

AEGON IFA Insights Survey Research and Analysis

Report One: [November 2006](#)

Introduction from Otto Thoresen

The UK long term savings industry is entering a critical period in its development. The FSA's review of retail distribution, and its chairman, Sir Callum McCarthy's challenge to the industry to find new ways of reaching more customers, together form a catalyst driving us to re-examine how we serve the public's long term savings needs most effectively and, ultimately, how we increase the level of savings in the UK. This is happening against a landscape of pensions reform, and where the momentum behind the Government's Financial Capability strategy is gathering.

As AEGON plays its part in bringing the industry closer together to create the solutions we need for the future, our new 'IFA Insights Survey' will give us a valuable perspective on the current views and opinions of a cross section of the industry. A regular review of these issues is vital to act as an indicator of industry trends and to offer stakeholders an 'insight' into the pressing issues and challenges we all face today. We must all work together to ensure the solutions we create meet the changing needs of customers in a profitable way. This research initiative will add an extra dimension to the knowledge we have available to help us achieve this aim.

Scope

The first wave of our research focussed on three main areas; the savings gap, the role of the IFA and the future of the IFA industry. Our next survey will take place before the end of 2006 and will capture the emerging issues as the FSA outlines the scope of its review of retail distribution.

I hope that you will find the results of this first survey as interesting and useful as I have. You will notice that we have published the top line findings in the tables throughout this report to illustrate the most important points. However if you would like to see the full data tables from this research, or you have any other comments or queries relating to the following pages, please do not hesitate to contact me as I would be pleased to hear your views.

Otto Thoresen
Chief Executive

November 2006



Question 1

How important do you think each of the following factors has been in contributing to the 'savings gap'? (Very important, somewhat important, somewhat unimportant, very unimportant).

Results:

	'Very important'	Total 'important'*
The shifting culture in attitudes towards debt	58%	95%
Lack of education and understanding of individual financial needs	64%	94%
People relying on the value of family homes for retirement	62%	92%
Mis-selling scandals leading to loss of confidence	53%	90%
Recent poor returns on pensions	53%	89%
Increased tax and cost of living	56%	83%
Increasing regulation and paperwork	47%	74%
Low interest rates	20%	61%

*Total of those answering very or somewhat important

Finding new customers and addressing the savings gap is a key consideration for the industry and government. There is no doubt that people need to save more for the future, but that the 'shifting culture in attitudes towards debt' has led society to feel at ease with the increasing 'buy now, pay later' trend and to ignore the need to plan for the future. There is a need to rebuild a savings culture in the UK. Another trend highlighted here is the reliance on a family home to fund retirement and the tendency for people to put 'all of their eggs in one basket' in the hope that traditional bricks and mortar will fund the future.

However it is significant to note that a high proportion of IFAs have identified lack of financial education and understanding of individual financial needs as an important contributory factor – and this adds further momentum to the argument for supporting financial capability initiatives.

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- Lack of education and understanding of individual financial needs was said to be 'very important' by nearly two thirds (64%) of IFAs, more than any other factor – slightly ahead of people relying on the value of their own homes for retirement (62%).
- However, when those answering 'very important' and 'fairly important' are combined, the shifting culture in attitudes towards debt becomes the most influential (with 58% saying this is 'very important' and a further 37% that it is 'fairly important').

Question 2

In your opinion, which of the following would encourage people to seek more financial advice? Would each one be very important, somewhat important, somewhat unimportant, very unimportant?

Results:

	'Very important'	Total 'important'*
Greater understanding of the professional status of IFAs	63%	90%
Financial education in schools	58%	89%
Measures to rebuild trust in the industry	47%	89%
Marketing of financial products and provision of information in the workplace	35%	35%
A recognised industry 'kite mark' based on a professional qualification	29%	62%

*Total of those answering very or somewhat important

IFAs clearly believe that if the public had greater clarity about their professional status, they would be more inclined to seek financial advice. But it is clear IFAs also think that a formal financial education programme in schools would encourage people to seek advice. This is significant as the Government develops its financial capability strategy. There is also acknowledgment that the financial services industry in general needs to address the issue of confidence and trust.

AEGON Analysis

- Greater understanding of the professional status of IFAs (90%) was deemed to be marginally more important in encouraging people to seek more financial advice than education in schools (89%).
- Less than a third (29%) of respondents believe that a recognised industry 'kite mark' would be very important in encouraging more people to seek financial advice, while a little over a third (35%) believed that reaching people in the workplace was important.

Question 3

Thinking about the responsibilities IFAs have to their clients, please can you say whether you agree or disagree with each of the following statements? (Agree strongly, agree somewhat, disagree somewhat, disagree strongly).

Results:

	Total agree*
IFAs have a professional responsibility to encourage their clients to make financial plans for the whole of their life	92%
Most clients just want me to advise on one or two issues, and are not interested in developing a financial plan for life	68%
It would be a good idea to develop a financial plan for life but the administrative burden doesn't allow enough time to do so	59%
Clients know what they need and ask for my advice when they want to. It isn't my role to develop a lifelong financial plan	17%

*Total of those answering agree strongly or agree somewhat

There is no doubt in the industry that IFAs have a professional responsibility to encourage their clients to make financial plans for life. After all, IFAs are the people with the technical knowledge and first hand experience to guide people from every background through the full personal finance planning cycle. There are those in the industry who believe that their clients are self-sufficient enough not to need the full range of on-going advice which a financial plan for life would involve, but it is clear that most see a responsibility to promote this idea.

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- Nearly three quarters (72%) agreed strongly that they had a professional responsibility to encourage clients to make financial plans for the whole of their life, with a further fifth agreeing somewhat. Only 5% disagreed with the statement.
- More than half (59%) disagreed strongly with the proposition that clients know what they need and it isn't the IFA's role to develop a lifelong financial plan.
- More than a fifth (22%) disagreed strongly that the administrative burden does not allow time to develop lifelong financial plans.

Question 4

Overall, how well do you think product providers support IFAs in terms of developing new and existing products?

Results:

	Total
Very well	17%
Quite well	61%
Quite poorly	17%
Very poorly	5%

Product providers are constantly looking to develop new and innovative solutions to suit the financial needs of society today. It is encouraging to see that almost 8 out of 10 IFAs believe that product providers are doing this well. There is still room for IFAs and product providers to work more closely together to understand peoples' needs and to meet them with products and advice.

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- Almost 8 out of 10 IFAs believe that the product providers do this 'very' or 'quite' well. However, less than a fifth (17%) believe the product providers develop new and existing products 'very well' to support the IFA community.
- Just over a fifth (22%) of IFAs believe that the product providers are 'quite' or 'very' poor in terms of developing new and existing products to support the IFA community.

Question 5

Please can you say whether you agree or disagree with each of the following? (Agree strongly, agree somewhat, disagree somewhat, disagree strongly).

Results:

	Net agreement*
Independent financial advice is more important than ever because the wide range of products available can be confusing for consumers	+95%
The range of products and the pace of change in the market sometimes make it difficult for IFAs to do their job and so they need more help from providers	+62%
The growing availability of information, particularly through the internet, makes it increasingly difficult to persuade consumers of the importance of independent financial advice	+11%
In the eyes of the consumer, the IFA industry is being seen as increasingly outdated and unnecessary	-59%

*Proportion of people answering agree strongly or agree somewhat minus the proportion of people answering disagree strongly or disagree somewhat

The number of financial services products available to the consumer has increased dramatically in all sectors in the last ten years, but does not appear to have helped customer understanding. Advances in communication like the internet are also proving, on balance, to be helpful in spreading the relevant information, but, according to this research, there is still no replacement for the quality of advice offered by professional IFAs.

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- 85% of IFAs agreed strongly that “independent financial advice is more important than ever”, with a further 12% agreeing somewhat – a total of 97%.
- 40% agreed strongly, and a further 37% agreed somewhat, that “the range of products and the pace of change in the market sometimes make it difficult for IFAs to do their job”. 15% disagreed.
- While a majority of IFAs agreed strongly (36%) or somewhat (15%) that “the growing availability of information...makes it increasingly difficult to persuade consumers of the importance of independent financial advice”, 40% disagreed.
- Nearly half (46%) of IFAs disagreed strongly that the industry was “being seen as increasingly outdated and unnecessary”, with a further 31% disagreeing somewhat. 18% agreed with the statement.

Question 6

I am going to read out a list of factors that some people think pose a risk to the future of the IFA industry. Is each one a serious threat, potential threat, not a threat at all?

Results:

	Serious or potential threat
The burden of regulation	88%
Difficulties recruiting the right calibre of people to the industry	79%
Lack of public trust in the industry	72%
A perception that consumers can find the best deals for themselves without help	52%
The increasing availability of financial information on the internet	49%
The industry being left behind technologically	37%

It is clear that the IFA sector feels under threat from more than one direction. The burden of regulation has increased dramatically in recent years, and it is no surprise that almost 9 out of 10 IFAs consider this to be their top threat. However, more interestingly, 8 out of 10 IFAs believe that recruitment is a major threat that is even more challenging than a lack of public trust.

However if the industry is to rebuild trust, then regulation must be part of the equation. As the industry seeks to improve the existing distribution model and develop new ones, it would be valuable to work with the FSA to develop appropriate regulatory regimes.

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- More than half of IFAs (52%) regarded the burden of regulation as a serious threat to the future of the industry. A further 36% consider it a potential threat. Only 12% thought regulation was not a threat at all.
- A clear majority (57%) also thought difficulties recruiting the right calibre of people were a serious threat, with more than a further fifth (22%) thinking recruitment problems were a potential threat.
- While only 17% thought lack of public trust was currently a serious problem, more than half (55%) regarded the issue as a potential threat.
- IFAs were divided over the risk posed by the perception that consumers can find the best deals for themselves without help. While nearly half (48%) thought this was not a threat at all, 39% thought it was a potential threat and 13% already regarded it as a serious threat.
- The increasing availability of financial information on the internet was slightly less worrying for IFAs, with 50% saying this was not a threat at all. Only 4% regarded the internet as a serious threat.
- Technology was not a major concern, with 62% saying the risk of the industry being left behind technologically was not a threat at all. Less than a third (32%) regarded it as a potential threat and only one in 20 (5%) a serious threat.

Question 7

How important do you think each of the following factors is in putting people off becoming IFAs? (Very important, fairly important, not important at all).

Results:

A perception...	Very or fairly important
...that there are more exciting industries to join	86%
...that career development opportunities are limited	73%
...that financial rewards or remuneration are higher elsewhere	62%
...that it is an occupation of the past	57%

NB: this question was asked of the 79 respondents saying recruitment difficulties were a serious or potential threat in Q6.

The root of this issue appears to be embedded within the industry itself. Almost 9 out of 10 IFAs believe that there is a perception that there are more exciting industries to join. The answers to this particular question highlight the fact that there is a real issue to address here and that the IFA sector needs to launch a fresh assault in terms of recruitment, seeking out the brightest and the best, offering competitive remuneration and ensuring that the industry is positioned as dynamic and forward looking and the answer to the needs of many millions of people.

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- More than half (53%) of IFAs who thought recruitment problems were a serious or potential threat thought the perception that there are more exciting industries to join was a very important factor; only 13% thought this was not important at all.
- Just over a quarter (27%) thought perceptions of limited career development were a very important factor in putting people off joining the industry; a further 46% thought this issue was fairly important.
- Nearly half (49%) thought a perception of comparatively low financial rewards was a factor in recruitment problems, with a further 13% saying this was very important.
- Respondents were quite evenly divided over whether an association of the industry with the past was a factor in recruitment problems. While 42% thought this was not important at all, more than a fifth (22%) thought it was a very important factor and more than a further third (35%) thought it fairly important.

Conclusion

The first round of the AEGON 'IFA Insights Survey' has investigated IFA views on key issues facing the industry today. From consumer issues, like the savings gap, to industry issues like the perceived threats to IFAs, the Survey has offered an 'insight' into the views of the IFA sector. It is clear that shifting public attitudes towards former stigmas like debt have had a dramatic impact. IFAs believe that a lack of understanding of individual financial needs, coupled with the need for more financial education and to rebuild trust in the industry, are the principal issues to address at this time.

IFAs clearly believe that lack of financial understanding has contributed to the savings gap, and that developing financial education will have a positive impact on the number of people seeking financial advice.

There is a very firm view that IFAs do have a professional responsibility to encourage their clients to develop a financial plan for life, despite the fact that a significant proportion of IFAs also believe that their clients simply want advice on one or two issues and show no interest in developing a plan for life.

There is also a very firm view that professional financial advice is more important than ever before due to the ever increasing range of products available. However, it is also a widely held view that, despite most IFAs believing that the product providers do support them well in terms of product development, more help is needed to enable IFAs to keep up with the pace of change in the market. Regulation, recruitment and trust are the three main perceived threats to the industry, whereas technological advancements and the expansion of information available on the internet are not deemed to be as threatening.

There is clearly a need for action in a number of these areas and the IFA community needs other stakeholders to play their part in progressing some of these issues. For example, the government needs to review the regulatory burden and invest in financial capability; the product providers need to develop new distribution methods and embrace financial capability; while the advisers themselves desire greater recognition of their professional status.

The methodology

Populus, on behalf of AEGON UK, interviewed 100 Independent Financial Advisers specialising in retirement, long term savings and investment products between 15 and 21 August 2006.

For further information

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