmental, social and governance (ESG) considerations continue to present a communications challenge. Clients appear to be increasingly sceptical about the advantages of ESG, and advisers are looking to the regulator to provide greater clarity.
- Advisers' appetite for managed portfolio solutions (MPS) is slowing as the majority now utilise several providers to support their centralised investment proposition. There is plainly room for further growth in custom solutions; the Consumer Duty's greater emphasis on personalisation and suitability could be a catalyst here.

Introduction

The past year marked a major regulatory milestone for financial advisers. On 31 July 2023, the Financial Conduct Authority (FCA) introduced its new Consumer Duty, with far-reaching implications for advisers and their clients. Meanwhile, the launch of ChatGPT and other large language models (LLMs) opened the door to efficiencies and disruptions across a vast swathe of industries. Financial advice is no exception.

For advisers, the implementation of the Consumer Duty has been the biggest event since the Covid-19 pandemic. It is prompting consolidation in the market; changing working practices and the application of technology; and driving efforts to find efficiencies and improve the experience of clients.

Our respondents indicate that fair value is their key concern. Many appear confident that their services can speak for themselves when it comes to value for money – and welcome the greater scrutiny that the Consumer Duty entails.

Accordingly, advisers are making efforts to justify the fees that they charge for their services. Some are demonstrating the ways in which they support clients by producing detailed cost/benefit analysis. Others are adding value through more regular reviews. And others still are widening their range of services to include analytics, detailed cashflow modelling, whole-of-life planning and other holistic approaches.

The prevailing sentiment across the industry is that value is not simply equivalent to the time spent with each client but instead reflects the client's level of satisfaction with the service they receive. Increasingly, this means a more personalised approach – and personalisation has become a dominant concern for advisers.

All in all, our survey suggests that advisers are sanguine about the Consumer Duty. Most appear to welcome its ability to improve outcomes for clients.

This year's survey also confirms that advisers are alive to opportunities arising from the advent of AI. The rapid developments in LLMs offer the prospect of sweeping savings in time and money. But there are also challenges with implementation and accuracy – and a keen awareness that savings and efficiencies must not be pursued unless they actively benefit clients.

So far, only 15% of advisers are actively using AI. We are still in the early days of this remarkable new technology, and the extent of both its potential and limitations is yet to become clear. There is growing recognition across the industry, however, that the rise of the 'robo-adviser' has been overstated. The best advice will not come from robots but from tech-enabled advisers. Client meetings and human interactions are an irreplaceable part of the advice business. But leading advisers will need to make full use of digital technology and data to support their clients in making fully informed decisions.

Ultimately, the Consumer Duty is putting the emphasis squarely on best practice and client outcomes. Technology, including AI, offers an important route to ensuring that these outcomes are achieved.

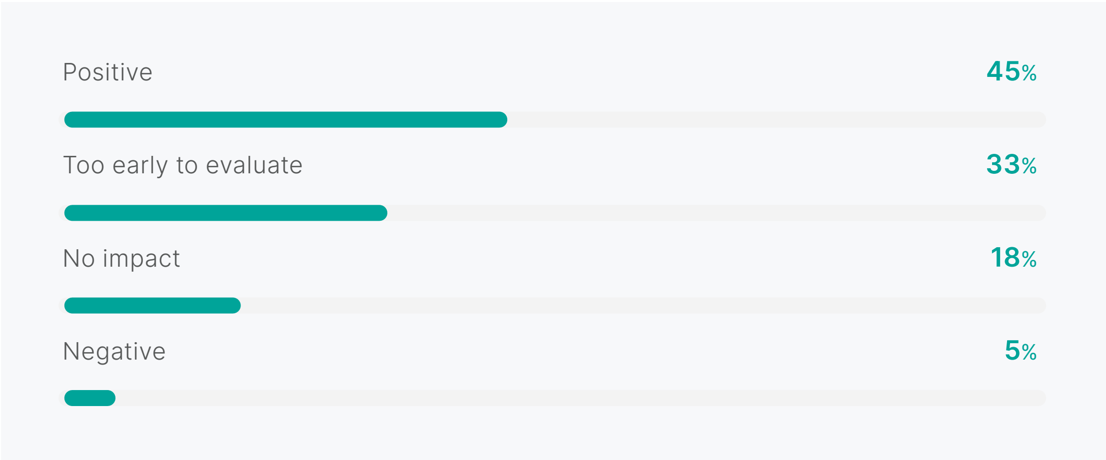
CHAPTER 1

Consumer Duty

On 31 July 2023, the FCA introduced its new Consumer Duty for financial services. This signalled a shift in the FCA's regulatory approach, encouraging financial services firms to prioritise the outcomes they deliver to clients rather than adhere strictly to a rules-based approach. Sheldon Mills, Executive Director of Consumers and Competitions at the FCA, said that the Consumer Duty was introduced as clients are often "not given the information they need to make good decisions and are sold products or services that do not offer the benefits they might expect".

With the introduction of the Consumer Duty, there is a clear need for more personal advice for clients that stands up to both regulatory and client scrutiny. In our 2024 survey, we asked financial advisers about the impact of Consumer Duty on their businesses.

What impact do you believe Consumer Duty has had on the advice provided to your clients?



Advisers were mostly upbeat about the effect of the Consumer Duty on the advice they give their clients. Almost half of our respondents **(45%)** thought that the Consumer Duty had had a positive impact. The next largest group, at **33%**, said it was still too early to say. Only **5%** said that the Duty had a negative effect on the advice they gave to clients.

In which areas of your business has Consumer Duty had the largest impact? Order by the greatest impact to the least.

1	Evidencing client needs/outcomes have been met
2	Suitability assessments
3	Client communication
4	Processes
5	Fee structure
6	Compliance training and monitoring
7	Ongoing monitoring of clients' investments
8	Costs
9	Manufacturer due diligence
10	Onboarding and client data collection
11	Communication with product providers
12	Company culture
13	Investment management
14	Researching and selecting new technology
15	Staffing

Unsurprisingly, advisers believed that Consumer Duty had the greatest effect when they needed to provide evidence to clients that their needs and outcomes had been met. Consumer Duty also had a large impact on suitability assessments and client communications.

Although one of the stated aims of the Consumer Duty was to change company culture in financial services, advisers ranked company culture as one of the least affected areas. Investment management was also seen as one of the least affected areas. This may reflect the smaller size of adviser businesses compared with investment product providers.

How are you justifying your fees as a result of Consumer Duty?

Many advisers said that there had been no change in how they justified their fees since the introduction of the Consumer Duty. A smaller subset said that they felt no need to justify their fees to clients at all.

For many respondents, the main justification for their fees was their client-centric approach. These advisers pointed to either their transparency with their clients or their frequency of communication, which helps them to ensure that clients are still happy with their service.

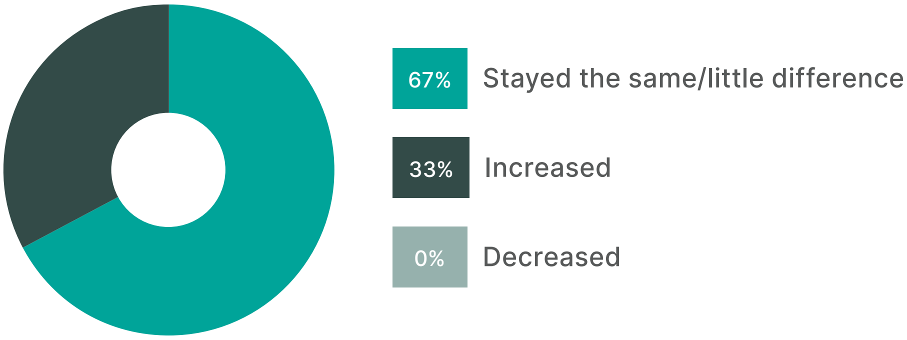
For others, the Consumer Duty has involved an overhaul of their offering to include additional services. Some respondents are actively offering a more personalised approach, as well as additional services, such as greater use of cashflow modelling and analytics.

Some advisers said that a tiered charging structure was key in their justification of their fees to their clients, who have “a choice of how much ongoing support they want”. Client segmentation came up frequently in advisers’ responses, with advisers reviewing their fees and introducing tiered charging scales.

A further justification came from comparing their services to those offered by other firms. One adviser put it like this: “We completed an in-depth analysis of how other firms charge and what their offering is. We were confident that our fees were fair to the customer based on our bespoke and hands-on approach.”

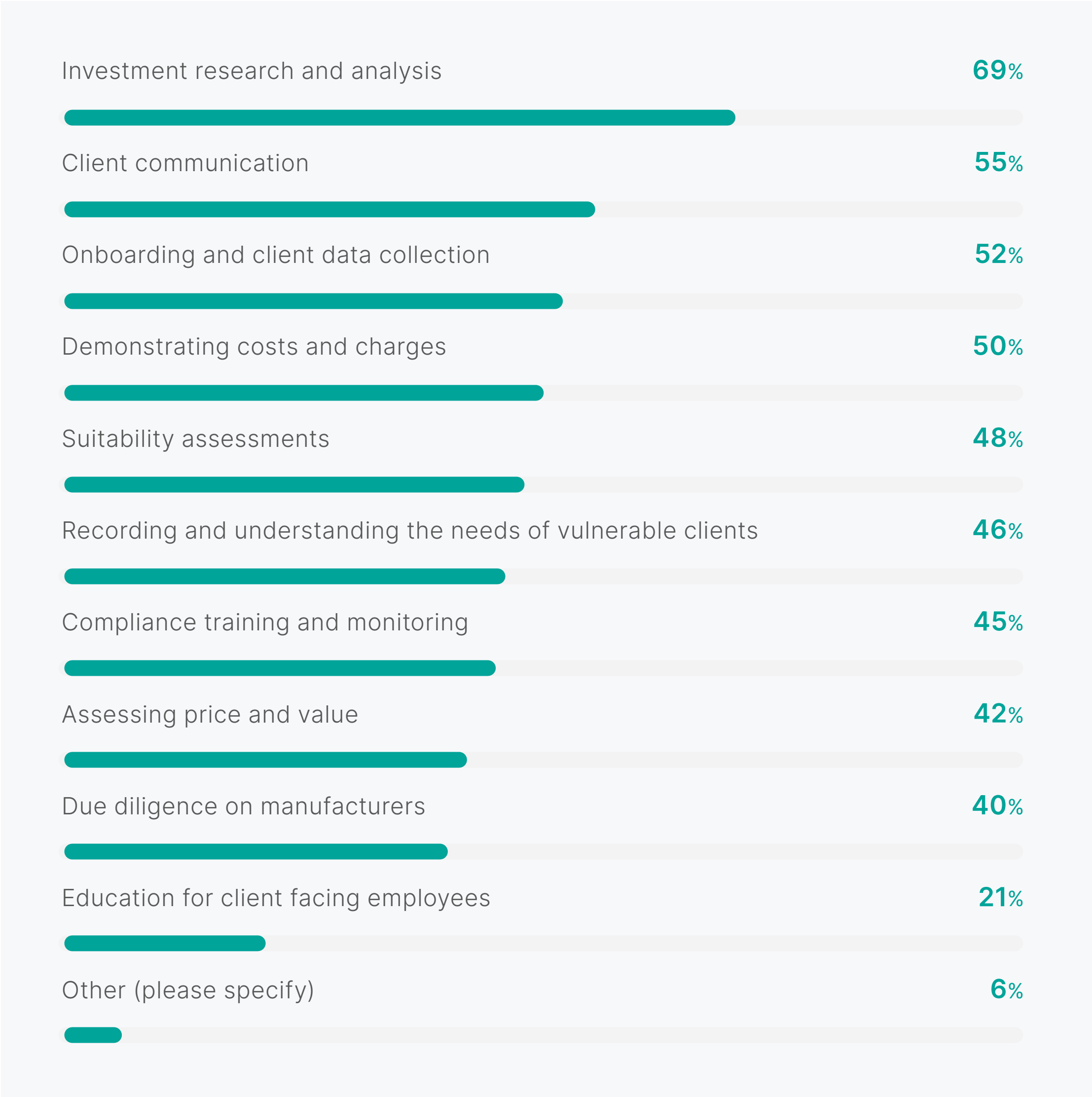
A small subset of the advisers surveyed mentioned Consumer Duty as a direct justification for a change in their fees and actively highlighted the change in regulation to clients. According to one respondent, “the justification lies in providing value through a more personalised and client-centric approach, aligning with the principles of Consumer Duty”.

How has your spend on technology changed as a result of Consumer Duty?



None of the advisers surveyed said that the introduction of the Consumer Duty had decreased the amount they spent on technology. The largest group, at **67%**, said that their spending on technology had remained the same, with the remaining **33%** saying that their spending had increased as a result. This may indicate that the technology advisers adopted during the pandemic has stood them in good stead; in last year's survey, almost **80%** of respondents said that their current tech stack would support their Consumer Duty plans.

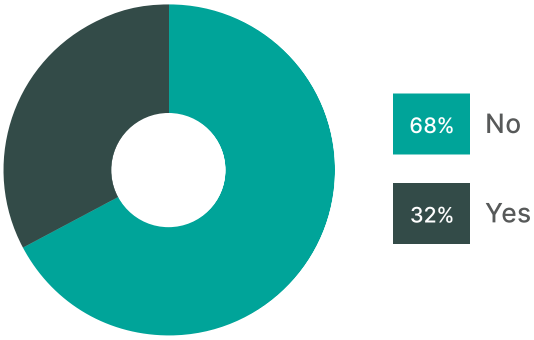
And in what areas do you utilise technology to meet Consumer Duty?



Most of our respondents said that they used technology to meet the requirements of the new Consumer Duty in their investment research and analysis. This also aligns with the results of our previous survey, where around three-quarters of advisers expected to use technology in this area. This year, large percentages also said that they used technology to comply with the Consumer Duty when communicating with clients **(55%)** and when onboarding and collecting client data **(52%)**, again in line with last year's results.

Relatively few respondents (under a quarter) said that they used technology when educating client-facing employees. In our previous survey, **38%** of advisers expected to use technology in this area, so there may be further progress to be made here.

Has Consumer Duty changed how you communicate with your clients?



The majority of respondents **(68%)** said that the Consumer Duty had not affected the way they communicate with clients. Almost one in three **(32%)** did acknowledge a change in their client communications, however. These advisers noted changes in four key areas:

- the introduction of new technology;
- rewriting and simplifying their reports;
- providing more detail in client reporting; and
- introducing client surveys.

A notable finding is how advisers have diverged in their approach to the Consumer Duty. Some respondents said that Consumer Duty had prompted them to lengthen their written communications and provide more detail to their clients. Others said it had led them to shorten their reports, as they removed jargon to make the content simpler and easier to understand. One respondent characterised this as making sure that "information provided to clients is absolutely necessary and relevant so as not to bombard them with too much detail".

This is an area to watch to see if consensus emerges on the best way to communicate clearly with clients. For those who are producing longer reports, one factor may be the need to use more words to explain complex concepts once the shorthand of jargon is removed.

"Generally prompted a higher engagement for those clients who are reluctant to engage. Ensuring they understand the importance of regular advice."

"Greater emphasis on annual suitability."

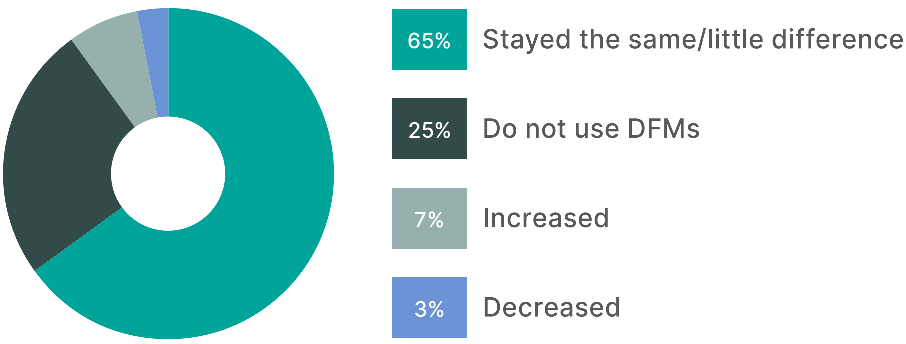
"Not only has it increased the time, we put into producing the reports but also how we document what we have done, evidencing all the info used and protecting all that in-between."

"We now have more communication to help our clients on their financial journey."

"Greater explanation of service levels."

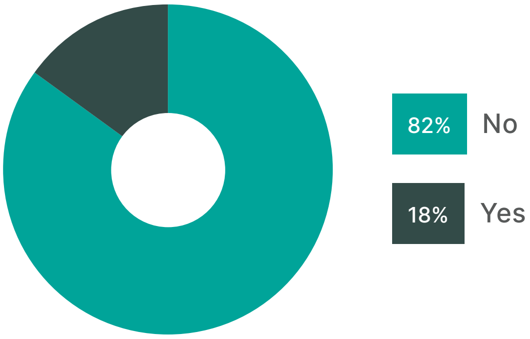
"Have had to be more forceful with clients to make sure a review is done – or cease to be the client's adviser if they do not engage."

Has Consumer Duty changed how many discretionary fund managers you work with?



The Consumer Duty's impact on advisers' investment arrangements appears to have been limited. Most advisers **(65%)** said that Consumer Duty had not affected the number of discretionary fund managers they work with. The second-largest subset **(25%)** did not use discretionary fund managers at all. Just **7%** reported an increase in the number of discretionary managers, with only **3%** reporting a decrease.

Has Consumer Duty changed what you look for in a centralised investment proposition/managed portfolio service?



Almost a fifth of respondents **(18%)** said that Consumer Duty had changed what they look for in a centralised investment proposition (CIP) or managed portfolio service (MPS). This group cited a greater focus on "value-for-money investments" when considering CIPs and MPSs, with "further scrutiny on fees". Other key concerns were how such solutions can deliver better outcomes than their alternatives (such as single solutions) and whether the portfolio service can provide "data and justification" to show that its fees are worthwhile.

"Moving away from advisory in-house model portfolios to discretionary MPS covering passive only, hybrid and ESG/ responsible"

"For the portfolio service to provide more data and justification."

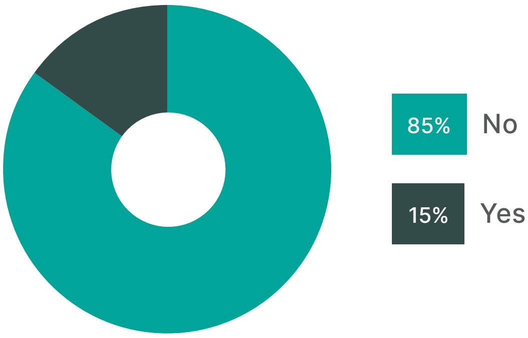
"We have enhanced our CIP by implementing the use of two MPS providers as a result, both of whom are low cost and extremely efficient."

"Currently looking at MPS and writing CIP."

"We are looking at how CIP's and MPS's align with customer objectives and expectations."

"Using a DFM now."

Has Consumer Duty changed what you look for in a centralised retirement proposition/managed portfolio service?



"Differentiating between accumulation/ decumulation portfolios."

"Need to make sure we have low charges."

"We can no longer handle the reporting/ communication/ due diligence internally as it is too big of a burden on a small firm."

"First time we have actively recommended MPS."

"Looking at introducing a retirement CIP."

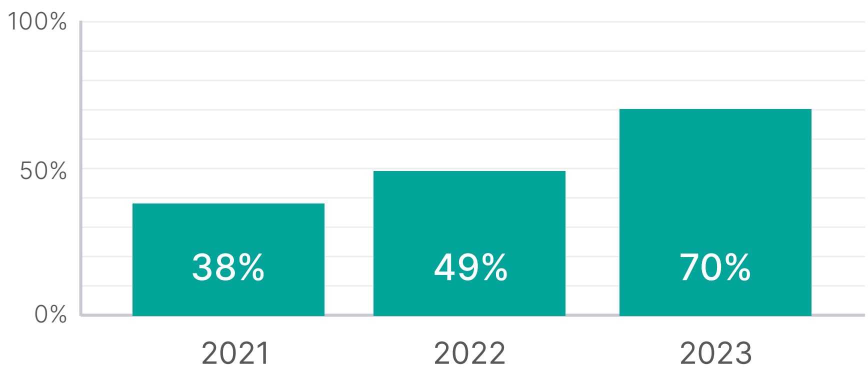
"Better certainty of suitability meeting client outcomes."

In the same vein, **85%** of respondents said that the Consumer Duty had not changed what they looked for in a centralised retirement proposition (CRP). For the **15%** that said yes, "better costs" and "lower charges" were the most important considerations. It should be noted that our survey pre-dates the publishing of the FCA's thematic review, so we may have seen factors other than cost detailed as a key consideration.

Over the years that we have been running our adviser survey, we have seen the growing adoption of dedicated CRPs which is reassuring in light of the Consumer Duty and the need to consider retirement specific concerns such as sequencing risk and short-fall risk. It is encouraging to see the majority of advisers now using dedicated decumulation solutions alongside accumulation strategies.

Do you/does your firm have a centralised retirement proposition (CRP)?

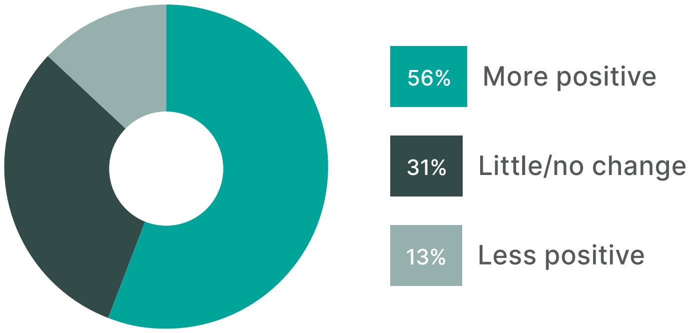
'Yes' respondents increasing year on year



It is encouraging to see an increasing trend of more advisers using a CRP as a framework to deliver their retirement proposition, as evidenced by our survey findings over the last three years. In its findings on the retirement income advice market (thematic review), the FCA notes that whilst not all firms have a CRP, they are more likely to be able to deliver consistent and suitable advice where their advice model has been designed to meet the needs of their customers in decumulation. It is essential that advisers document their approach when advising clients moving into retirement and having a CRP in place to support this is recommended rather than shoe-horn retirement advice into any existing CIP. Using the wrong tools to manage decumulation advice and to explain risks to clients using drawdown will most likely achieve poor customer outcomes – which goes against the Consumer Duty which sets clear and high standards of consumer protection".

Toyosi Lewis
Retirement Specialist, FE Investments

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



Despite the impact that Consumer Duty has had on the industry as a whole, advisers are upbeat about the road ahead. Well over half **(56%)** of our respondents were positive about the outlook for their business compared with 12 months earlier, up from **53%** in last year's survey. Only **13%** said they were less positive than they were at the same time last year.

Summary

In their responses, advisers have indicated that the Consumer Duty has significantly and positively affected their approach to evidencing client needs and outcomes.

Most advisers believe that the Consumer Duty has improved the quality of advice delivered to clients. The heightened focus on consumer welfare has prompted advisers to adopt more client-centric approaches in their recommendations, leading to changes in suitability assessments. Justification of fees has also been in focus, although many advisers are confident in their ability to demonstrate value for money.

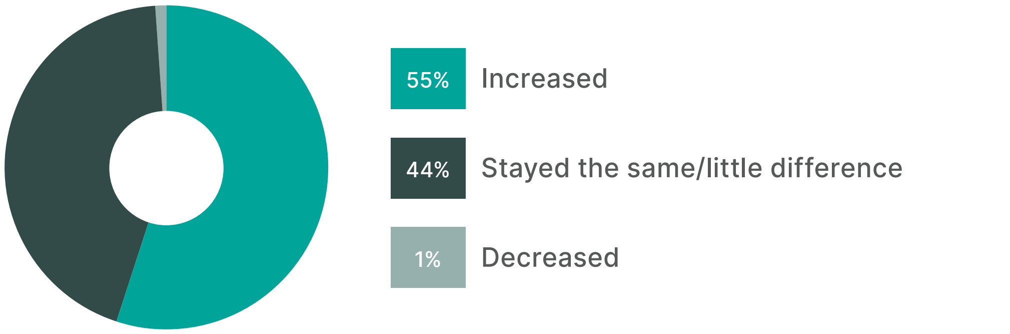
Although many advisers feel that the Consumer Duty hasn't drastically altered their communication methods, a sizeable minority acknowledge its influence, particularly in client reporting. The adjustments to reporting have mainly centred on the presentation of information, although there has been a divergence of views on best practice. Some advisers feel compelled to provide more detail in their reports while others opted for a simpler, jargon-free approach to improve clarity and accessibility for clients.

When it comes to investment offerings, most advisers feel that the impact of the Consumer Duty has been limited. Only small minorities have changed their use of discretionary fund managers or investment propositions. Again, the emphasis appears to be on justification for current arrangements, with clarity and transparency being key concerns.

CHAPTER 2

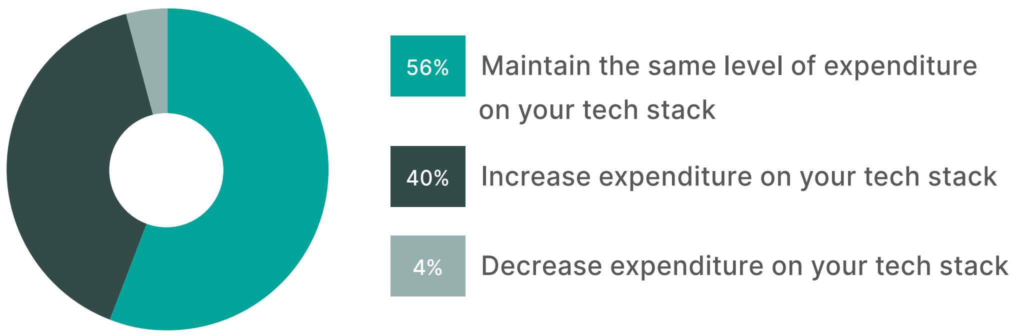
Adviser technology and AI

In the last 12 months, has your spend on technology...



Of the advisers surveyed, most **(55%)** said that their spending on technology had increased in the past year. But momentum in tech spending is declining, as this figure is down from **72%** in our previous survey. This may reflect the extensive investments in technology during the pandemic. This year, only **1%** of respondents said that their tech budget had shrunk, compared with **4%** in last year's survey.

In the next 12 months, do you expect to...



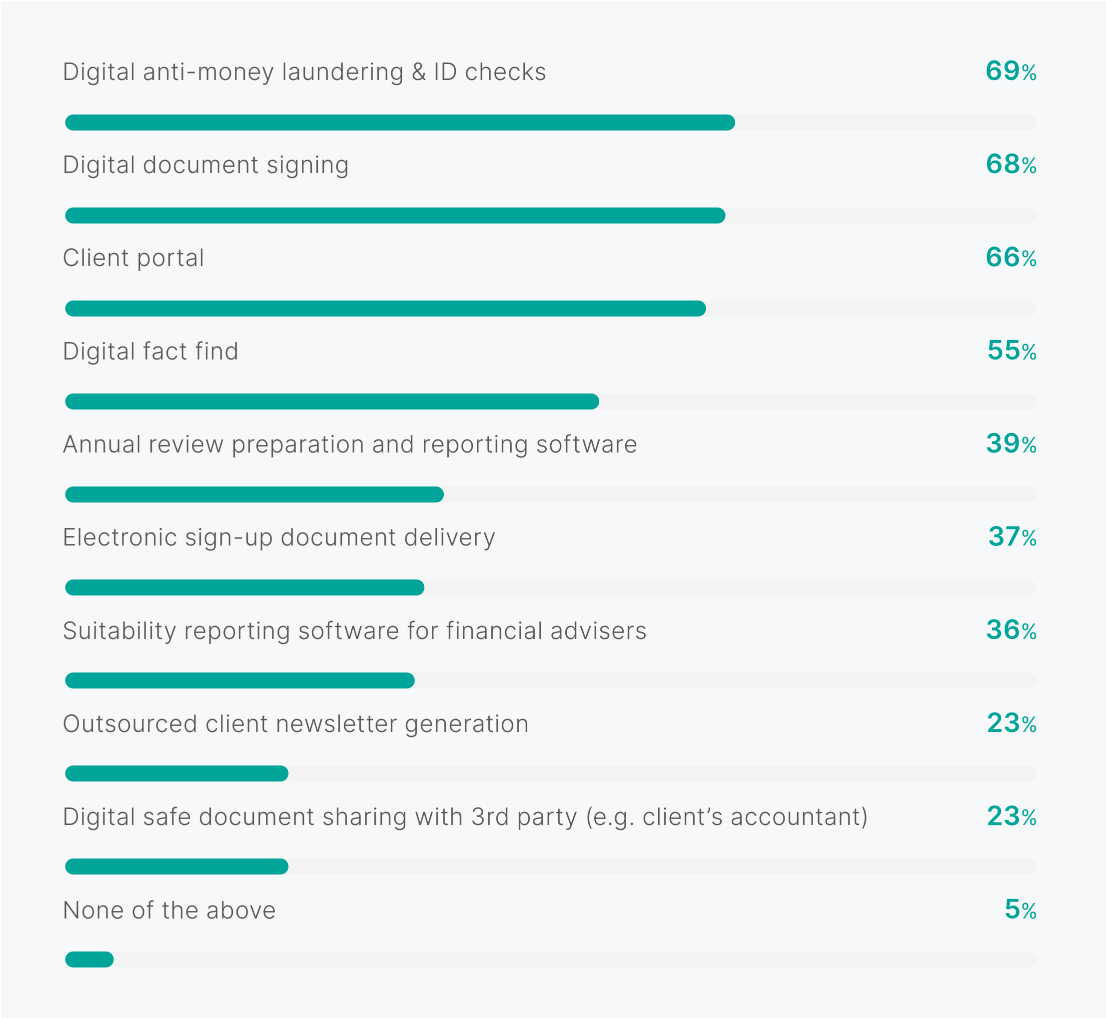
Notably, **40%** of advisers said that they aimed to increase spending on their tech stack over the next 12 months. This was down from **50%** the year before. Over half **(56%)** plan to maintain the same level of expenditure on technology as in 2023. This could indicate that most advisers are satisfied with the technological resources that they now have at their disposal. As advances in technology continue, particularly in AI, this is an area to watch.

How important to you are the following options when considering a piece of technology?

1	Quality of features
2	Level of support
3	Integrations
4	Cost
5	Recommendation by a colleague/peer

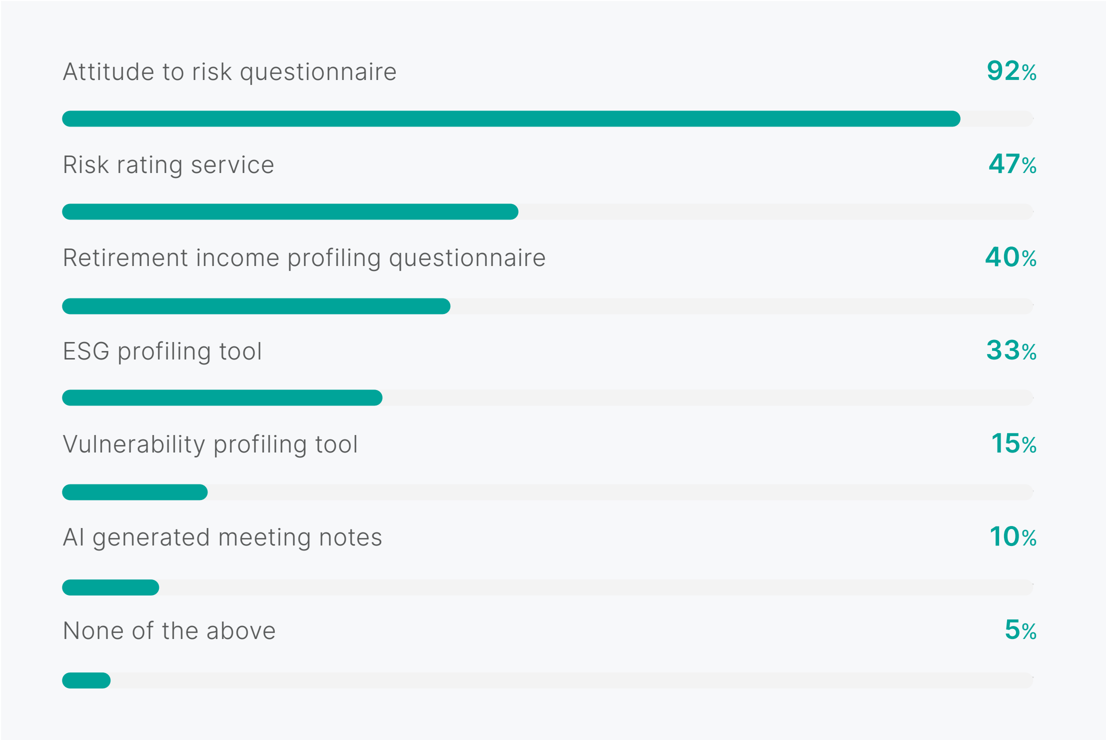
It's no surprise that advisers saw the quality of a technological product as the most important factor. This was closely followed by the level of support provided. Advisers were less concerned with a product's reputation than its functionality; recommendations from a colleague or peer is seen as the least important factor when considering new technology. These rankings were similar to those in our 2023 survey.

Which of the following do you currently use within your business? (Client engagement)



The engagement technology most commonly implemented by advisers is used for anti-money laundering and ID checks **(69%)**. Digital document signing and client portals were close behind (**68%** and **66%**, respectively). Most advisers still keep the production of their client newsletter in house, with only **23%** outsourcing this. Less than a quarter of respondents **(23%)** said that they used digital safe document sharing with third parties.

Which of the following do you currently use within your business? (Profiling)

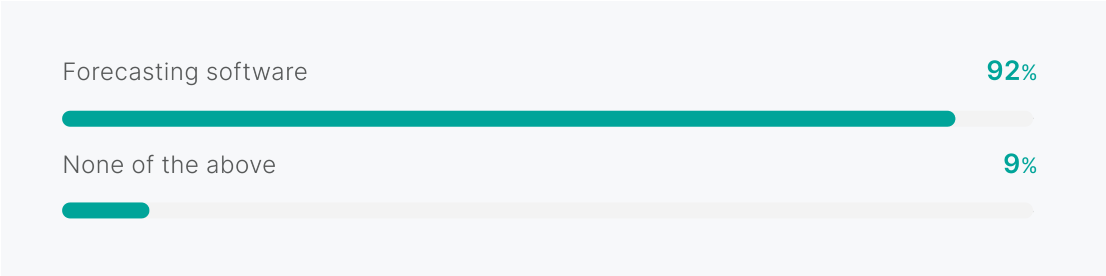


When it comes to profiling clients, the attitude-to-risk questionnaire was the tool most widely used, with **92%** of advisers currently using one. Almost half of the respondents **(47%)** said that they also used a risk-rating service. But only **10%** of respondents currently use AI-generated meeting notes – perhaps a surprise, given how widespread and accessible this technology has become.

"The use of various profiling tools is interesting. Historically, The FCA expected more rigour for investment risk which is reflected in the use of high ATRQ. Yet the key FCA focus on vulnerability profiling remains low. The coming SDR would also suggest ESG profiling will take on a more significant role. We are pleased to see retirement income profiling which we see as very different to accumulation preferences."

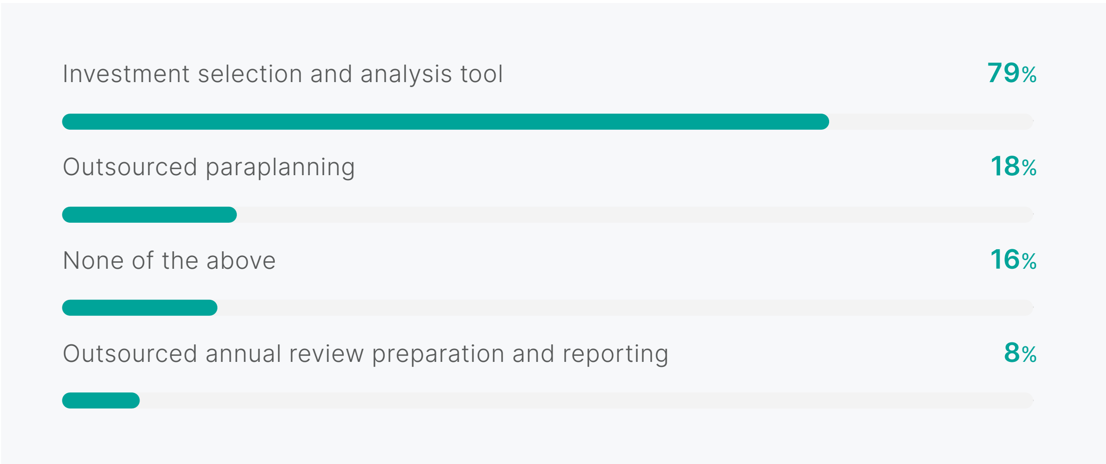
Stephen Ford
Adviser Product Strategy Lead

Which of the following do you currently use within your business? (Cashflow)



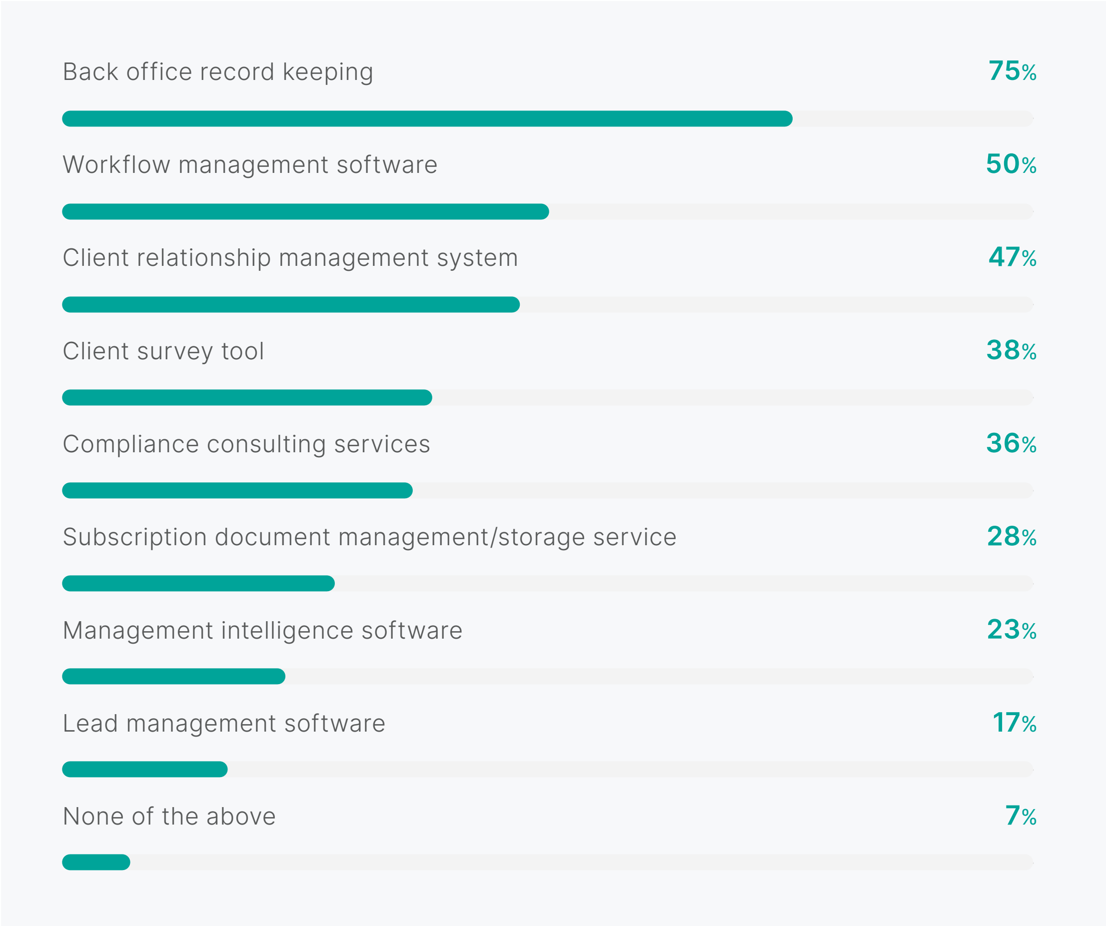
The overwhelming majority of respondents **(92%)** use cashflow-forecasting software.

Which of the following do you currently use within your business? (Mainstream investment research)



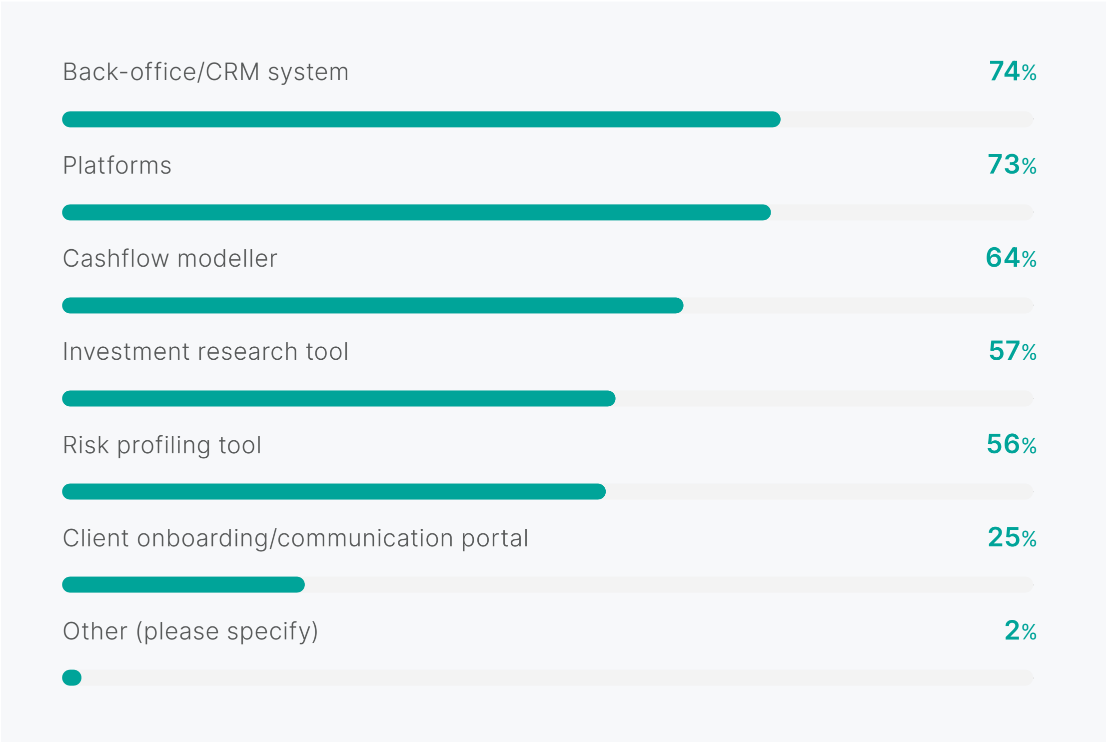
For investment research, **79%** of advisers said they used an investment selection and analysis tool. As with client newsletters, most advisers keep the preparation of their annual review in-house rather than outsourcing it.

Which of the following do you currently use within your business? (Back office and compliance)



Three-quarters of respondents use back-office record-keeping within their businesses. Half also use workflow-management software. Lead-management software had the lowest profile, with only **17%** of advisers using it. Just a very small minority of respondents **(7%)** use none of the main back-office and compliance technologies.

What pieces of technology could you not be without?



Unsurprisingly, back-office/CRM systems topped the list for almost three-quarters of respondents **(74%)**, and a similar number saw platforms as essential. Cashflow modellers came next at **64%**, a substantial increase from last year's survey where just **17%** cited the technology as their most important application.

A quarter **(25%)** ranked their client onboarding and communication portal as something they couldn't live without, moving up from **6%** last year. This demonstrates how advisers are utilising technology to improve the client onboarding experience and engage them in the advice process.

> We are pleased to see the role of Cashflow modellers become more central as it represents a shift to financial planning from an investment planning focus. We think it can play an increasingly key role in helping clients 'make informed decisions over options', a central criterion the FCA places on Client communication under Consumer Duty."

Stephen Ford
Adviser Product Strategy Lead

What new development/new piece of technology would solve a particular pain point within your financial planning process?

Many of our respondents pointed to AI and automation as areas of technological advancement that could help them address pain points in their businesses. As advisers look to reduce costs, these systems would mainly be used to improve time efficiency in the production of reports, letters and meeting notes.

One adviser said that the implementation of AI could also allow them to be less reliant on research tools: "We plan to implement AI where possible. This is likely to reduce costs and the reliance on research tools, client portals and digital fact-finding, as meeting notes can be used to drive the entire advice process – from assessing clients' objectives to risk assessment capacity for loss through to suitability recommendations."

Another adviser mentioned the possibility of building automated advice into their current systems, especially for clients who are considering retirement.

An area where new technology could be of particular use is in ESG. With many clients still sceptical of the benefits of ESG investing, better research and comparison tools would help advisers make the case for sustainable investing.

Advisers also value the integration of systems and services. They want the integration of services to work in tandem with AI, with AI systems communicating with each other and making processes faster and easier to manage. Customer relationship management (CRM) systems and cashflow-modelling systems were cases in point here. Advisers are keen to integrate CRMs, cashflow modelling and back-office systems where this is possible.

What would help make your annual review process more efficient?

"More standardised information provision from providers."

"Streamlined CMS."

"An advanced software solution that considers holistic factors and draws upon comprehensive data from databases and various platforms."

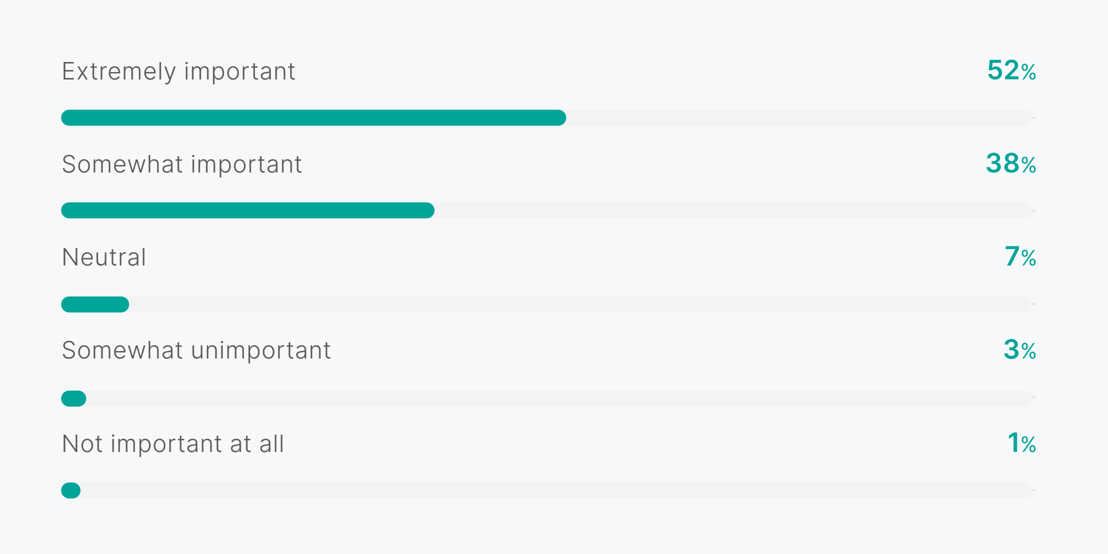
"Clients updating hard facts themselves ahead of the meeting."

"Better reporting with AI commentary of the economic financial climate/performance of benchmarks as a whole."

"Automation."

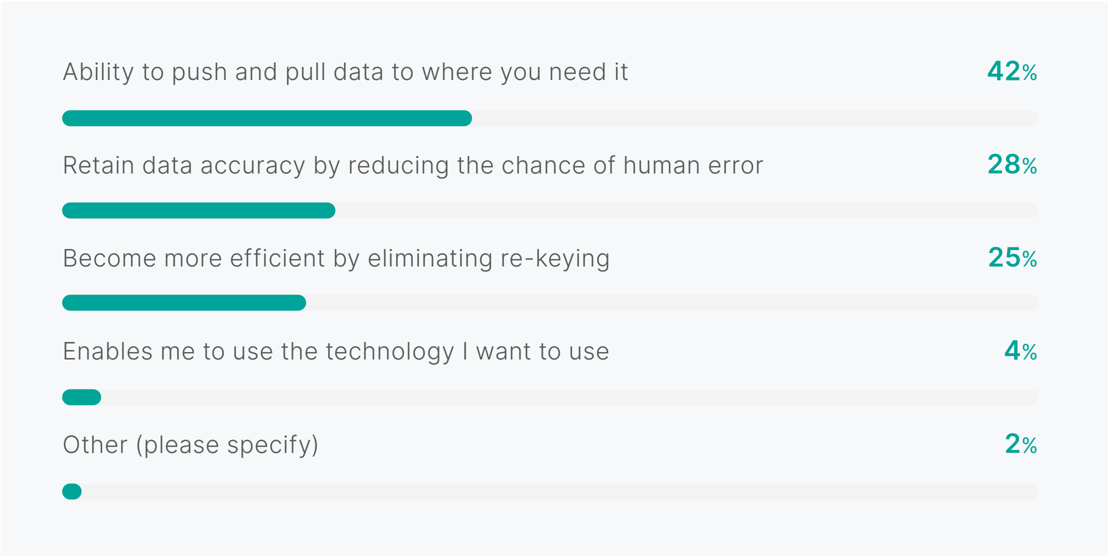
A recurring theme in the responses to this year's survey was that automation and AI would make their annual review process more efficient. Advisers highlighted time efficiencies in having the report-writing process automated. Some, however, were concerned that automation could remove the service element of client reviews and detract from client relationships.

How important are integrations between software in your financial planning process?



The most pressing concern in technology appears to be the integration of different systems. Most advisers **(52%)** said that the integration of different software in their financial planning process was extremely important. Only **3%** said that this was somewhat unimportant or not important at all.

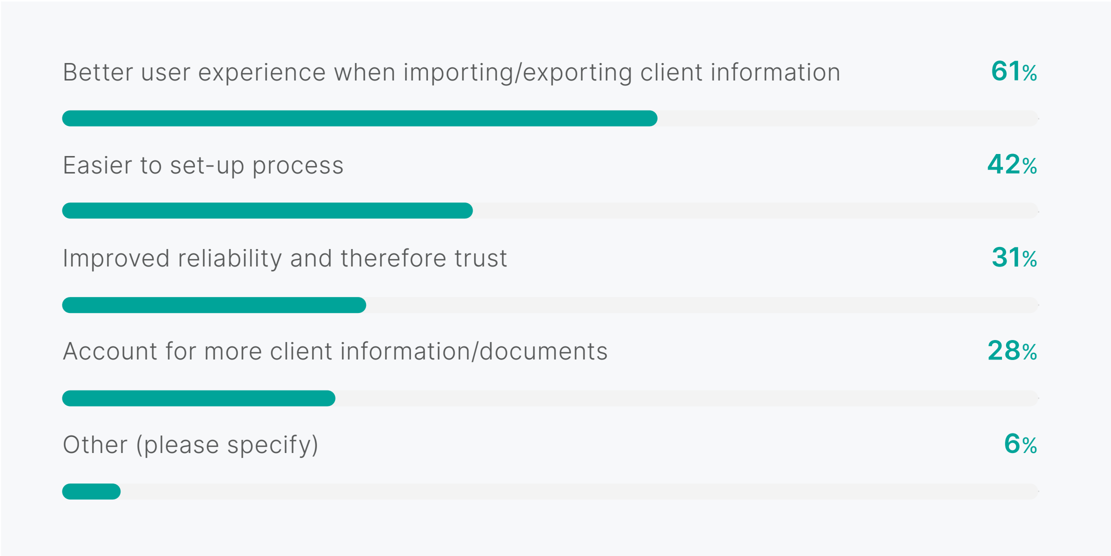
What do you value most about integrations between software?



Efficiency in both cost and time is the goal here. Respondents were keen to reduce duplication of effort and the risk of manual errors. They were also keen to cut out unnecessary admin tasks.

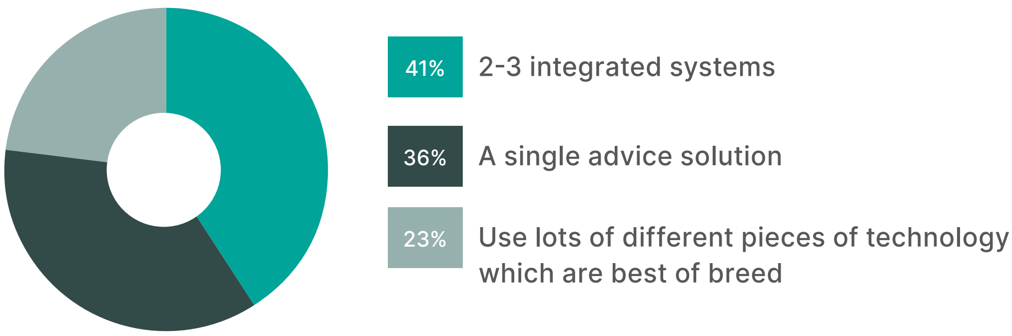
The aspect of software integrations that our respondents valued most was the ability to push and pull data to where they needed it. Human error was another factor driving advisers' desire for integration, with respondents pointing to improved data accuracy when re-keying and the attendant possibility of human error are reduced.

In general, how can integrations between software providers be improved?



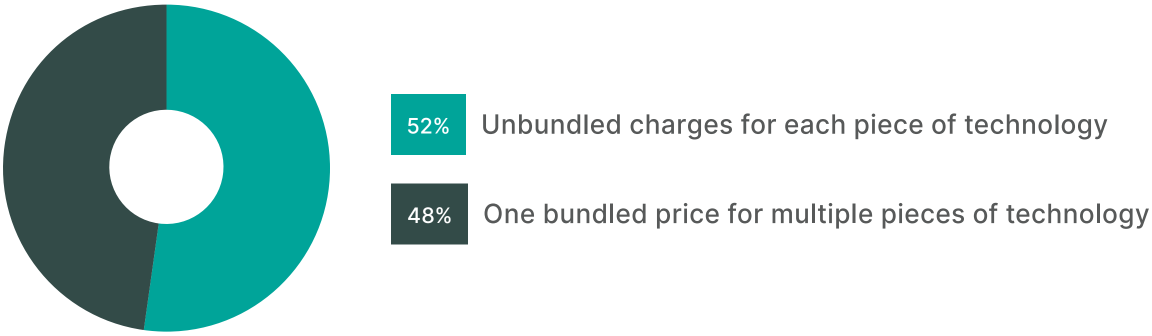
A large proportion of respondents **(62%)** saw a better user experience when importing and exporting client information as the main area for improvement. Easier set-up processes were also important for a large group **(42%)**. And almost a third **(31%)** pointed to improved reliability, which would give them greater trust in their systems.

Ideally, would you prefer to...?



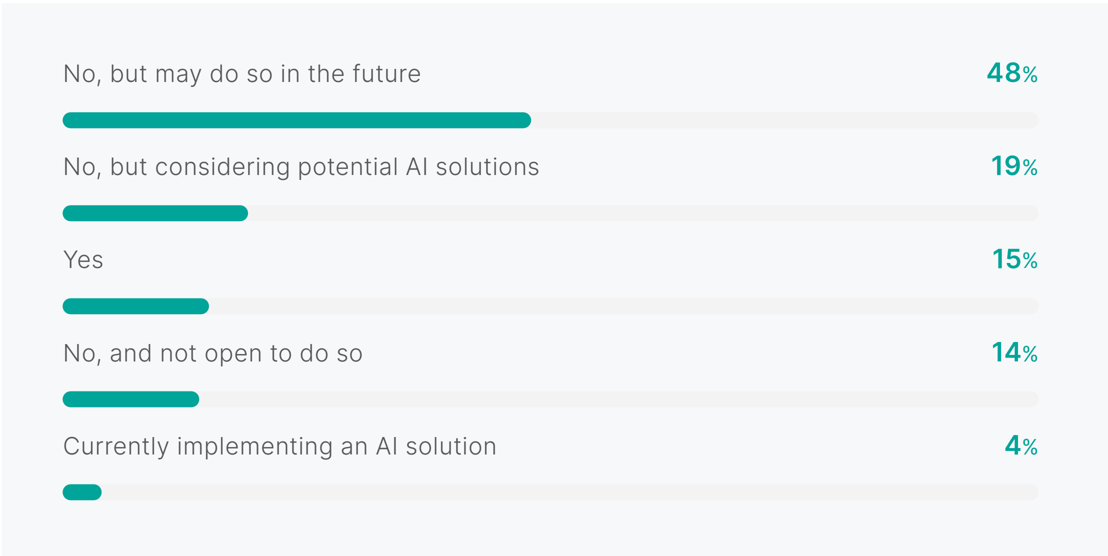
An interesting finding was that a plurality of respondents **(41%)** said they would prefer two to three integrated systems. Meanwhile, almost a quarter **(23%)** were happy with lots of different pieces of technology, so long as those systems were “best of breed”. This shows that having multiple systems isn’t necessarily an issue, if they can be made to work well together. The next largest group of respondents **(36%)** said they would prefer a single advice solution.

When selecting technology, what charging models would you prefer?



Our respondents were fairly evenly split on charging models. Just over half **(52%)** said they would prefer an unbundled charge for each piece of technology while just under half **(48%)** said they would prefer one bundled price for multiple pieces of technology.

Do you currently utilise AI within your organisation?



This year's survey pointed to cautious uptake of AI so far but openness to using the technology in the near future. Just **15%** of respondents said that they were currently using AI, with another **4%** in the process of implementing it. But while over two-thirds of respondents **(67%)** said that they were not currently using AI in their organisations, this group were either open to its use in the future or actively considering AI solutions. Only **14%** were not open to using AI in the future.

In what ways do you anticipate AI can be used within your organisation?

Automation of standard tasks	59%
Summarising meeting notes/actions	58%
Drafting client letters and emails	56%
Report writing	54%
Letters of authority processes – i.e. generating letters and collating/summarising investment statements	51%
Reason why letters	45%
Summarising fact finds	43%
Drafting technical documents	35%
Drafting promotional materials	34%
Compliance file checking	33%
Website chatbots or initial client interaction	26%
Helping to deliver simplified advice/serving transactional clients	25%
Other (please specify)	3%

> It is unsurprising to see standard task automation as a key use case for AI. We would expect to see increased personalisation of standard steps which would add value to clients, not just unseen internal efficiencies."

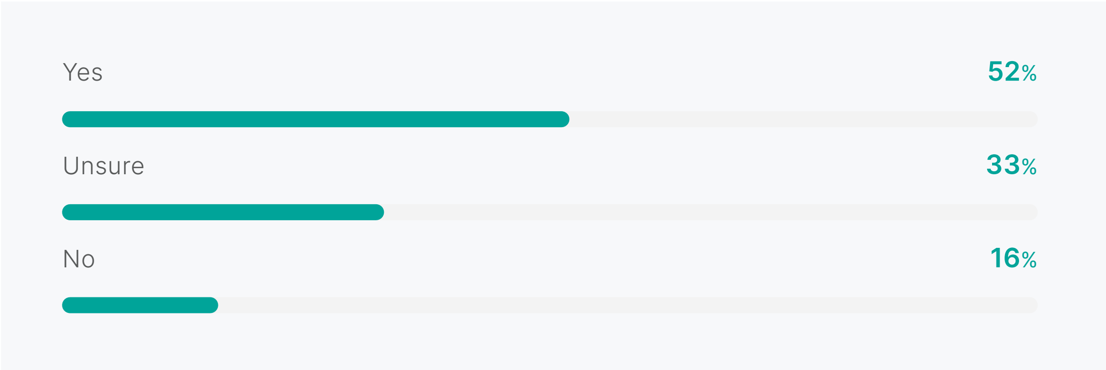
Stephen Ford
Adviser Product Strategy Lead

Despite the advances in AI, the prospect of the "robo-adviser" appears to have receded. Only around a quarter of advisers could see AI being used to communicate directly with clients, whether via website chatbots and initial client interaction or even through helping to deliver simplified advice.

Advisers were far more likely to see AI being used in everyday tasks, such as writing reports and drafting client letters, than in providing advice directly to clients. A large proportion of respondents **(59%)** said they envisaged AI being used to automate standard tasks within their organisation. Similarly large percentages could see AI being used to summarise meeting notes, draft client letters and emails, and write reports. Another widely anticipated use of AI was in collating and summarising statements and fact finds.

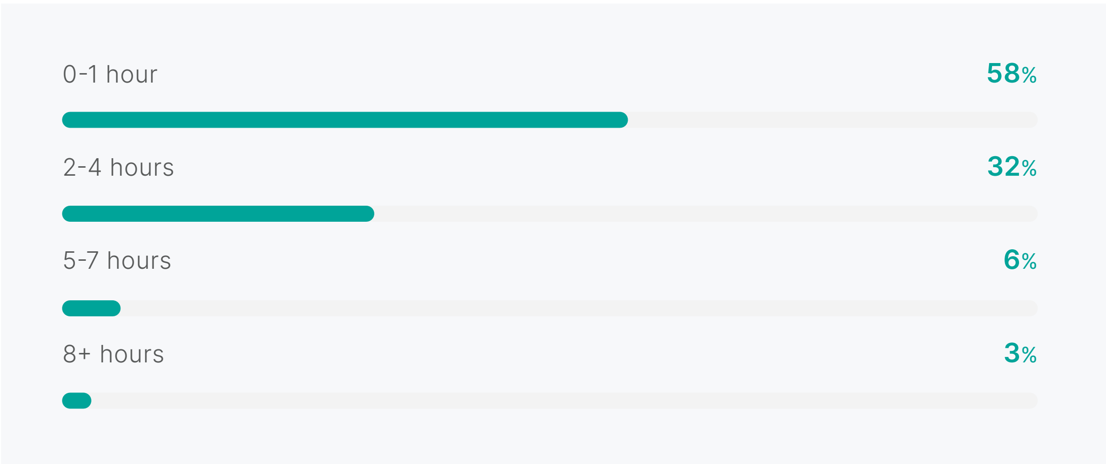
There was a significant drop-off, though, when it came to drafting technical documents and promotional materials (**35%** and **34%**, respectively). Clearly, most advisers see the need for significant human involvement in anything that poses compliance risks. Similarly, compliance file checking was seen as a potential use of AI by just **33%** of respondents.

If you could use AI to tailor investment communications to clients on an ongoing basis, would you use a tool to formulate newsletter/ emails/market updates?



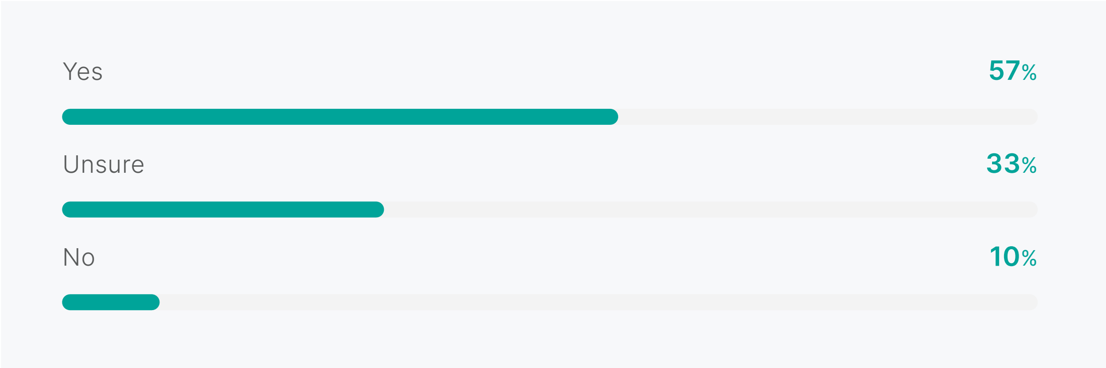
Over half of advisers **(52%)** said they would use an AI tool to formulate newsletters, emails and market updates. Notably, only **16%** were opposed, with **33%** unsure rather than firmly opposed to the idea.

If you currently use AI within your organisation, how much time do you estimate it saves you each week?



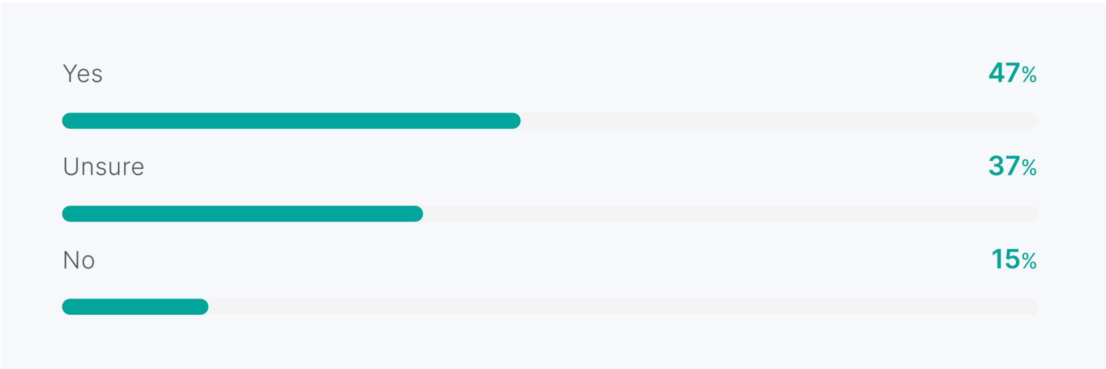
For those respondents who already use AI, time savings are not yet significant. For the majority **(58%)**, the time savings are less than an hour a week, with a further third **(32%)** freeing up just two to four hours. Only **3%** had achieved time savings of more than one day a week. Advances here will be a key area to watch in determining.

Do you feel that AI can help improve the quality of the service you provide to your clients?



Despite the limited efficiencies achieved so far, advisers seemed generally optimistic about the opportunity that AI could afford. Well over half **(57%)** felt that AI systems could improve the quality of the service they offer their clients, with a further third **(33%)** unsure. Only **10%** felt that there was no scope for AI to improve their offering.

Do you feel that AI can help provide better outcomes for your clients?



Similarly, advisers were positive about the impact of AI in improving client outcomes. Nearly half **(47%)** agreed that AI could provide better outcomes for their clients, with more than a third **(37%)** unsure. However, the group that saw no benefit here was slightly larger **(15%)** compared to the group that saw no benefit in service quality **(10%)**.

Summary

Although momentum has slowed – possibly reflecting rapid Covid-era advances – advisers continue to embrace technology. Uptake of AI has been limited so far, but most advisers are open to the prospect of incorporating it into their operations, and many are taking steps in this direction. The concrete efficiencies already achieved through AI have been limited, but most advisers express optimism about the technology's potential to enhance their clients' outcomes, recognising its capacity to streamline processes and improve decision-making.

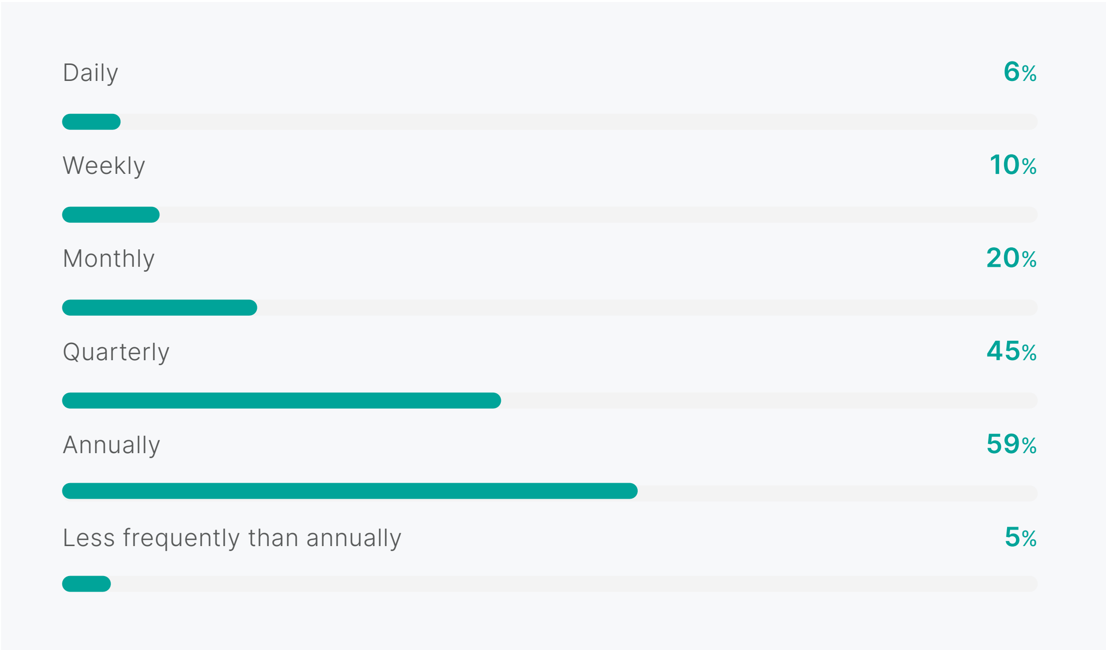
Advisers are particularly receptive to incorporating AI into their reporting processes. Many believe that AI could be valuable automating tasks such as the generation of reports. But there is much more scepticism about using AI in direct client communication. For now, the advantages are perceived to lie in the improvement of back-end operations.

More broadly, software integration continues to be a key concern. Advisers are looking for software packages to be seamlessly compatible with each other to optimise efficiency. Some cite AI as a possible solution. The goal here is smoother data flow and collaboration across different aspects of their businesses, ultimately saving both time and resources.

CHAPTER 3

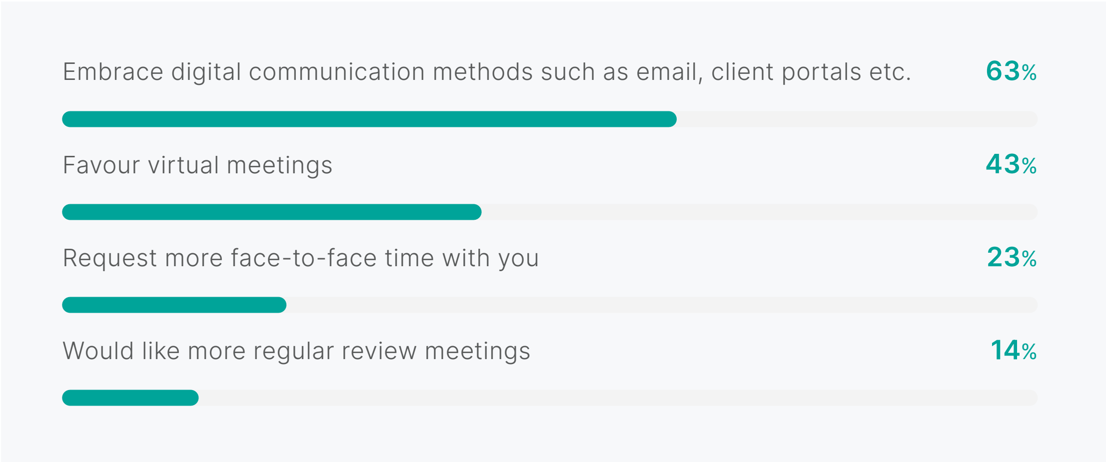
Communicating with clients

How often do you contact your clients to provide them with financial advice or updates?



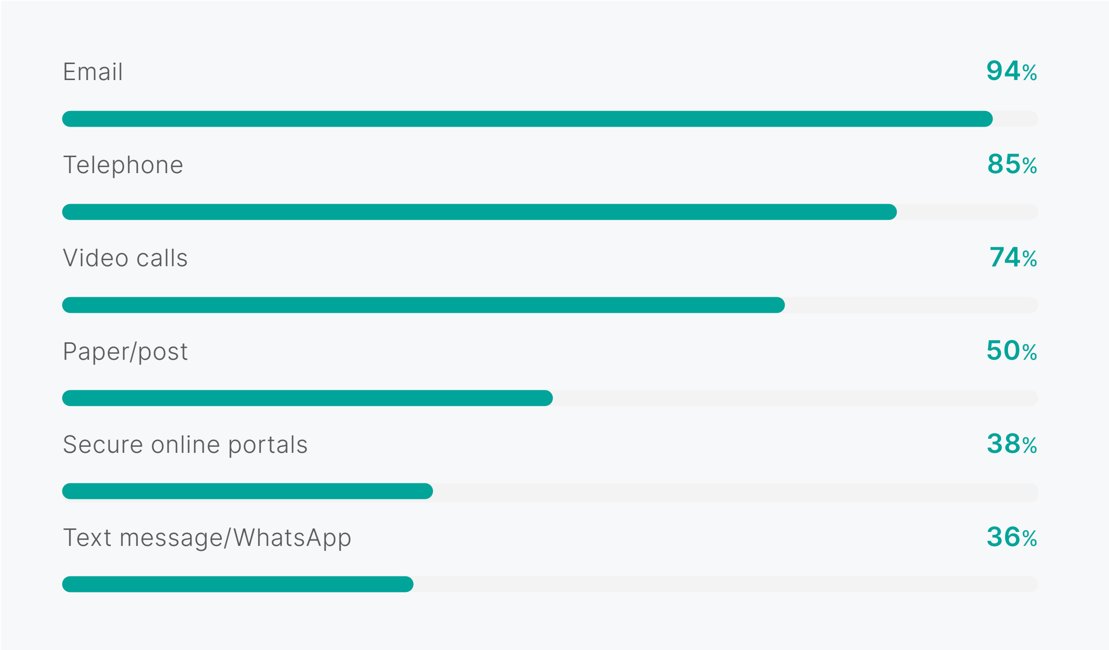
Our respondents are using a mix of communication frequencies for their clients, demonstrating that there is not a 'one size fits all' approach which is pleasing to see. Annual reviews are still advisers' preferred option for communicating with clients, with **59%** using these. Just under half of respondents **(45%)** said that they contact clients with quarterly updates, whereas **20%** provide monthly, and **10%** weekly updates. At the extremes, daily updates **(6%)** are slightly more popular than contacting clients less than once a year **(5%)**.

Post-pandemic, have you found that your clients...? Select all that apply.



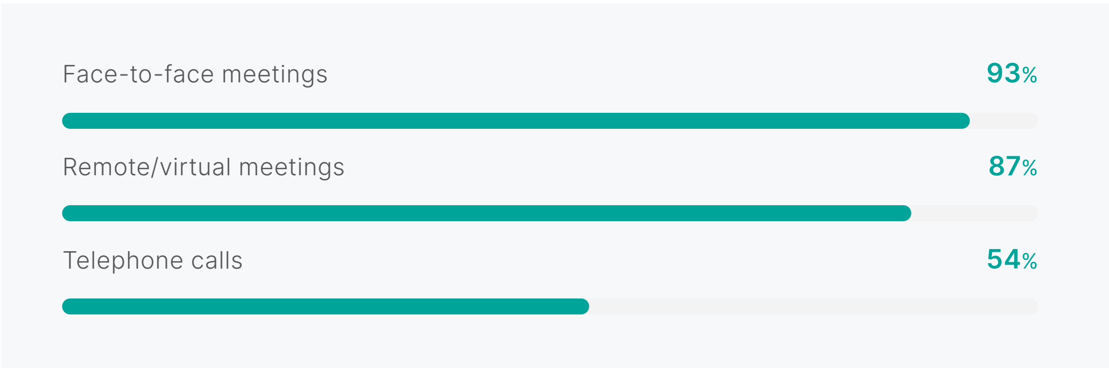
Since the Covid pandemic, most advisers **(63%)** have found that clients embrace digital communication methods, including email and client portals. But there's still a significant preference for in-person meetings, albeit often remotely, with **43%** saying that their clients favour virtual meetings. Perhaps reflecting improvements in video-conferencing software, just **23%** of advisers say that their clients are requesting more face-to-face meetings. Only **14%** say that their clients want more regular review meetings.

What are the main methods of communication that you use with your clients?



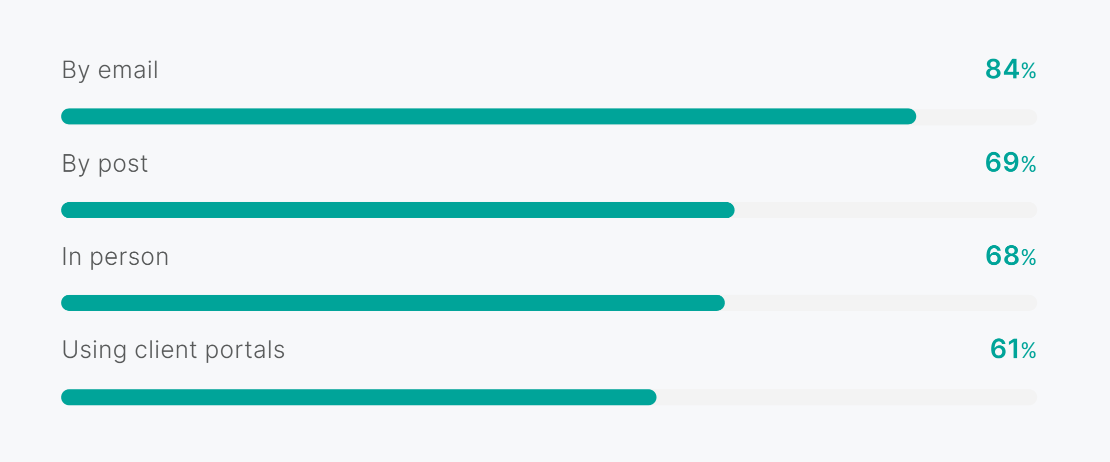
Email is the predominant method **(94%)** of communication between advisers and clients. However, a large proportion of respondents **(85%)** still communicate with their clients via telephone. Video calls are popular too **(74%)**, with smaller but still significant numbers using online portals **(38%)** and text messaging or WhatsApp **(36%)**.

How do you conduct annual reviews with your clients?



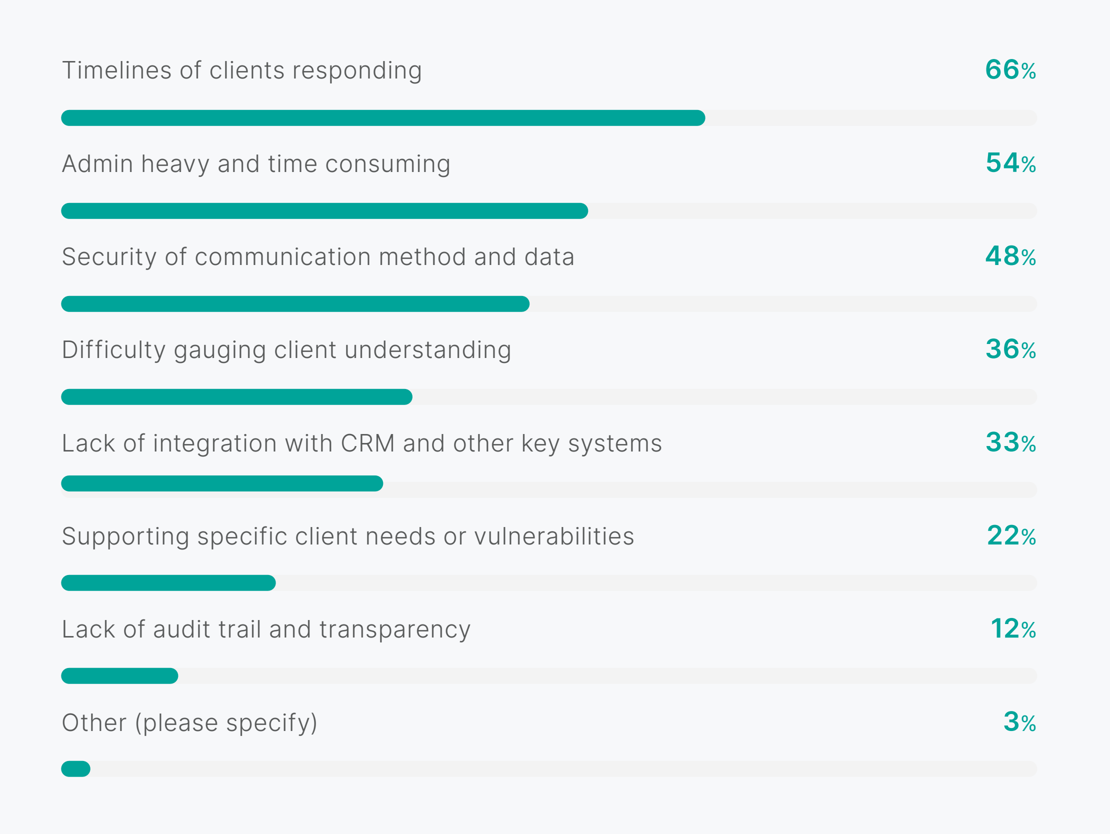
For annual reviews, face-to-face meetings are still overwhelmingly popular, with **93%** of advisers conducting some reviews in person. A further **87%** use remote or virtual meetings, however. More than half **(54%)** conduct annual reviews over the telephone.

How do you exchange documentation/forms with your clients?



As with general communications, email is the predominant method **(84%)** of exchanging documentation with clients. Just over two-thirds of clients still opt to receive documentation by post or in person. Client portals lag a little behind **(61%)** but are still used by a comfortable majority of advisers.

What challenges or barriers do you encounter with the current communication methods with your clients?



The main barrier that advisers encounter in their communications is the timeliness of client responses. This is a challenge for **69%** of our respondents. A large proportion **(54%)** also point to onerous and time-consuming admin. This finding meshes with the potential advantages that advisers see in technology, especially AI.

> “We are surprised security of communication methods is such a barrier. A Client Portal can tick a number of boxes to engage with clients in a secure way given the sensitive nature of information exchanged.”
>
> **Stephen Ford**
> Adviser Product Strategy Lead

Summary

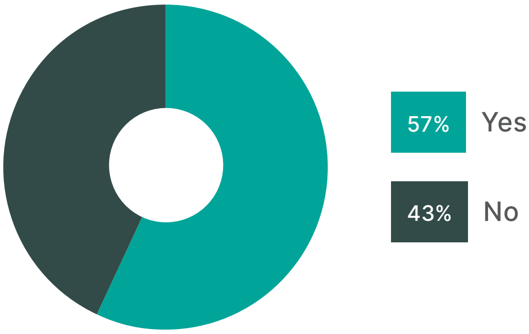
As the responses on the Consumer Duty and technology indicated, client communication is an ongoing and evolving area of focus for advisers. The importance of the personal touch is clear, with face-to-face meetings, whether physical or virtual, still highly prized. Meanwhile, the widespread use of digital technology for interactions shows that advisers’ pandemic-era investments in technology are bearing fruit.

The main challenges are the timeliness of client responses and the administrative burden. In the latter area, technology – including AI – may be able to help. Client responses, however, are potentially a more intractable problem. The preference for annual reviews over more regular meetings may suggest a natural pace of interaction that can at times cause frustration.

CHAPTER 4

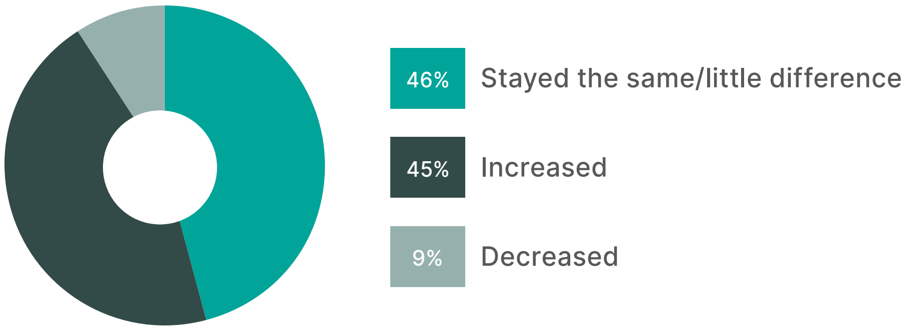
Investment strategies

Do you/does your firm use third-party managed portfolios?



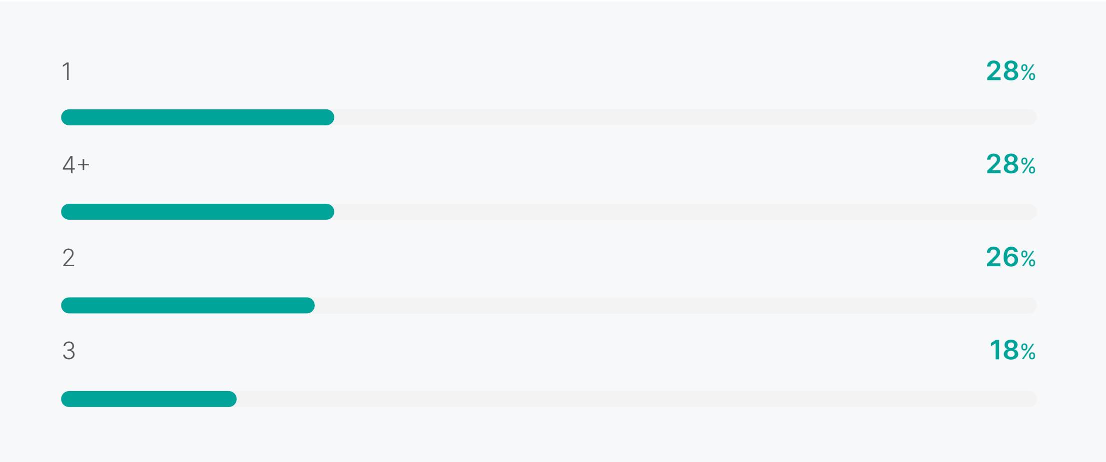
Although most of our respondents **(57%)** use third-party managed portfolio services (MPSs), the proportion of those who do so has fallen significantly from the previous year **(72%)**. As a caveat here, we should note that the absolute number of respondents who use MPSs is up on the previous year, as the most recent survey had more respondents.

How has the amount you/your firm invested on behalf of your clients in third-party investment solutions changed over the past 12 months?



Only **9%** said that their firms had invested less in third-party investment solutions over the past year. The remaining **91%** was split almost exactly between those advisers whose firms had increased allocation **(45%)** and those whose firms retained the same exposure as a year ago **(46%)**. This is not surprising given the implementation of Consumer Duty, suggesting that advisers are outsourcing areas of potential risk to experienced, better resourced investment partners.

How many MPS providers do you work with?

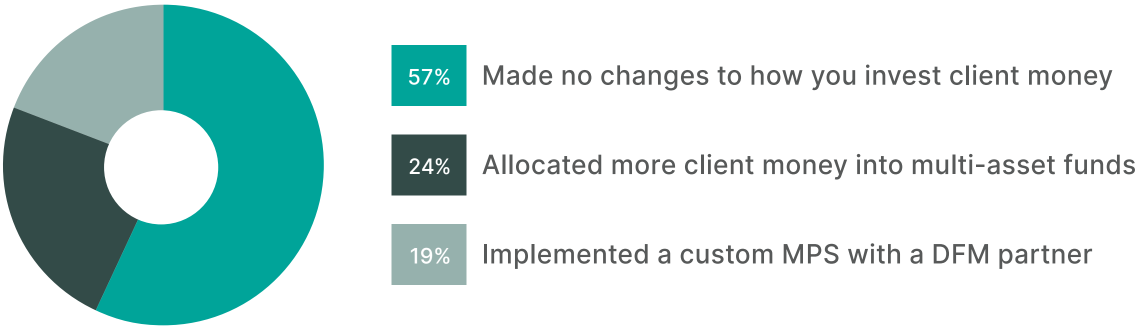


Just **28%** of respondents work with a single MPS provider, with the great majority using two or more.

> It is clear that working with a DFM – on a panel of strategic partners – is essential for financial advice firms to deliver high quality outcomes. Consumer Duty has refined the framework for advisers and de-risking advice models remains relevant."

Ed Margot
Head of Client Investment Strategy

Thinking about how you currently invest client money into managed portfolios (MPS), have changes to tax treatments meant that you have...?

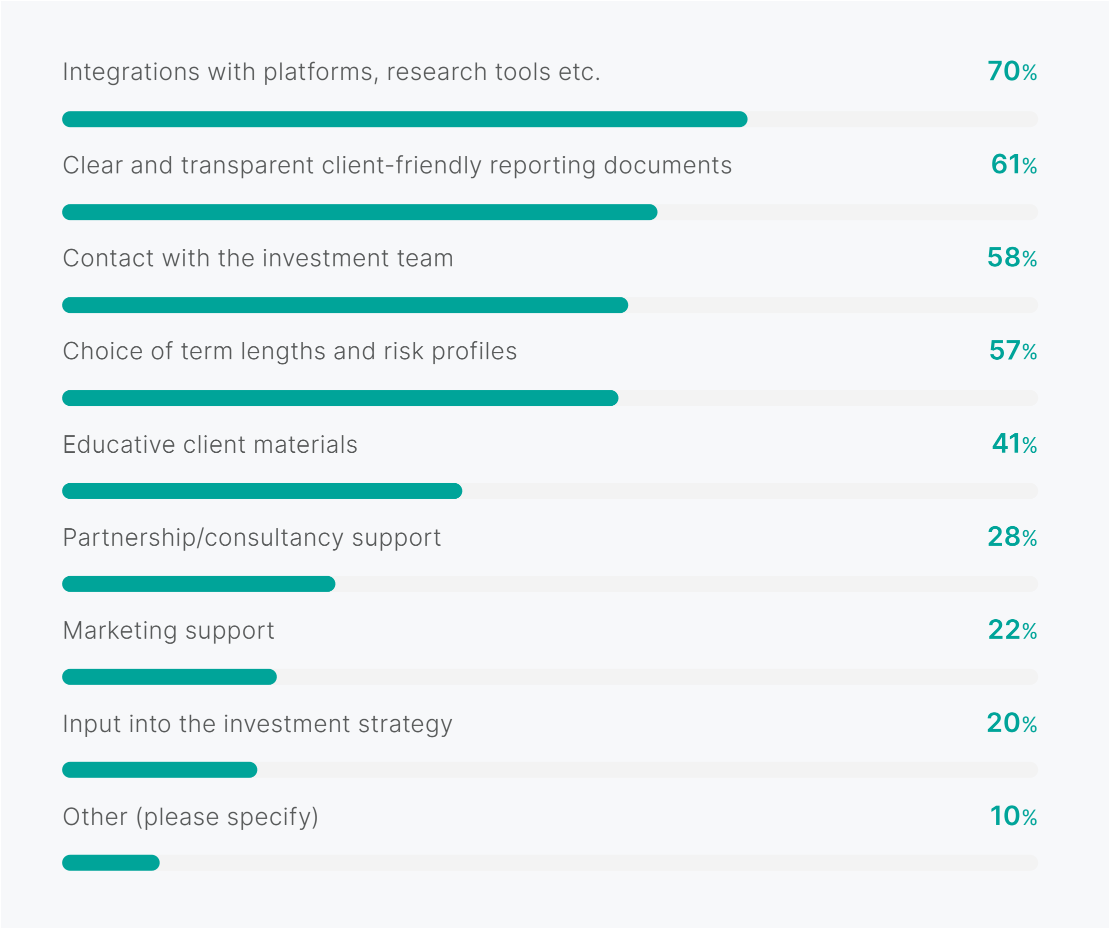


For more than half of advisers **(57%)**, tax treatments have had no impact on the way they invest client money. However, almost a quarter **(24%)** have allocated more client money to multi-asset funds. Meanwhile, **19%** said that they had implemented a custom MPS in partnership with a discretionary fund manager. This is a newer solution that many DFMs are now offering, allowing advisers to have input into the solution and work with an experienced partner to create a bespoke solution that meets the needs of the business and client base.

"It is interesting to see that custom portfolios are seen as a solution to changes in the tax landscape. The ability to tailor investments, or rebalancing points can help drive better tax outcomes for clients. Additionally, it seems logical that multi-asset funds have found better fortunes especially with the change in the capital gain tax allowance."

Ed Margot
Head of Client Investment Strategy

Other than performance, what do you look for when selecting an MPS



When choosing an MPS, **70%** of advisers said that integration with platforms and research tools was something they considered. This echoes the importance of integration in other aspects of advisers' businesses. Clarity of communication was also highly prized. A significant majority **(61%)** of respondents said that clear and transparent client-friendly reporting documents were also part of choosing an MPS. Again, this echoes the importance of clear communication under the Consumer Duty regime.

"The rules of investing and financial advice haven't changed – empathy and communication are still highly prized. An MPS who can get the message across, who can support the financial adviser, and deliver positive outcomes across term length and risk level, is a valued strategic partner."

Ed Margot
Head of Client Investment Strategy

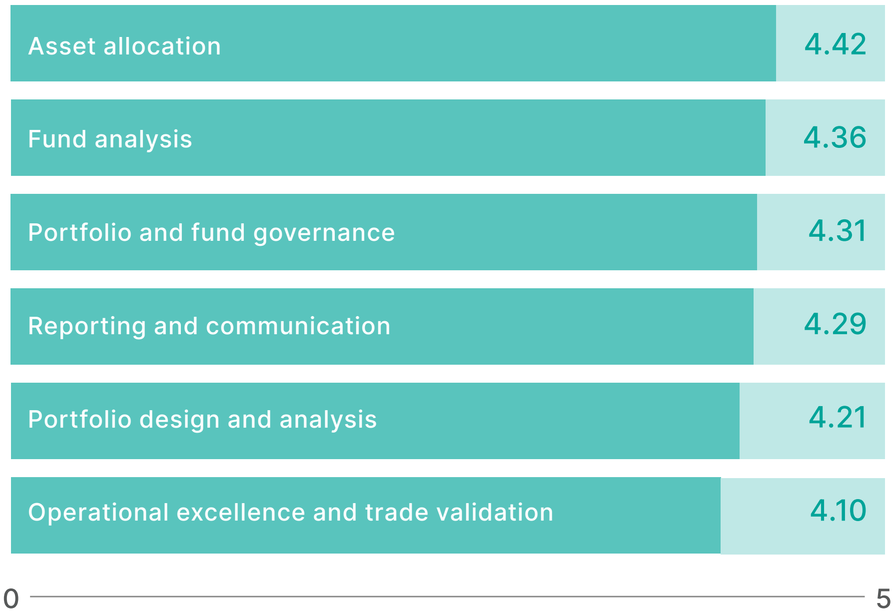
A large percentage of respondents **(58%)** also said that contact with the MPS's investment team was important to them. **20%** said that having input into the MPS's investment strategy was a factor, again supporting appetite for custom solutions.

"

Integration, communication, and client engagement remain pivotal factors in the selection of an MPS partner. The emphasis on clear and transparent client-friendly reporting underlines the commitment to achieving positive client outcomes and cultivating trust and transparency. As advisers increasingly seek operational efficiencies, this emphasises the necessity for seamless integrations. The desire for personalised attention and expertise is evident in the importance placed on contact with the MPS's investment team. It's notable that a significant portion of respondents express a keen interest in contributing to the MPS's investment strategy, highlighting the value of flexibility and collaboration in meeting diverse client needs."

Catherine Makin
Head of Tailored Investments

If you were considering utilising a tailored/custom managed portfolio service for your business, how would you rate the importance of the following factors?



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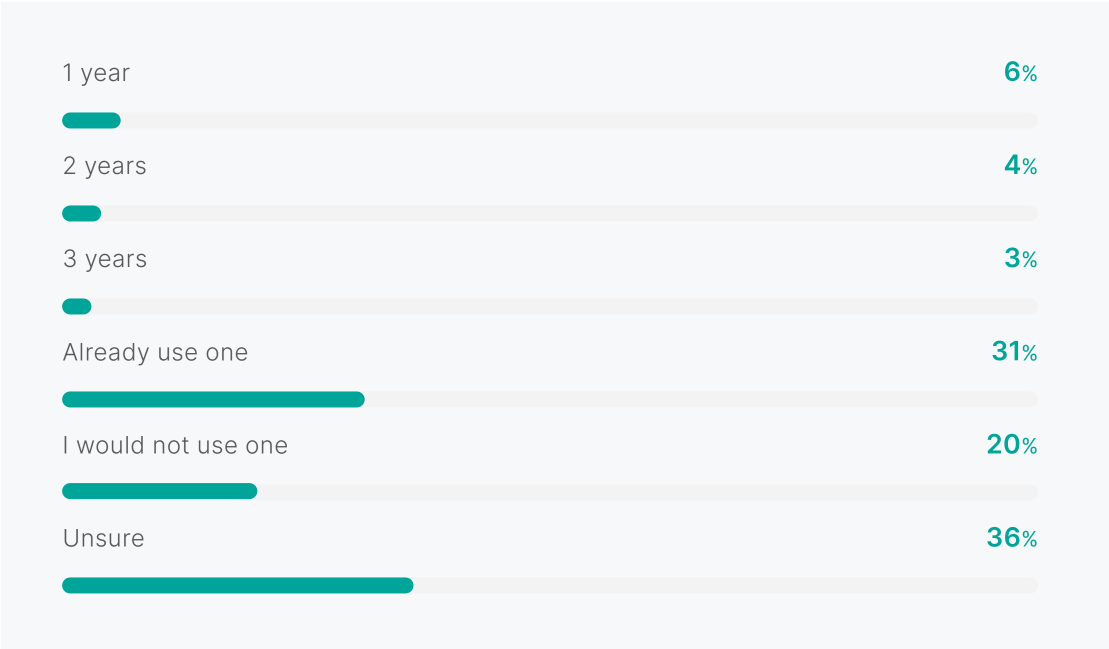
It's unsurprising that advisers consider all relevant factors important when tailoring an MPS. Partnering with a firm to deliver an MPS allows for consultation on elements they wish to retain, while leveraging the expertise of the DFM partner in areas where less input is desired. The slightly higher importance attributed to Strategic Asset Allocation may reflect a growing requirement to create efficiency; for example alignment of the Tailored MPS with their risk profiling software or questionnaire."

Catherine Makin
Head of Tailored Investments

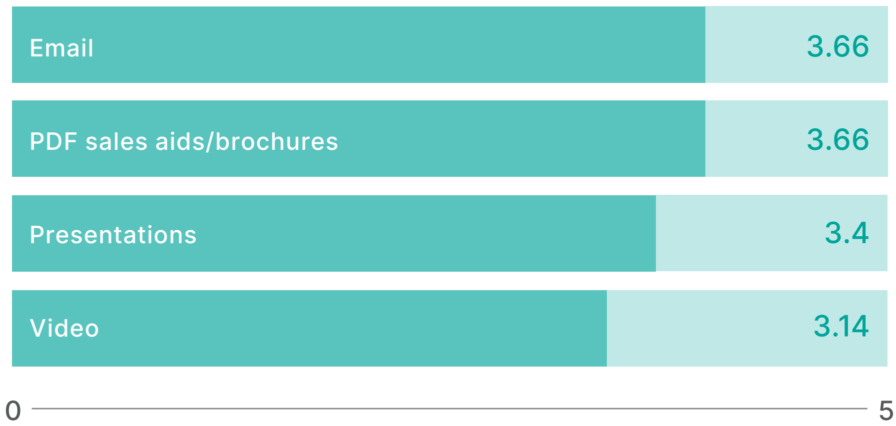
There was more or less an equal split when advisers considered the key factors in tailored or custom MPSs. However, asset allocation came out marginally on top as the most important factor. Fund analysis came in second, with portfolio and fund governance a close third. Portfolio design and analysis came fourth, with operational excellence and trade validation bringing up the rear.

Do you think you will use a tailored/custom MPS in the next...



Just under a third **(31%)** already use a custom or tailored MPS. A further **13%** of advisers said that they would use such solutions in the next one to three years. The largest group of respondents **(36%)** were unsure. Most respondents are either using a tailored service, actively considering it, or are still considering it. This seems like a step change in how financial advisers consider custom DFMs in the value chain and presents considerable opportunity for growth. The emphasis on personalisation and suitability that has emerged with the Consumer Duty might be a contributing factor.

How important is it to have the following client communication methods as part of a tailored/custom MPS?

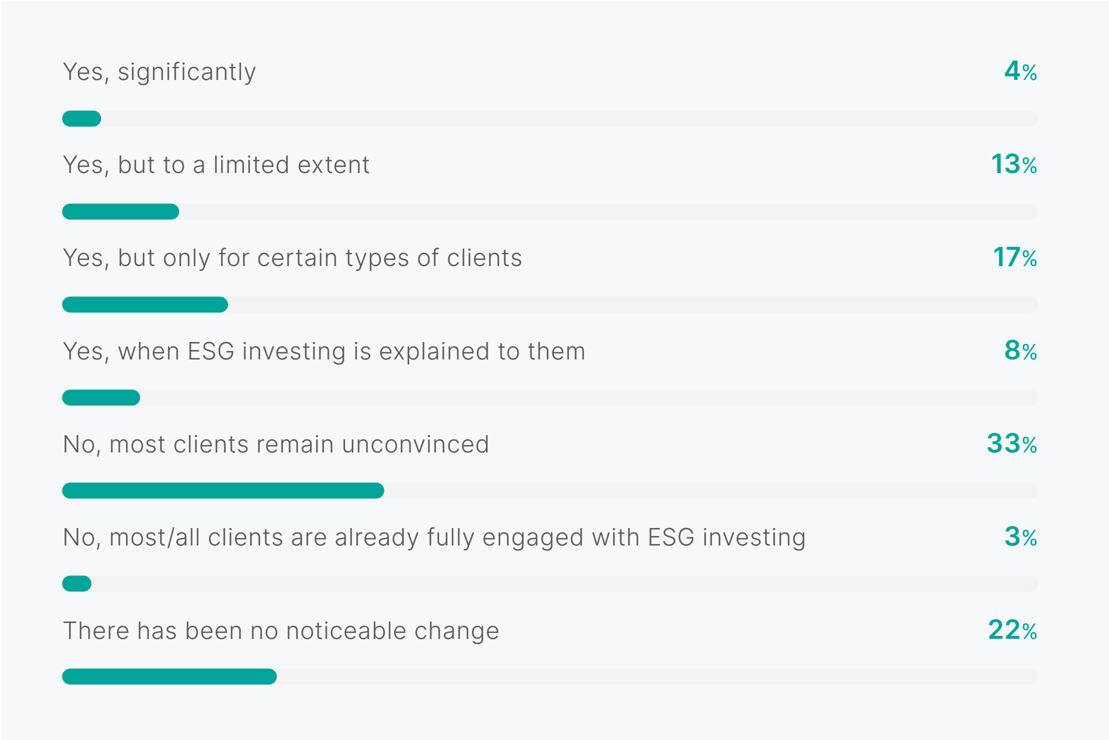


Email and PDF sales aids were seen as the two most important methods of client communication that a tailored or custom MPS should provide. Presentations were ranked the third most important factor, with video ranked the least important. The preference for the written word may reflect the "portability" of written communications and the opportunity that they provide for advisers and clients to digest them at their own pace. By contrast, presentations and videos require a greater commitment – possibly a disadvantage when time and attention are at a premium.

"It is clear that communication is important and some of the results might lend itself to an older, wealthier demographic within the retail client base. All methods of communication are important so an MPS with a range of communication mediums is likely best positioned for the varying service levels of financial advisers."

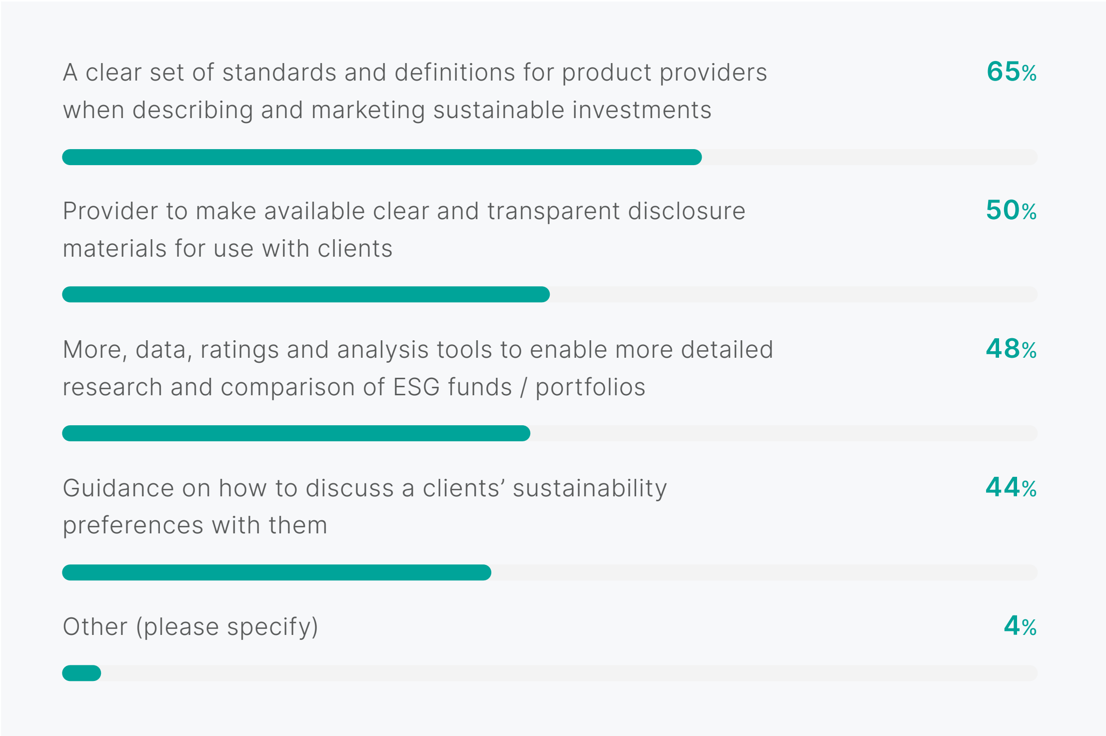
Ed Margot
Head of Client Investment Strategy

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



One continuing challenge is the issue of sustainable investing. A striking finding in this year's survey is the dramatic shift in clients' interest in environmental, social and governance (ESG) investing. In our 2022 survey, **11%** of advisers said that their clients were unconvinced by ESG; 2 years later, this figure has tripled to **33%**. Only **3%** of our respondents say that their clients are fully engaged with ESG. This could reflect the higher profile of corporate "greenwashing", identified as a growing problem in previous surveys, along with concerns about returns from sustainable investments in the near term.

The FCA stated in their Sustainability Disclosure Requirement (SDR) consultation that advisers will be a key part of the process. With that in mind, what do you hope the policy statement will provide? Select all the apply.



Our survey pre-dated the FCA's final guidance on SDR, however, at the time of asking, most advisers **(65%)** were looking for the FCA to provide clear standards and definitions for sustainable investments. This echoes last year's survey, which showed that **70%** of advisers were concerned with a lack of clear definitions for sustainability-related concepts. Half of our respondents also want providers to offer clear and transparent disclosure materials for use with clients, along with data, ratings and analytical tools. A further concern is guidance on how to discuss clients' sustainability preferences. Clearly, there is work to be done here.

“

Since the policy statement and our survey, the FCA has established its industry working group to look at how advisers could or should be brought into the sustainability disclosure regime. Although no further rules are expected, it will be important to see how the existing rules will apply to advisers.”

Mikkel Bates
Regulatory Manager

Summary

At first glance, advisers' appetite for MPSs appears to have diminished somewhat over 2023. We should be wary of over-interpreting the data here, however, given the rise in absolute terms in the number of respondents who use an MPS. Our respondents have also indicated that they are recommending a wider range of investment solutions to their clients in light of Consumer Duty and changing tax treatments, a positive takeaway here.

Advisers' priorities in the service they receive from providers reflect the dominant concerns expressed elsewhere in the survey. Integration with platforms and research tools is a priority, as is client-friendly communication. The introduction of the Consumer Duty is likely to have underscored the importance of the latter.

Nearly a third of survey respondents currently use a custom MPS. But with the Consumer Duty leading to a greater emphasis on the personalisation of advice and, hence, investment solutions, there may be room for growth here. Only a fifth of advisers reject the use of custom solutions outright. Clearer written communications appear to be the best way forward for custom MPS providers, in line with the growing emphasis on clarity and client-friendliness across the industry.

It's clear that ESG remains a challenge for many advisers. Clients appear to be increasingly sceptical of its benefits. Here, advisers are looking for regulatory help to set out standards and metrics for ESG investing.

Conclusion

The regulatory and technological developments in 2023 have been dramatic. But rather than appearing daunted by the pace of change, financial advisers appear to be upbeat about the future.

By and large, advisers appear to have embraced the FCA's Consumer Duty and are generally positive about its implications for their clients. Most appear confident that their efforts on their clients' behalf will stand up to additional scrutiny – although time will tell if some of this confidence is misplaced. Rather than simply raising costs to cope with the additional regulatory burden, advisers are emphasising the value for money that they offer. Many hope that greater clarity and transparency will allow them to demonstrate this value.

The advent of AI also does not appear to be overwhelming advisers. Rather, they are taking these developments in their stride, with most open to the adoption of AI in the service of their clients. Many advisers see AI as an opportunity to streamline and reduce time-consuming back-office functions, freeing up time for more genuine human interactions with their clients. It is heartening that the industry seems to be maintaining its appetite for innovation as the pace of technological change quickens.

The FCA's shift from evidencing good process to evidencing good client outcomes has clearly resonated. This can be a challenge but technology such as cashflow systems are an under-utilised tool to keep a historical record to help communicate the outcomes over a period of time. The overwhelming appetite among advisers for cashflow solutions is therefore reassuring.

One intriguing aspect of the Consumer Duty is whether the emphasis on client outcomes will lead to greater personalisation of advice and segmentation – through the use of custom or tailored solutions. There is little evidence of this so far, but our respondents point the way forward for providers of custom solutions: client-friendly communications and improved transparency.

The industry still faces challenges, however. Many clients are yet to be convinced about the importance of ESG considerations. Indeed, our survey suggests that this challenge has become greater, perhaps because clients are increasingly sceptical of ESG given underwhelming performance and high-profile instances of "greenwashing".

And despite advisers' evident appetite for technology, the integration of systems and software continues to present obstacles. In part, this may be a result of the rapid uptake of technology during the pandemic, which may have left many advisers with an array of different systems. This is one area in which AI may present potential solutions, although these are likely to be some way off.

Overall, our survey paints a picture of an industry that has already coped with considerable challenges and is looking forward to tackling those that lie ahead. But the pace of change will only accelerate from here, so advisers must continue to adapt and innovate to best meet the needs of their clients.

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