

# Schroders 2020 UK Financial Adviser Survey Adviser Report





# Contents

03

Welcome

12

Has Covid-19 changed attitudes to ESG investing?

04

What are clients thinking?

14

How are advisers segmenting their client base?

06

What are the main challenges faced by advisers?

15

Intergenerational wealth transfer: friend or foe?

08

How has 2020 changed the investment landscape?

16

The key takeaways



# Welcome

2020 was undoubtedly a year unlike no other, and one that has had a profound and long-lasting effect on the entire financial services landscape. Advisers have all faced immense challenges within their businesses and the first half of 2021 looks set to bring further volatility and disruption.

*The Schroders UK Financial Adviser Survey*, conducted every year, aims to give valuable insight into the adviser community. Surveying 125 advisers on a wide variety of topics, the responses paint an interesting picture of the challenges and opportunities in what has been an incredibly turbulent period.

Advisers continue to handle the effects of an increasing regulatory burden, which is especially being felt by smaller firms. The long-standing issue around professional indemnity insurance continues to be a considerable thorn in the side for many.

As advisers found themselves suddenly operating in a remote-only environment, often for the first time, many firms struggled with generating new clients.

There are also interesting findings around the broader trends, with advisers rapidly embracing technology and using tech-enabled advice to augment their existing offerings.

Hopefully this report will provide some useful insight for advisers who are looking to plan strategically for the year ahead. Gathering a high-level picture of the current industry challenges and direction is vital for any firm looking to thrive over the coming years, and we hope this report will help you do just that.



**Doug Abbott**  
Head of UK Intermediary



**Gillian Hepburn**  
Intermediary Solutions Director

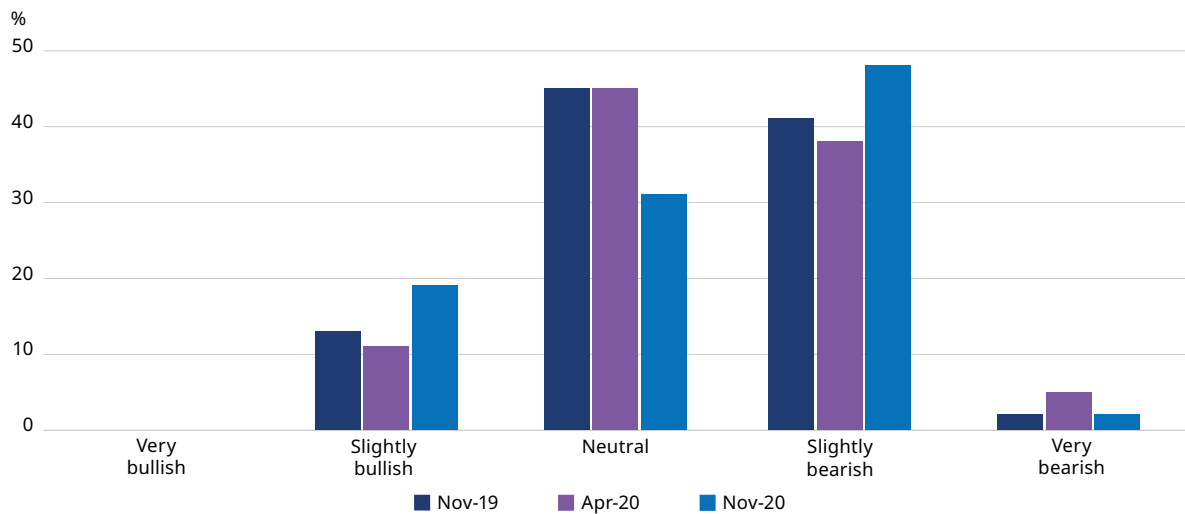


# What are clients thinking?

## Client sentiment

As a whole, advisers report that they find their client sentiment to be slightly bearish, or neutral. However, very few advisers describe their current client sentiment as 'very bearish', and in light of such a tumultuous year and continued uncertainty on the horizon, this is clearly cause for optimism (see figure 1).

**Figure 1: How would you describe the sentiment amongst most of your clients?**



## Client concerns

It's clear that market volatility as a result of the pandemic has led to clients fearing capital loss, with advisers citing this as the number one concern of their clients (see figure 2).

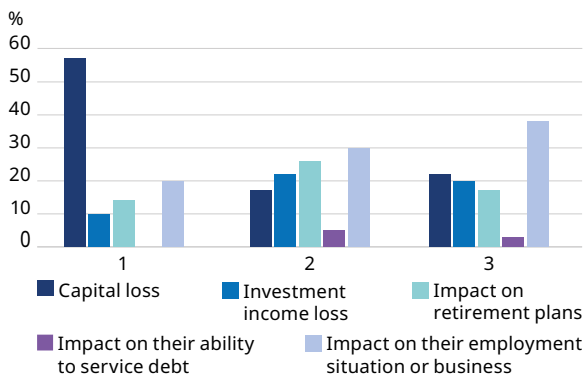
The second and third key concerns for clients are understandably the impact of the markets on their retirement plans and also on their loss of investment income. These worries, as opposed to concerns about the impact on their employment/business, perhaps reflect more specifically the older demographic that advisers typically work with.

## Impact on retirement

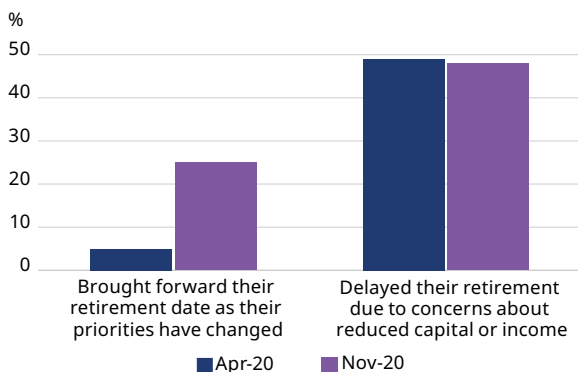
Our question on retirement plans saw the biggest change in client responses compared to our Covid-19 survey earlier in 2020. In April last year, just 5% of clients were reported as bringing forward their retirement date, because of their priorities changing. But in November, this jumped to 25%, perhaps with the realisation that the Coronavirus and its repercussions were here to stay.

Almost half of advisers surveyed said they have clients who have delayed their retirement – due to concerns about reduced capital or income. This remained roughly the same from April to November (see figure 3).

**Figure 2: Top 3 financial concerns of advisers' clients in relation to the coronavirus crisis**



**Figure 3: As a result of the impact of coronavirus on markets, have any of your clients who are approaching retirement:**



# What are the main challenges faced by advisers?

Advisers who responded indicated that they are facing a wide range of different challenges, however, they are chiefly worried about the effect increasing regulation is likely to have on their businesses.

It also comes as no surprise that securing professional indemnity (PI) cover remains an ongoing worry for advisers, with 46% placing PI issues in their top three concerns.

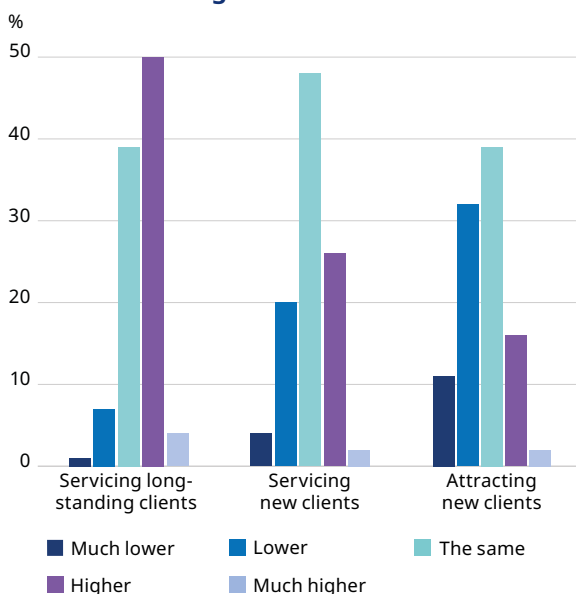
Combined with the challenge of regulation, does it follow that consolidation of the adviser market will begin to accelerate? Particularly into networks where support for regulatory changes and attractive terms for PI cover might be available.

## New clients

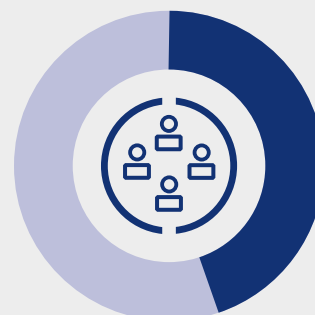
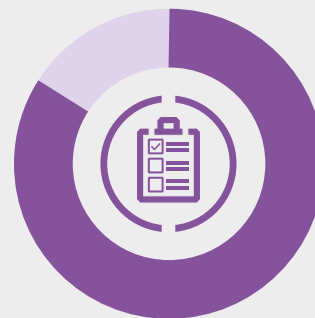
In addition to regulatory issues, many advisers also identified finding new clients as a major worry going forward, with 46% of respondents placing this in their top three concerns. This was perhaps an issue prior to 2020, but the move to a remote-first world as a result of the pandemic could well have highlighted business development as a more serious issue (see figure 4).



**Figure 4: How has your level of activity relating to servicing clients and attracting new clients changed as a result of Covid 19?**



## Top three adviser concerns







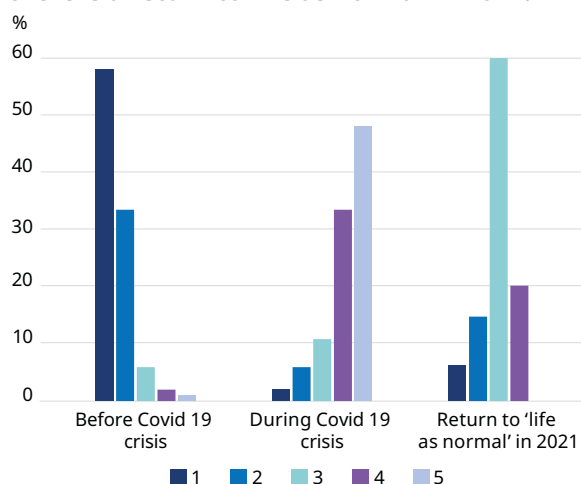
## Technology disruption

Many advisers are concerned about the effects of technology on their businesses going forward. While advisers and clients have generally adapted very well to the technological burden of remote working and service delivery, integrating new software can often be challenging. There can be issues for example with integrating back office systems, cashflow modelling and suitability/risk profiling tools.

Back office systems are increasingly identified as being the worst for system integration. A report on adviser technology found that some advisers are turning back to a single source approach for technology due to so many integrations failing<sup>1</sup>.

It is also clear that advisers do not expect the working environment to return to how it was prior to the pandemic. Our survey highlighted that even in a true 'return to normal' scenario in 2021, advisers expect remote working and interactions to continue. Only 6% of advisers are expecting to conduct all meetings face-to-face in such a scenario. This is a vast contrast with before the crisis when almost 60% of meeting took place face-to-face (see figure 5).

**Figure 5: On a scale of 1 (all face to face) to 5 (all virtual), how did you conduct client meetings before Covid, how do you conduct them now and how do you expect to conduct them if there is a return to 'life as normal' in 2021?**



<sup>1</sup> Source: NextWealth's Adviser Tech Report, February 2020

## Adviser charging

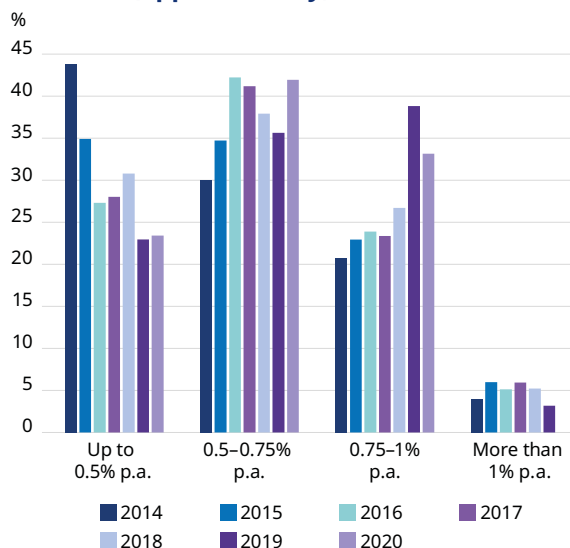
Finally, we asked advisers about their fees. Since 2014 there has been a moderate upward trend in the average fees advisers charge their clients. 35% in 2019 reported that they charge an average fee of between 0.5% and 0.75% but this increased to 43% in 2020. There was a corresponding reduction in those charging up to 0.5% from 44% to 23%. Interestingly, this was the first year since the survey began in 2014 that no advisers reported charging more than 1% as an ongoing fee.

Moreover, 43% of advisers surveyed reported that they felt a downward pressure on their fees. We look forward to observing how this may impact responses in 2021 (see figure 6).

In summary, advisers face an increasingly complex operating environment: changing regulation, technological disruption, ever more sophisticated client demands and a continuing pressure on fees.

However, the industry has shown itself to be very resilient and has not only adapted well, but embraced the technological demands of remote operation. There is every reason to believe this will continue.

**Figure 6: What is your average % fee based on assets (approximately)?**



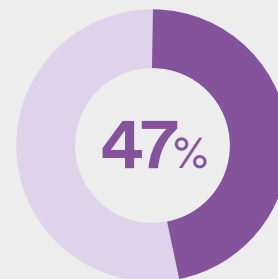
# How has 2020 changed the investment landscape?



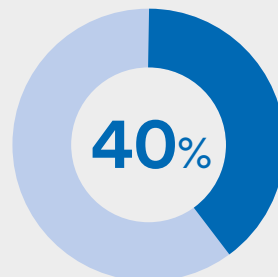
## Asset allocation

Our survey revealed that over the past 12 months there has been a significant shift in asset allocation away from many traditional investments, particularly UK equities and government bonds. The key beneficiaries being international equities, emerging markets and other alternatives (see figure 7 and 8 on the next page).

While there is considerable uncertainty on the horizon, the movement away from government bonds into alternatives and equities is expected to continue throughout 2021. Advisers appear to also have renewed confidence in the prospects for UK equities. While 65% of advisers reported reducing exposure to UK equities in the 12 months prior to the survey date only 22% expect to continue to reduce exposure and 40% expect to increase exposure over the next 12 months. The resurgence in covid cases casts a shadow over the UK, but we believe that much of the bad news has been discounted. With the government reaching a Brexit deal with the EU, there is scope for the performance of UK equities to catch up to peers.



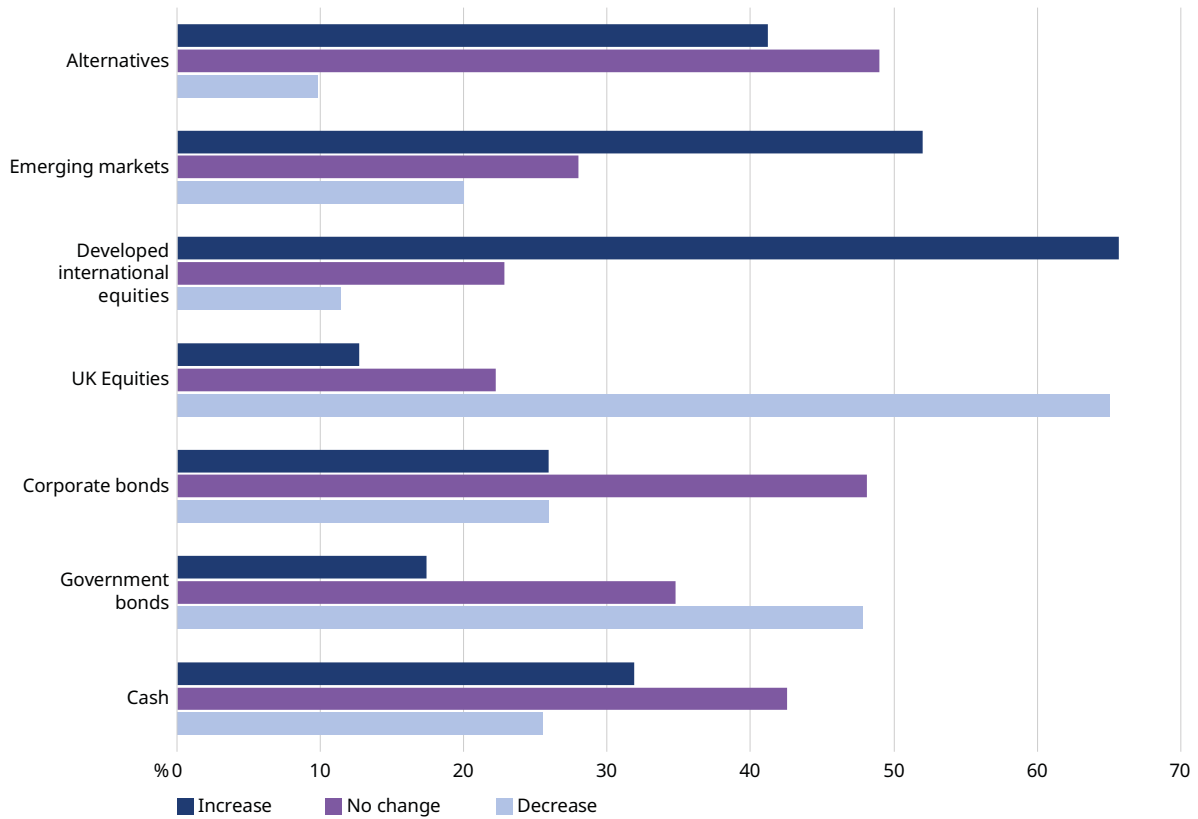
of advisers expect to increase allocation to developed international equities over the next 12 months, compared to 6% who expect to reduce exposure



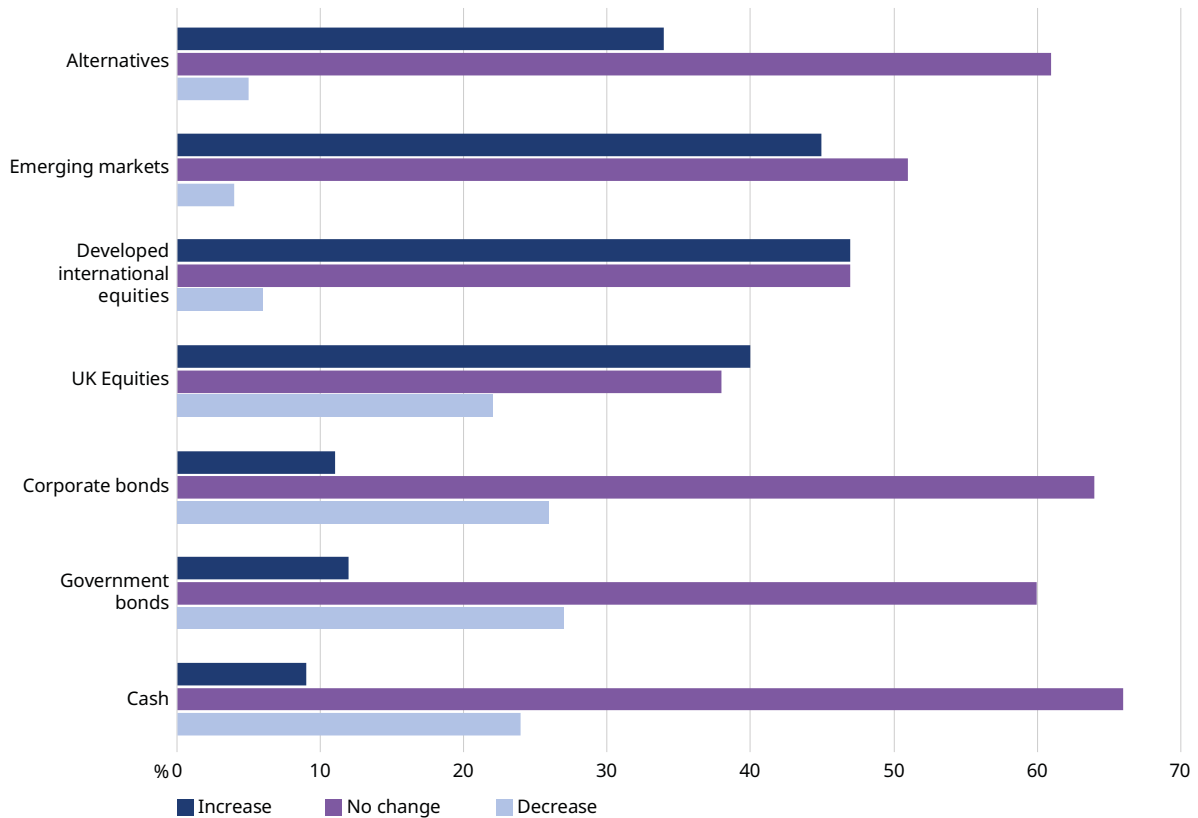
of advisers expect to increase exposure to emerging market equities over the twelve months from the survey date and only 4% expect to reduce exposure



**Figure 7: Change in client asset allocation over the last 12 months**



**Figure 8: Expected changes in client asset allocation over the next 12 months**



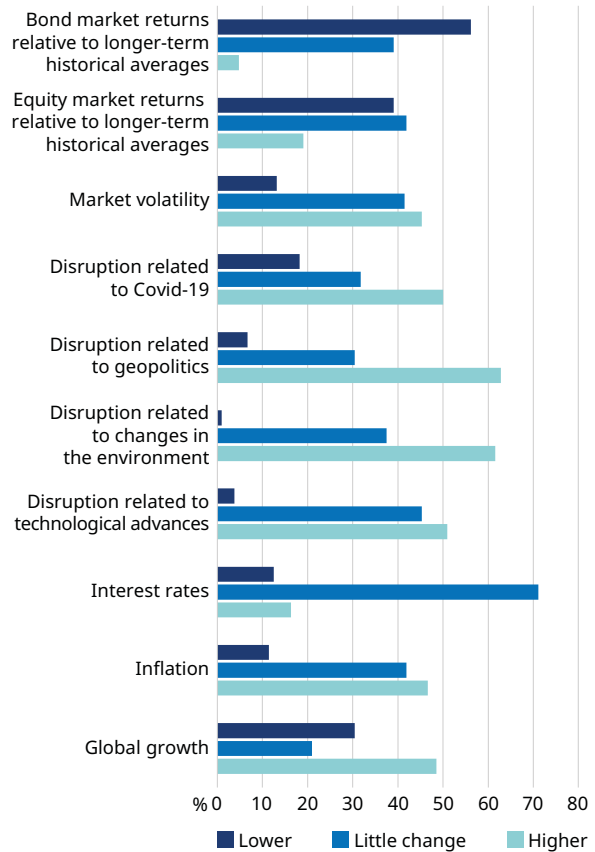
## Global growth outlook

49% of advisers expect that global growth will be higher over the next five years compared to 30% who expect that growth will fall. This suggests that on balance there is a degree of optimism among advisers about a recovery in economic activity as the world emerges on the other side of the Covid-19 crisis. The Covid-19 vaccine roll out has provided a boost to the outlook for the world economy, and spurred a significant rally in risk assets.

We have recently upgraded our global growth outlook for the world economy. The return of lockdown restrictions weakened activity in the fourth quarter of 2020, and may continue to do so in the first quarter of this year if restrictions remain. However, in the second half of 2021, growth should pick up following the arrival of the vaccine and some return to normality. Overall, we expect global growth to be strong at 5.2% in 2021. We also see the recovery extending into 2022 as fiscal and monetary policy remain loose whilst activity normalises.

On a five year view, 39% expect that returns from equities will be lower than historical averages compared to 13% who expect higher returns. This is perhaps unsurprising, given that many equity markets now trade on high multiples compared to earnings after a prolonged period of strong returns. However, as can be seen from figure 8, equities remain a favoured asset class of advisers on a 12 month view.

**Figure 9: What is your expectation for the following over the next 5 years?**



## Advisers' key expectations



**71%**  
no change in  
interest rates



**47%**  
expect inflation  
to push higher



**56%**  
expect lower returns  
from bonds



**81%**  
anticipate either the same  
or lower returns from  
equity markets



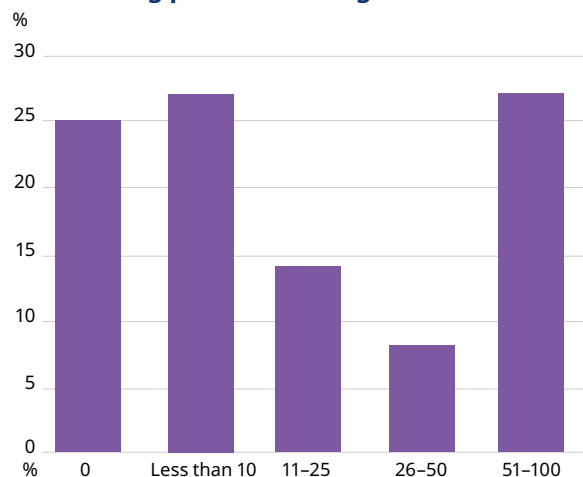
## Portfolio management

According to our research, 75% of the advisers surveyed use outsourced portfolio management services. However, just 27% of advisers make minimal use of outsourced portfolio management services, outsourcing less than 10% of client assets. At the other extreme, 27% of advisers outsourcing more than 50% of client assets. A varied picture which demonstrates that advisers continue to use a broad range of investment solutions both in partnership with external managers or developed in-house. However, anecdotal evidence suggests that advisers are continuing to increase the level of outsourcing particularly after experiencing volatile market conditions. Increasing regulation in this area could also be a driver for change and it will be interesting to see if this is reflected in future surveys.

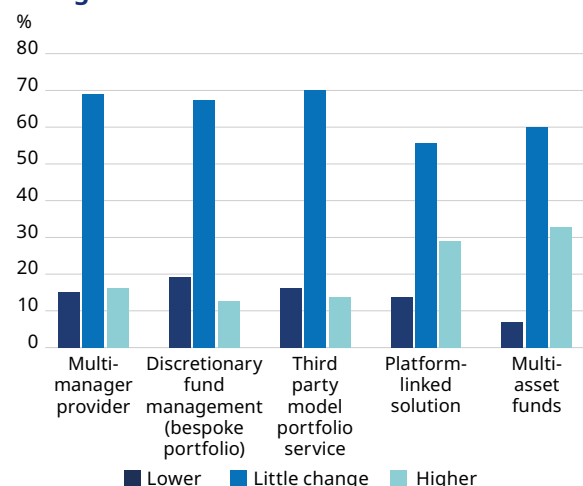
We asked those advisers who outsource the management of portfolios whether they saw this changing. In general there was little difference from last year, but what was noticeable was where assets were allocated. There was a distinct shift to multi asset funds with 32% of advisers indicating that their allocation to these would increase.

One of the challenges of multi-asset funds has often been the ability to demonstrate the full diversification to clients particularly if held on a platform. In contrast, a model portfolio solution is reported in more detail. However many fund providers are turning to technology solutions to address this specific challenge. Maybe more advisers are comfortable having the conversation with their client around investing in a 'single fund' (see figure 11).

**Figure 10: What percentage of your clients' assets are managed externally through outsourcing portfolio management?**



**Figure 11: If you outsource portfolio management, how do you expect your allocation to the following services to change in the next 12 months?**





## Has Covid-19 changed attitudes to ESG investing?

With the pandemic having a huge impact on daily lives, investors have taken the time to reflect. Public sentiment around sustainability, as well as concern about environmental impact, has noticeably shifted.

### Fund selection process

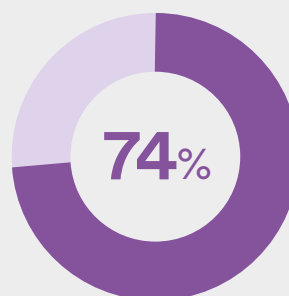
Advisers have responded positively to this shift in sentiment and also to the pre-pandemic growing demand for ESG investments. Our survey reported a significant increase in the number of advisers considering ESG factors in the fund selection process.

---

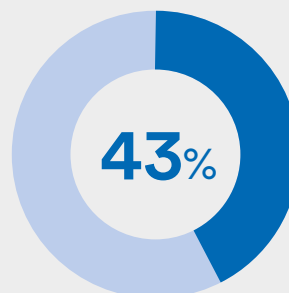
**More than half of the advisers surveyed expect that client attitudes to sustainable investing will change as a result of the coronavirus crisis.**

---

% of respondents who stated that they explicitly consider sustainability and ESG factors in their fund selection process



of respondents in the Nov 2020 Survey



of respondents in the Nov 2019 Survey



## Attitudes towards sustainable investing

Whilst many advisers are now including ESG factors into their fund selection process, 87% of advisers surveyed agreed that the pandemic had reinforced the importance of stewardship. Simultaneously, using an asset manager which actively engages with company management has moved up the agenda. In 2021, we believe that asset managers will not only have to actively engage with companies but evidence this to investors and demonstrate that engagement can drive change.

Whilst 63% of advisers said that the crisis will increase the attention they pay to the ESG risks associated with investments, 2020 has given rise to a particular focus on the social and governance factors. How these factors are researched and then managed within the investment process needs to be clearly communicated to advisers and their clients (see figure 12).

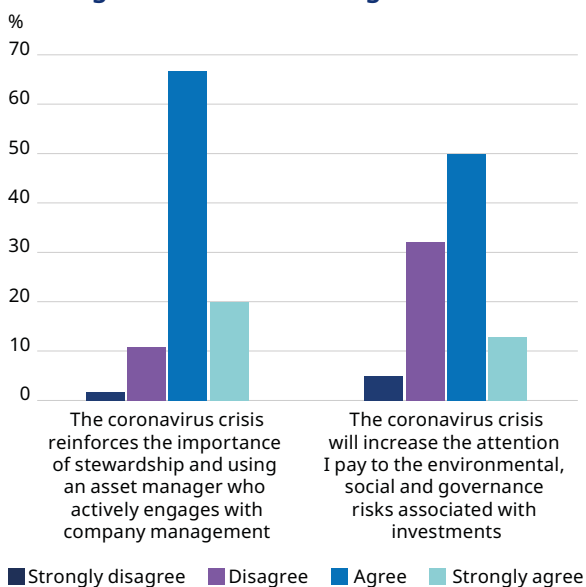
## Adviser confidence

Despite this clear shift to greater weight being placed on ESG considerations, the survey revealed many advisers still lack full confidence discussing ESG investing with clients (see figure 13).

Clearly, ESG factors are increasing in importance for advisers. Clients are becoming far more conscious and interested in the impact their investments will have on the world around them. This trend is only likely to increase as we observe a greater shift of wealth towards younger generations for whom ESG factors are typically a major consideration.

Advisers are clearly responding well and we do not anticipate this trend changing, however, a greater focus around communicating effectively on this topic may be required for many firms.

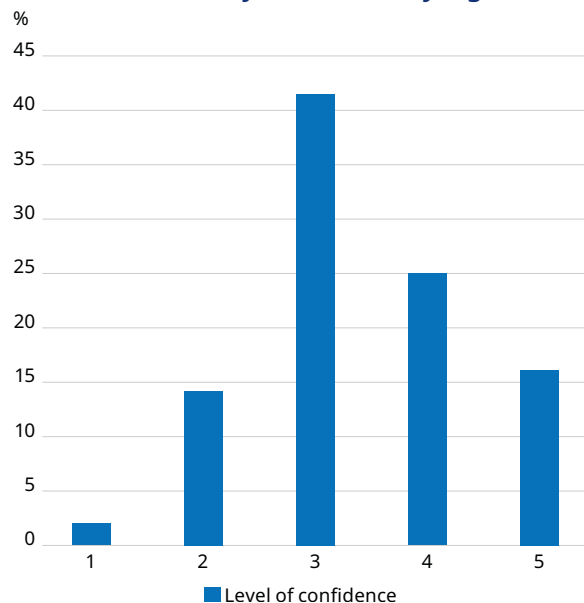
**Figure 12: To what extent do advisers agree or disagree with the following statements?**



**17%**

of advisers rate their confidence discussing ESG factors with clients as 'very high'

**Figure 13: Rate your level of confidence about talking to clients with consistency about the terminology, regulation, integration and behavioural implications of sustainable investing on a scale of 1 (very low) to 5 (very high)**



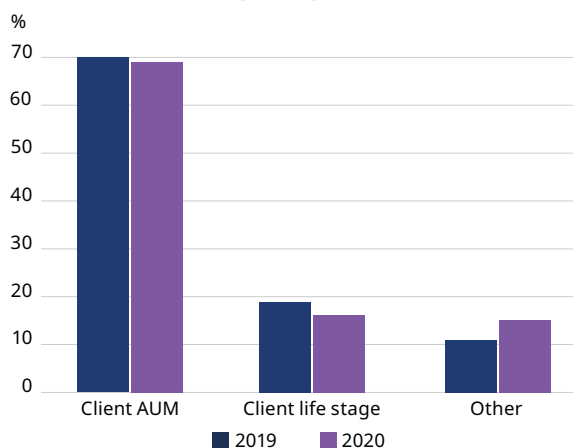
# How are advisers segmenting their client base?



Since the PROD (Product Intervention and Governance Sourcebook) rules came into effect, advisers are continuing to review their client segmentation. In fact, the number of advisers segmenting their client base has risen to 66%.

However, there has been little change in the way advisers segment their clients and almost 70% continue to segment clients on the basis of assets under management (AUM) rather than, say life stage. This style of segmentation may prove costly for advisers when we consider the implications surrounding intergenerational wealth transfer (see figure 14).

**Figure 14: If you segment your client base, what basis do you principally use?**



**49%**  
of respondents segmented  
their client base in the  
2014 survey



**66%**  
of respondents segmented  
their client base in the  
2020 survey



# Intergenerational wealth transfer: friend or foe?

One of the defining trends likely to dominate the industry in the future is intergenerational wealth transfer. Research shows that over the next decade £1 trillion of assets are anticipated to pass between the generations, primarily from baby boomers to their children, the millennials<sup>2</sup>.

Whilst nearly 80% of advisers surveyed indicated that this was an opportunity for their business, and 21% have a sales and marketing strategy to target younger clients, the age profile of the client bank remains consistently high. Furthermore, in 2019 over 50% of advisers accepted new clients with assets of less than £50k. This has since dropped to 43%.

The vast majority of advisers see the transfer of wealth between the generations as an opportunity rather than a threat. However, the average client age coupled with the reduction in the minimum asset levels, would suggest that many advisers have some work to do. This will be key in order to attract and retain younger, less wealthy clients as this transfer occurs.

## How will this transfer unfold?

Research from McKinsey & Co suggests that while transfers between generations are likely to be the defining characteristic of the shift of wealth in years to come, the initial transfer of wealth is likely to be to women. Most 'baby boomer' wealth is held by joint households and the first transfer is likely to be between husband and wife.

Despite this, very few advisers reported that they have a specific strategy in place for attracting female clients.

A similar picture appears with regard to propositions differentiated specifically for younger generations, as well as a lack of a communication strategy aimed at younger clients.

It is encouraging to see that a third of advisers surveyed already have a specific proposition in place which targets the intergenerational transfer of wealth inside of families. However, we believe this should be a key area of focus for firms who currently do not have a differentiated offering for this area.

Effective communications and marketing aimed at younger investors is also an area many advisers may be able to improve. Nearly 80% of advisers do not currently have a sales and marketing strategy specifically aimed at younger investors.

It is clear that the transfer of family wealth between generations and also to women is going to be a vital and important feature of the adviser market going forward. It is reassuring to see that some firms have already put in place differentiated offerings, marketing and communication strategies to serve this need. However, our survey indicates that many firms still have a long way to go to take full advantage of this trend. A clear strategy here could also help them to address one of their key challenges – finding new clients!

2 CEBS and Kings Court Trust, 2017



**9%**  
of advisers have a client bank with an average age between 20 and 50



**9%**  
of advisers currently have a differentiated strategy for attracting, retaining and advising women



**24%**  
of advisers have a client bank with an average age of over 65



**67%**  
of advisers do not currently have a specific proposition for targeting the transfer of family wealth to the next generation

# The key takeaways

2020 was an exceptional year that introduced remarkable change to financial services.

However, while the coronavirus crisis has created change, especially around remote working and client interactions, it has also brought forward and accelerated existing trends that were already established far before the pandemic.

This is clearly not an easy time to be operating in the adviser market. Many firms have spent the last 12 months almost exclusively in 'firefighting mode', responding reactively to events and, as a consequence, struggling to find the time to think strategically. It has been a challenge to find time to focus on adapting service offerings or generating new business. Of course, many advisers have spent more time in 2020 handling existing clients than they would typically, so none of this is a surprise.

---

**“While Covid-19 has created change, it has also brought forward and accelerated existing trends that were already established far before the pandemic.”**

---

ESG factors are becoming increasingly important for advisers, and most advisers that we surveyed clearly expect this trend not only to continue but accelerate as the world comes out of the Covid-19 pandemic.

Advisers may also have significant work to do to best prepare themselves to take advantage of intergenerational wealth transfers over the coming years. Greater client segmentation, not simply by AUM may be necessary. Additionally, advisers will perhaps require differentiated offers and communication strategies to attract and retain wealth which falls into the hands of younger and female clients.

The specific responses around adviser concerns, ESG investing, future asset allocation and intergenerational planning are often very illuminating. While all of these responses reflect a difficult year they also reveal an industry which has, so far, weathered the storm relatively well.

Financial advisers are living through a changing advice market and are under a variety of different pressures. Without a doubt, advisers must take the time to forge a strategic approach to wider trends to ensure they are well positioned to thrive in the months, years and decades ahead.





# Get in touch

Schroders have a range of support available on PROD, intergenerational wealth transfer and sustainable investing. To find out more about these topics and our investment solutions, just contact your usual Schroders representative or call 0207 658 3894.

 [schroders.com](https://www.schroders.com)

 [@Schroders\\_UK](https://twitter.com/Schroders_UK)

 [Schroders](https://www.linkedin.com/company/schroders)





EST. 1804

## Schroder Investment Management Limited

1 London Wall Place, London EC2Y 5AU, United Kingdom

T +44 (0) 20 7658 6000

**Important Information:** This information is a marketing communication. Reliance should not be placed on any views or information in the material when taking individual investment and/or strategic decisions. The views and opinions contained herein are those of the individuals to whom they are attributed and may not necessarily represent views expressed or reflected in other Schroders communications, strategies or funds. Information herein is believed to be reliable but Schroders does not warrant its completeness or accuracy. Insofar as

liability under relevant laws cannot be excluded, no Schroders entity accepts any liability for any error or omission in this material or for any resulting loss or damage (whether direct, indirect, consequential or otherwise). For your security, communications may be recorded or monitored. Issued in January 2021 by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registration No. 1893220 England. Authorised and regulated by the Financial Conduct Authority. UK001978. CS2976.