

AEGON IFA Insights Survey Research and Analysis

Report Two: [February 2007](#)

Introduction from Graham Dumble

Director of Risk & Regulation

The AEGON IFA Insights Survey is a research programme designed to gauge the opinion of IFAs on the emerging issues affecting our industry. The first report, published in November 2006, surveyed IFA opinion on issues such as financial capability, recruitment and the future of the IFA sector. As the FSA embarks on its Review of Retail Distribution, our second wave of research aims to be even more relevant, investigating IFA views and awareness of this project and some of the potential outcomes.

Our report puts the principal theme of regulation under the spotlight. We have looked at the debate of fees versus commission and how the industry views a move towards a fee based structure. We sought IFA opinion on new commission shapes. The idea of lighter touch regulation for IFAs who meet high standards of Treating Customers Fairly and the creation of common levels of commission between providers and developing two tiers of advice were ideas we thought worth canvassing opinion on.

We also looked at the business development strategies of IFAs to get a view of how the industry seeks new customers and what IFAs rely on to develop their business.

We hope the IFA Insights Survey will provide a useful starting point for further debate within the industry. The results are of interest to all players as the regulatory agenda develops and we hope they will be useful as the discussion continues during the coming months.

The fundamental aim of the IFA Insights project is to gather more information that will assist us in providing the solutions to help build the future of our industry. The UK needs a strong, highly skilled and reputable IFA industry, and it is by working together and sharing information like this that we will be able to deliver the solutions for tomorrow.

Scope

Our first wave of research focussed on the future of the industry, the role of the IFA and the savings gap. In this second wave of research, we have looked deeper into a number of topics including regulation and incentives, potential outcomes of the FSA's review of retail distribution and IFA business development strategies.

As with our first quarterly report, we have published the top line findings in this document in order to illustrate the most important points. Should you have comments or queries relating to the following pages, please do not hesitate to contact me, as I would be delighted to hear your views.

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February 2007



Question 1

The FSA is currently undertaking a review of retail distribution, which will look at issues including measures to ensure IFA firms have sufficient capital backing, whether commission creates product or provider bias, and the role of regulation in market efficiency and ensuring consumers get a fair deal. On balance, do you think the FSA's review of retail distribution represents...

Results:

An opportunity for IFAs to enhance their professional status and reputation	55%
A threat to IFAs and their way of working	20%
Don't know what impact it will have	25%

Commentary

It is heartening that the majority of IFAs view the review as an opportunity to enhance their professional status. A fifth of IFAs see the review as a threat. But interestingly, a quarter of IFAs 'don't know' what impact this review will have on them suggesting a level of uncertainty within the sector and perhaps the need to explore the five themes of the review, outlined by the FSA as it gets underway, in greater detail.

AEGON Analysis

- More than half of IFAs see the review of retail distribution as an opportunity for them to enhance their status and reputation.
- A fifth of IFAs view the review as a threat to their 'way of working'.
- A quarter do not know what impact it will have.

Question 2

The following are some potential outcomes of the FSA review. Please say if you would be satisfied or dissatisfied with each. (Very satisfied, satisfied, dissatisfied, very dissatisfied).

Results:

	Total 'satisfied'*	Total 'dissatisfied'**
Establishing a common level of commission between providers, to prevent the perception or suspicion of provider bias	85%	13%
Lighter regulation regimes for IFA companies the FSA deems to have a strong capital base and good systems for treating customers fairly	79%	17%
A new classification which distinguishes IFAs, who offer ongoing advice to clients, from commission-based models which focus more on product transactions	65%	31%
Reinforced procedures around the existing 'menu of payments' which compel advisers to disclose more about the type of advice they offer and its cost	65%	35%
A system of generic advice, available to all, providing general information about dealing with specific financial needs	63%	32%
A ban on commission as a means of remuneration	11%	88%
Compelling advisers to agree advice charges with clients at outset	68%	29%

*Those saying 'very satisfied' or 'somewhat satisfied'

**Those saying 'very dissatisfied' or 'somewhat dissatisfied'

Commentary

Here we see a very clear message about the future of commission as a means of remuneration with almost nine out of ten (88 per cent) of advisers stating that they would be 'dissatisfied' with a ban on commission. However, there is almost as strong a desire (85 per cent) for a common level of commission between providers to prevent the perception or suspicion amongst consumers of a provider bias.

There is also a strong endorsement that the FSA should relax the regulatory demands for IFA companies they deem to have a strong capital base and good Treating Customers Fairly systems (79 per cent). It is also interesting to note that two thirds of IFAs would be satisfied with 'reinforced procedures' around the menu of payments which compel advisers to disclose more about the type of advice they offer and its cost.

Finally, there is a strong positive endorsement for the concept of generic advice.

AEGON Analysis

- Nearly half (49 per cent) said they would be 'very satisfied' if establishing a common level of commission between providers were to be an outcome of the FSA review. Almost as many (47 per cent) said they would be 'very satisfied' if the review recommended lighter regulation for IFA firms with a strong capital base and good systems.
- 18 per cent would be 'very satisfied' with a new classification distinguishing advice from product transactions, and 19 per cent with reinforced procedures compelling greater disclosure about the type and cost of advice offered. 25 per cent would be 'very satisfied' with a system of generic advice.
- Nearly three quarters (72 per cent) would be 'very dissatisfied' with a ban on commission as a means of remuneration.

Question 3

A previous survey suggested that a majority of IFAs view regulation as a threat to the future of the industry. Please say whether you agree or disagree with each of the following statements. (Strongly agree, agree, disagree, strongly disagree).

Results:

	Total agree*	Total disagree**
Introducing a regulatory system which rewards quality IFAs with less onerous requirements would encourage IFAs to meet regulatory targets	84%	16%
IFAs should have a separate regulatory regime from product providers that takes into account the different ways they work	83%	15%
A new technology platform giving ongoing support to ensure that regulatory requirements are met would make my business more efficient	79%	20%

*Those saying 'strongly agree' or 'somewhat agree'

**Those saying 'strongly disagree' or 'somewhat disagree'

Commentary

It is interesting to note that there is a strong desire for a less onerous regulatory system for 'quality' IFA firms. This reinforces the findings in Question 2. There is also an acknowledgement that the regulatory framework needs to reflect the different roles played by product providers and IFAs. This is the type of concern that may be alleviated by the proposed move towards principles based regulation.

The majority of IFAs feel that a technological platform to ensure regulation is adhered to would make their business more efficient.

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- More than half (53 per cent) 'strongly agree' that IFAs and product providers should have a separate regulatory system.
- 42 per cent 'strongly agree' that a less onerous system would encourage IFAs to meet regulatory targets. 40 per cent 'strongly agree' that a new technology platform giving ongoing support in meeting regulatory requirements would make their business more efficient; 12 per cent 'strongly disagree', perhaps demonstrating different business models.

Question 4

The FSA recently announced that it plans to introduce New Conduct of Business regulations based on principles and outcomes rather than prescriptive rules. Which of the following statements comes closest to your view?

Results:

The move to NEWCOB will make it easier for me to run my business	36%
The move to NEWCOB will be difficult and will impact negatively on my business	23%
I have not heard about the New Conduct of Business Regulations	41%

Commentary

Most interestingly, more than four out of ten IFAs have not even heard about these new plans that could have a dramatic impact on their business. Of those who have heard, over a third believe the move to NEWCOB will be of benefit, while almost a quarter think that the transition will be difficult and will have a negative impact on their business. It is clear that more information surrounding the move to NEWCOB is needed throughout the industry.

AEGON Analysis

- Just over one third (36 per cent) believe that the move to NEWCOB will make things easier to run their business.
- Over four out of ten (41 per cent) admit to not knowing anything about the new regulations, which could have a dramatic impact on their business.
- Almost a quarter (23 per cent) of IFAs believe NEWCOB will impact negatively on their business.

Question 5

One of the areas the FSA will review is ‘the impact of incentives’. Please say whether you agree or disagree with each of the following statements. (Strongly agree, agree, disagree, strongly disagree).

Results:

	Total agree*	Total disagree**
Commission has a vital role to play because many of my clients would not be willing to pay a fee for advice	95%	5%
Commission-based remuneration is generally best for smaller savers, while fees are better for those with more to invest	75%	24%
IFAs would be better able to adapt to client needs if providers offered more transparent product pricing and flexible commission structures	72%	28%
I would like to move to a fee-based structure but my business strategy is dependent on regular commission payments	48%	51%

*Those saying ‘strongly agree’ or ‘somewhat agree’

**Those saying ‘strongly disagree’ or ‘somewhat disagree’

Commentary

It is very clear from this question that IFAs believe that commission ‘has a vital role’ to play as many clients would not be willing to pay a fee for advice. It is also interesting to note that three quarters of IFAs believe that commission is best for smaller savers, whereas fees might suit those with larger sums of money to invest. The most interesting point is that as many as 48% state that they would like to move to a fee based structure but that their business is built on regular commission payments which are vital to the future of their business.

AEGON Analysis

- More than three quarters (76 per cent) ‘strongly agree’ that commission has a vital role to play because many of their clients would not be willing to pay for advice.
- Nearly half (47 per cent) ‘strongly agree’ that commission-based remuneration is generally better for smaller savers; 40 per cent ‘strongly agree’ that IFAs would be better able to adapt to client needs with more transparent pricing and flexible commission structures.
- 29 per cent ‘strongly disagree’ with the proposition that they would like to move to a fee-based structure but their business strategy is dependent on regular commission payments.

Question 6

How useful do you think each of the following would be in encouraging more consumers to see professional financial advice as a service worth paying for?

Results:

	Very useful	Somewhat useful	Not at all useful
A higher level of activity from industry bodies to improve the reputation of advisers	65%	23%	12%
Encouraging advisers to be confident and up-front about the cost of their service	54%	32%	14%
Creating two distinct types of advice – one based on product transactions dependent on a commission, and a more holistic advice service based on fees	25%	45%	30%

Commentary

Here we see a positive endorsement for the work of industry bodies with almost nine out of ten advisers believing that a continuation of their work would lead to greater understanding of the professional role of the IFA.

Organisations like IFAP clearly have an important role to play in promoting the role of the IFA community, but at the same time 86 per cent of IFAs also feel that advisers should themselves be more confident about explaining the cost of their service. A quarter of IFAs believe that promoting a distinction between commission led product transactions and fee based advice would be very useful, and 45 per cent think this would be 'somewhat useful'. This research reinforces our previous findings that there are split views in the industry and no consensus view among IFAs about the debate over fees or commission.

AEGON Analysis

- 88 per cent of IFAs believe that a higher level of activity from industry bodies to promote the reputation of advisers would be useful.
- 70 per cent of IFAs believe that promoting a distinction between commission based product transactions and fee based advice would also be useful. 30 per cent do not believe this distinction would be at all useful.
- Almost nine out of ten (86 per cent) of IFAs believe that being more confident and up front about the cost of their service would be useful in encouraging more consumers to see professional financial advice as a service worth paying for.

Question 7

Thinking about your firm's approach to attracting new clients, please say whether you agree or disagree with each of the following statements. (Strongly agree, agree, disagree, strongly disagree).

Results:

	Total agree*	Total disagree**
Most of our new clients are referrals from existing clients rather than the result of a particular strategy	86%	14%
We would like to have a more strategic approach to attracting new clients but it is difficult to find the time	51%	48%
We have a planned, targeted marketing strategy to ensure that we constantly attract new clients and build our client base	51%	48%
We don't need to spend time attracting new clients as our existing client base is constantly providing us with new business	47%	52%
Product providers have a duty to help IFAs attract new clients	32%	68%

*Those saying 'strongly agree' or 'somewhat agree'

**Those saying 'strongly disagree' or 'somewhat disagree'

Commentary

It is evident here that trust and personal recommendation from existing or previous clients are very important factors for IFA businesses when attracting new clients. 86 per cent of IFAs say they attract most new clients in this way. But, what is also clearly evident is two different approaches to marketing for new clients (51 per cent have a targeted marketing strategy, 48 per cent don't). 47 per cent of IFAs do not believe they need to spend time attracting new clients, while 52 per cent do. While half of IFAs surveyed say they would like to market strategically for new clients, they also claimed they do not have the time to do so. A third believe that product providers have a duty to help IFAs attract new clients.

AEGON Analysis

- More than half (57 per cent) 'strongly agree' that most of their new clients are referrals rather than the result of a particular strategy.
- 26 per cent 'strongly agree' that they would like to have a more strategic approach to attracting new clients but it is difficult to find the time; 19 per cent 'strongly disagree'.
- 24 per cent 'strongly agree' that they have a planned and targeted marketing strategy; 19 per cent strongly disagree.
- 26 per cent 'strongly agree' that they don't need to spend time attracting new clients as their existing client base constantly provides new business; 20 per cent 'strongly disagree'.
- 40 per cent 'strongly disagree' that product providers have a duty to help IFAs attract new clients. Only 13 per cent 'strongly agree'.

Conclusion

As the FSA Review of Retail Distribution gets underway the issues covered in this survey are particularly relevant. It is clear that there is some degree of uncertainty surrounding regulatory change and in particular the New Conduct of Business regulations.

All involved in the FSA review will be pleased to hear that just over half of IFAs consider that the review of retail distribution offers the opportunity for positive development, with the rest either believing it is a threat to the way they work or not knowing what impact it will have. When it comes to the potential outcomes of the review, IFAs have some strong opinions. Establishing lighter regulatory regimes for IFAs deemed to have a strong capital base and good Treating Customers Fairly systems is a popular potential outcome. At the other end of the scale almost nine out of ten IFAs would be against a ban on commission as a means of remuneration. 95 per cent of IFAs state that commission has a vital role to play because many clients would not be willing to pay for advice.

When it comes to the question of consumers paying for advice, IFAs seem less sure and are divided about whether they wish to move to a fee-based model. However, there is a desire to see industry bodies work towards improving the reputation of IFAs and an appetite to encourage advisers to be more 'up-front' about the cost of their service.

IFAs are still very reliant on personal recommendations to attract new clients. But over half of IFAs would like to have a more strategic approach to this but say that is difficult to find the time to do so. Echoing the findings of the first wave of research, these results have shown that regulation is a key concern within the industry and that the IFA community is keen to achieve greater understanding of their professional status.

Methodology

Populus interviewed 100 Independent Financial Advisers specialising in retirement, long term savings and investment products between 30 November and 11 December 2006.

For further information

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