

THE FINANCIAL ADVISER MARKET: IN NUMBERS



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1. INTRODUCTION

This is our fourth annual report “The Financial Adviser Market: In Numbers,” showing the size and nature of the advice sector. The report provides a comprehensive overview of the financial adviser market and the trends within it.

Care is needed with comparisons over the times series for some of the data. The FCA has made changes to the categorisation of “financial advice firms” in its database, which has resulted in a slight change to the firms that are included. We have data from 2013 on the revised basis, but older data points are based on the previous categorisation. To provide clarity we have included the previous categorisation data for 2013 in the footnotes. We think that the changes are sufficiently small to warrant the inclusion of the data from earlier years, which shows the direction of travel of changes in the profession but the user needs to be aware that they are not comparing strict like for like data in comparing pre-2013 with the last 3 years.

What happened in 2015? We saw the number of advisers more or less the same (up a fraction). We also saw stability in the number of advice firms, despite the reported volume of merger and acquisition activity – indeed, the number of firms has remained more or less constant for the 7 years we have reported data. Overall, the steady increase in turnover continued in 2015 (up by 8%), but profits (both before tax and retained earnings) took a significant hit in 2015 – each down by about £100m which represents a fall of 10% in pre-tax and 65% in post-tax profits. In my view this is wholly attributable to the massive increase in FSCS levies. The margins in the sector remain thin.

Looking forward, APFA remains concerned about access to advice with the growing need people will have for help. The Financial Advice Market Review (FAMR) was commissioned with a view to addressing this issue. We look forward to working with the FCA and HM Treasury on implementation of the FAMR, but think further measures will be needed to broaden access to financial advice. For many people there is still a challenge in finding affordable advice that meets their needs.

The data we have collated in the report will be used to help APFA formulate its policy initiatives and to help with our understanding of the impact the RDR has had on the market.

We hope you find this report of interest.



Chris Hannant
Director General | APFA

2. SIZING THE MARKET

2.1 Number of financial advice firms

The total number of financial advice firms¹ registered with the FCA as at 31 December 2015 was 14,491 (Figure 1)², a further small increase on December 2014.

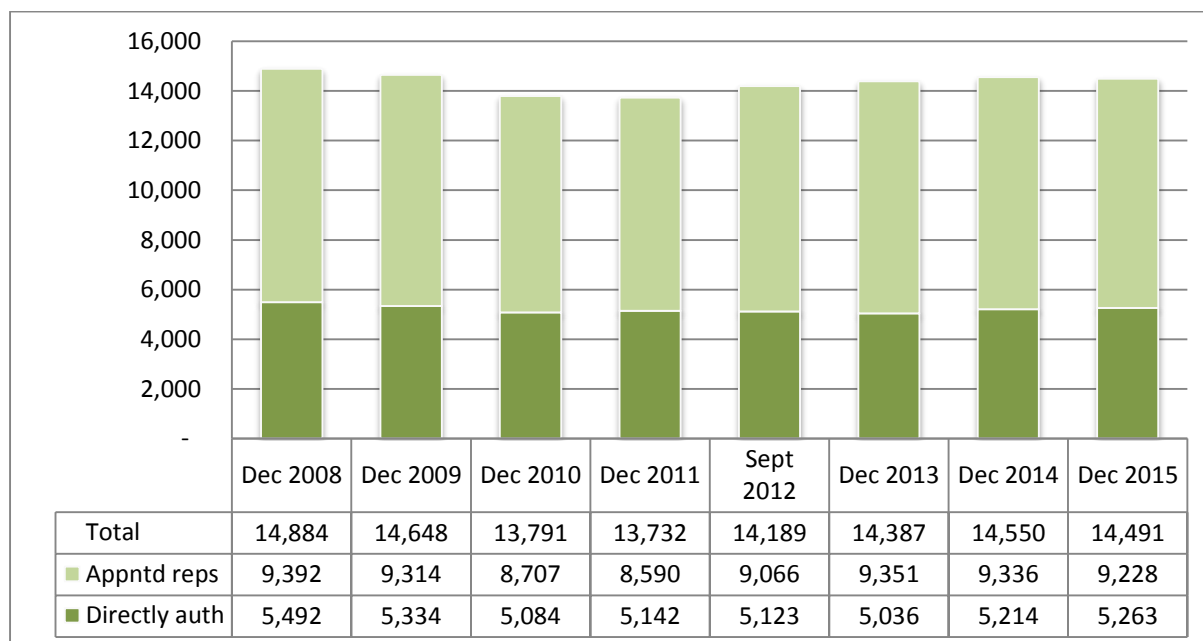


Figure 1

The split between directly authorised firms and appointed representatives, at 36%:64%, has remained largely unchanged over the last 7 years (Figure 2).

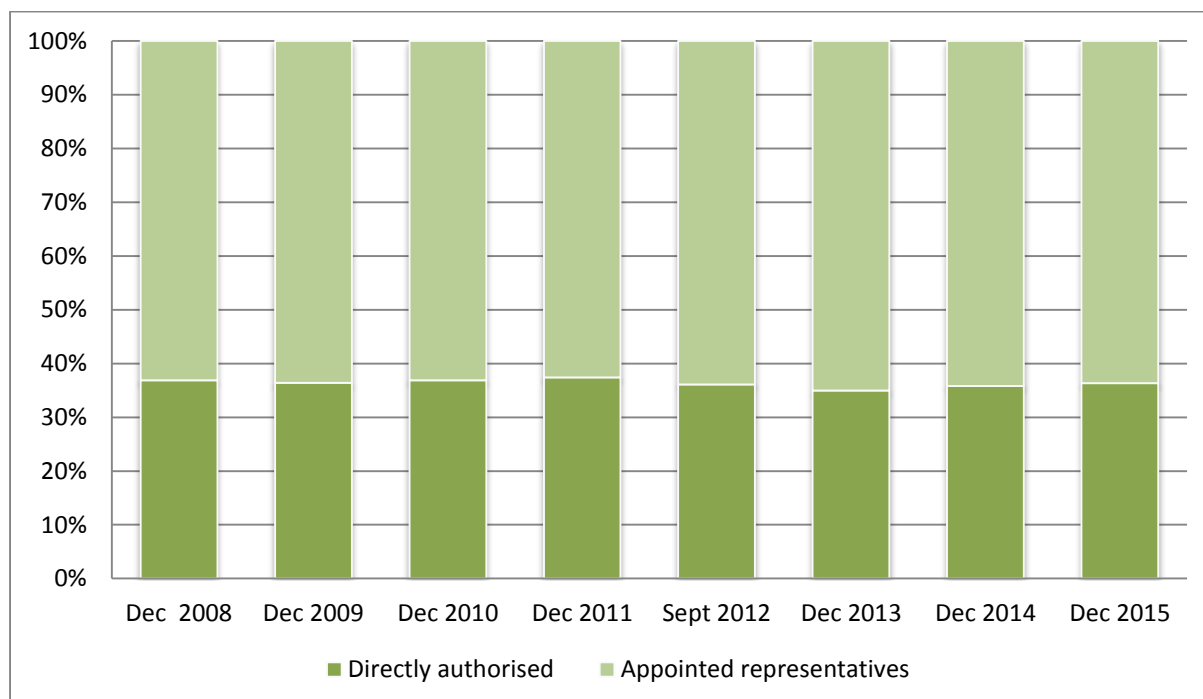


Figure 2

¹ FSA sector statistics for retail intermediary firms, 2012, and aggregated FCA RMAR data since 2013. Defined as all firms that conduct financial advice as their main regulated activity. It does not include firms that conduct some financial advice but not as their main regulated activity. All reference to the number of firms in the report is from this data.

² Data is not available as at 31 December 2012, so data at 30 September has been used instead, being the nearest available date at which equivalent data is available.

2.2 Legal status (directly authorised firms)

The vast majority (85%) of directly authorised financial advice firms operate with limited liability (as either a Limited Company or a Limited Liability Partnership – LLP). This percentage has increased steadily over the last six years, but nevertheless 15% of directly authorised firms are still operating with unlimited liability as sole traders or partnerships (Figure 3).

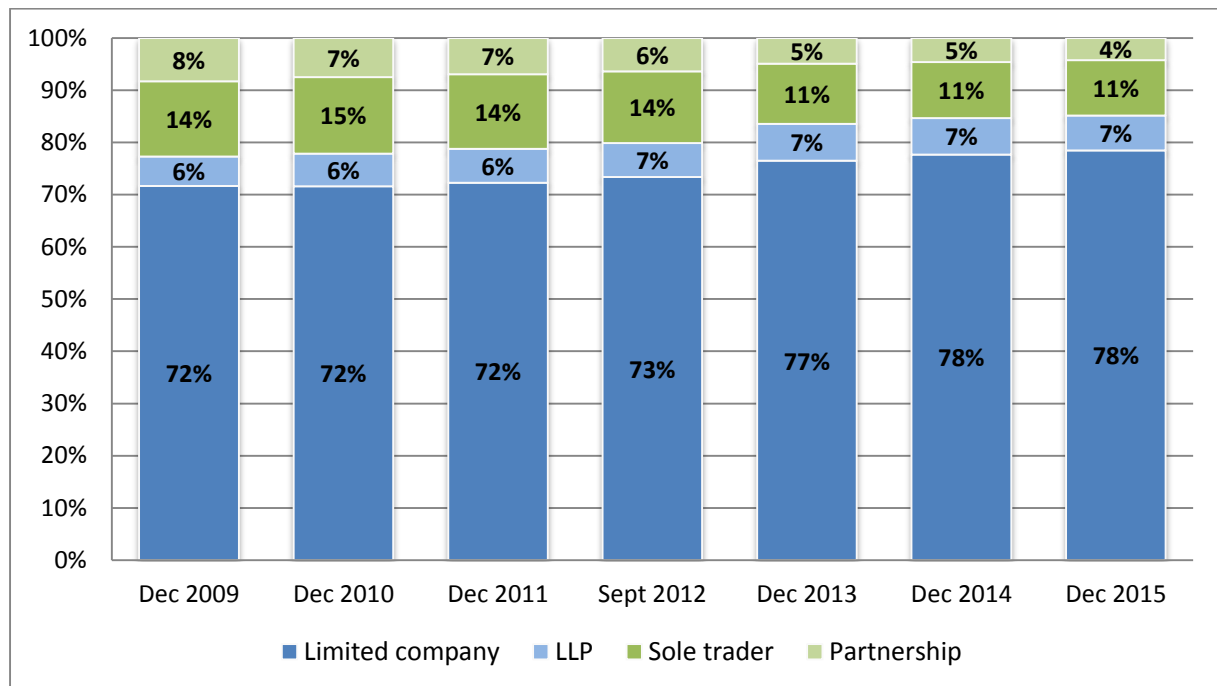


Figure 3

2.3 Number of advisers

The two charts below show the number^A of advising staff³ working in Financial Adviser firms (Figure 4) and the average number of advisers^B per directly authorised firm⁴ (Figure 5).

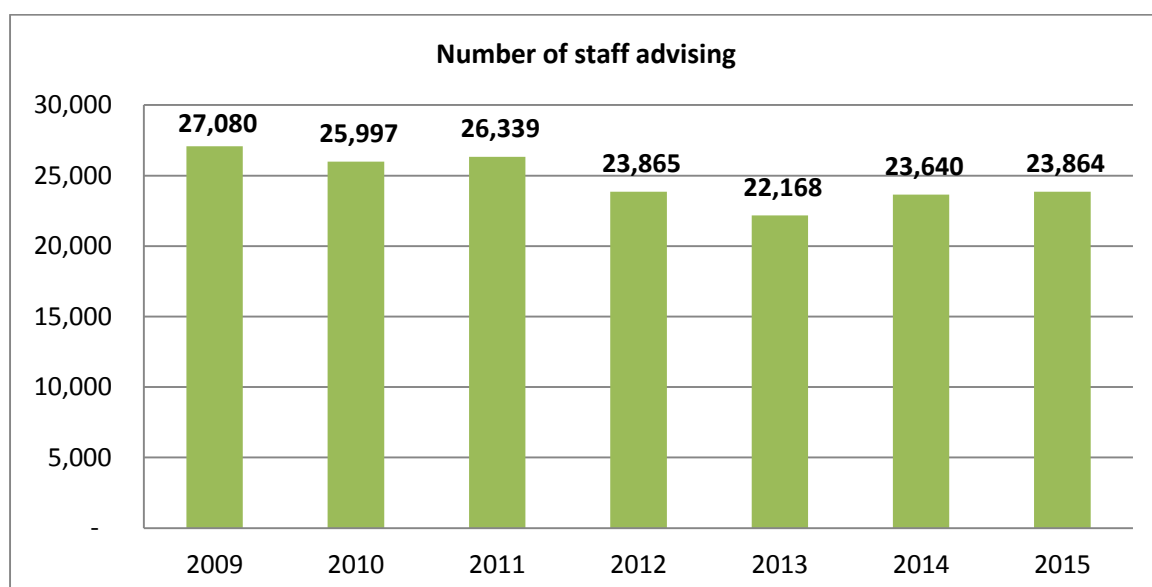


Figure 4

^A The previous FCA categorisation for 2013 shows 22,790 staff. See the introduction for an explanation.

³ FSA sector statistics for retail intermediary firms, 2012, and aggregated FCA RMAR data since 2013. Defined as CF30 staff within firms that have an FCA primary category “Financial Adviser”. Does not include any CF30 staff in firms whose primary category is not Financial Adviser. All reference to the number of financial advisers in the report is from this data and refers to this definition.

^B The previous FCA categorisation for 2013 shows an average of 4.66 staff per firm.

⁴ The averages are calculated in relation to the number of directly authorised firms, not appointed representatives.

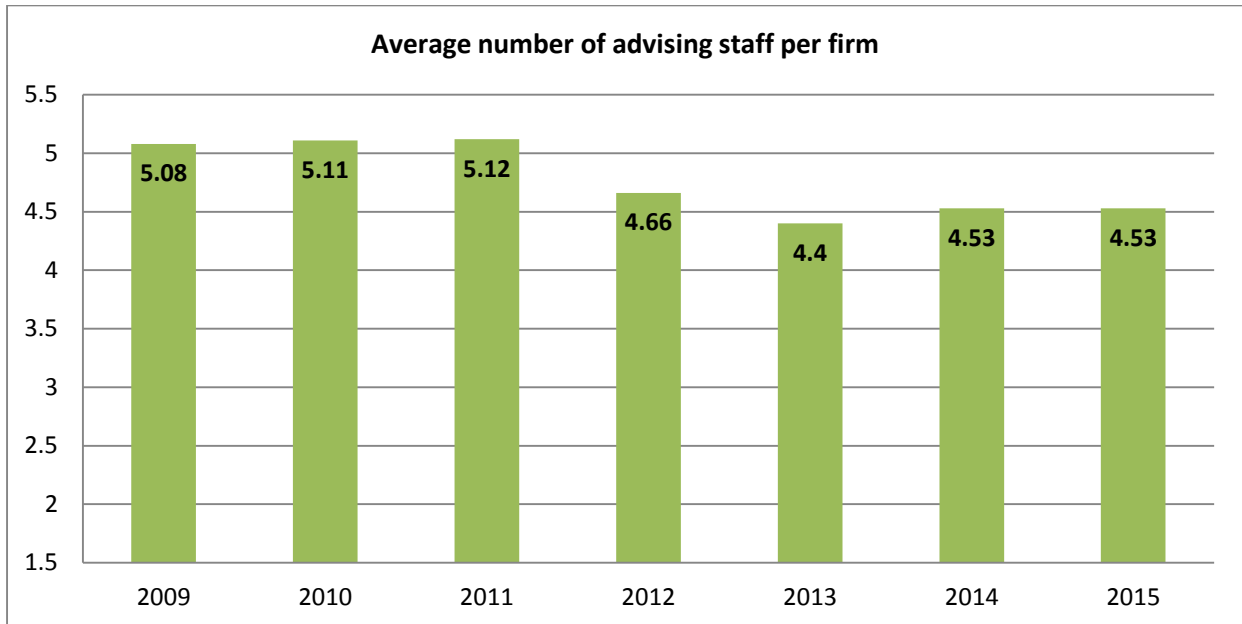


Figure 5

The FSA/FCA has also published data showing the number of advisers based on Professional Standards Data submitted by firms. The chart below (Figure 6) includes the estimates of the numbers of Retail Investment Advisers in different types of firms.

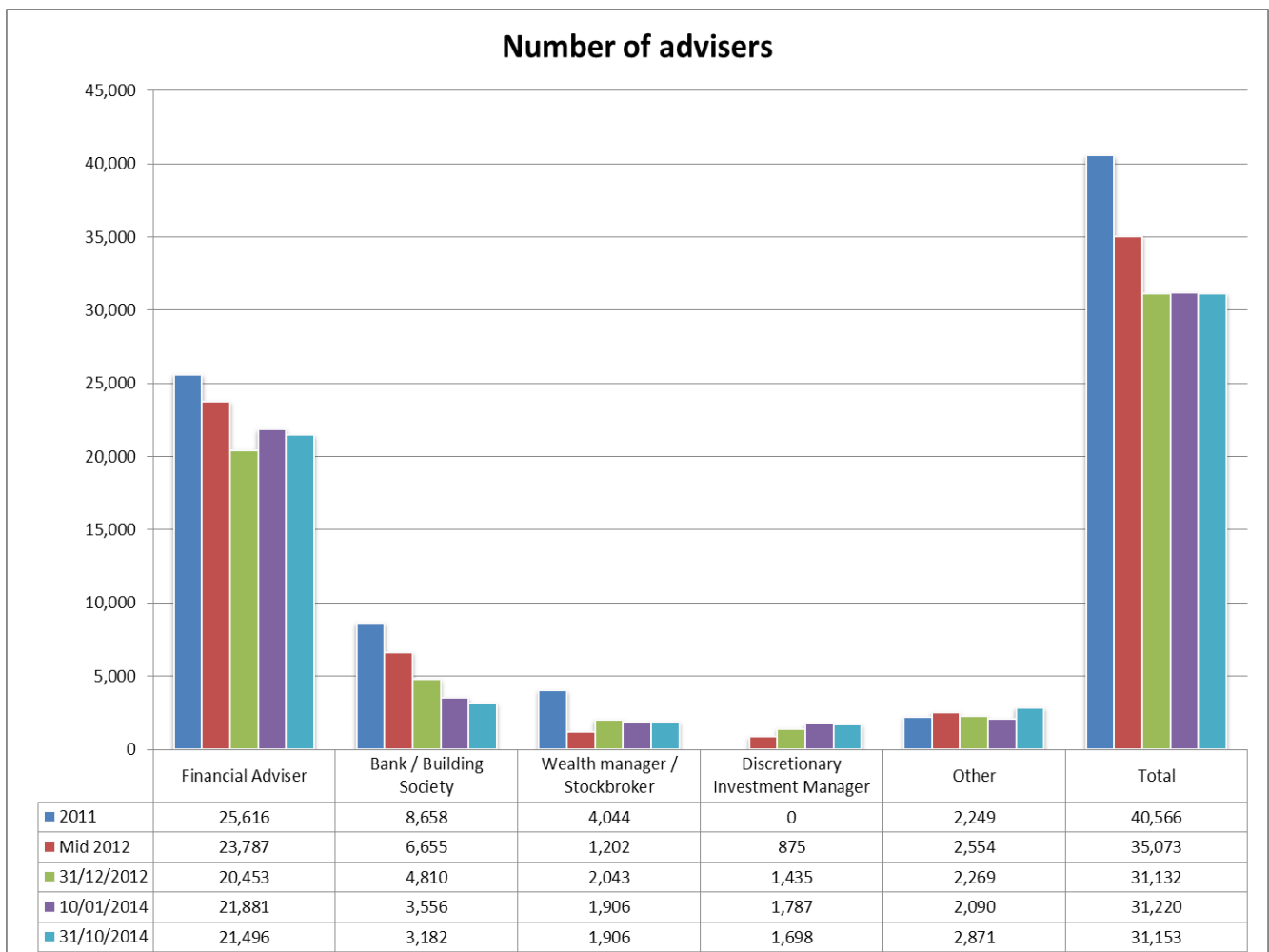


Figure 6

2.4 Financial position

The following tables⁵ show the consolidated revenue⁶ generated^c from regulated retail investment business (Figure 7), non-investment insurance (Figure 8) and mortgages (Figure 9) by Financial Advisers. There were steady increases in investment and insurance business in 2015, and as would be expected, there was a further switch away from commission to fees for investment business (under 30% of income came from trail commission). There was a significant drop in the revenue reported for mortgage business from 2013 due to one large firm leaving the dataset.

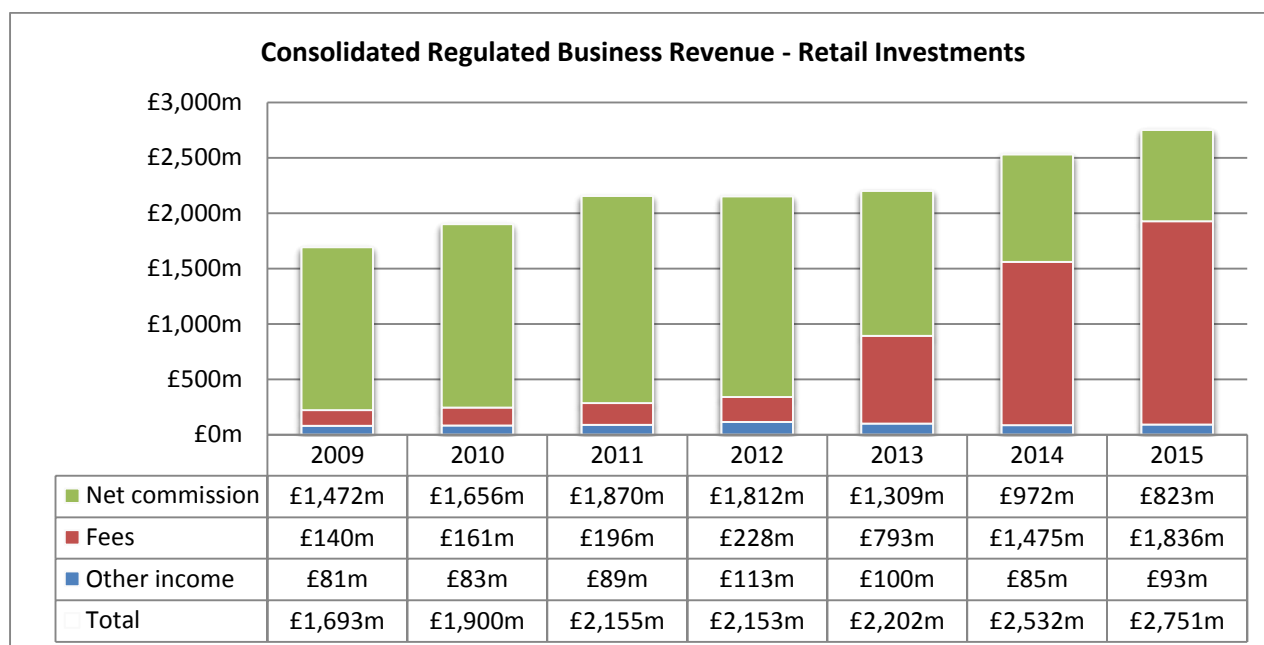


Figure 7

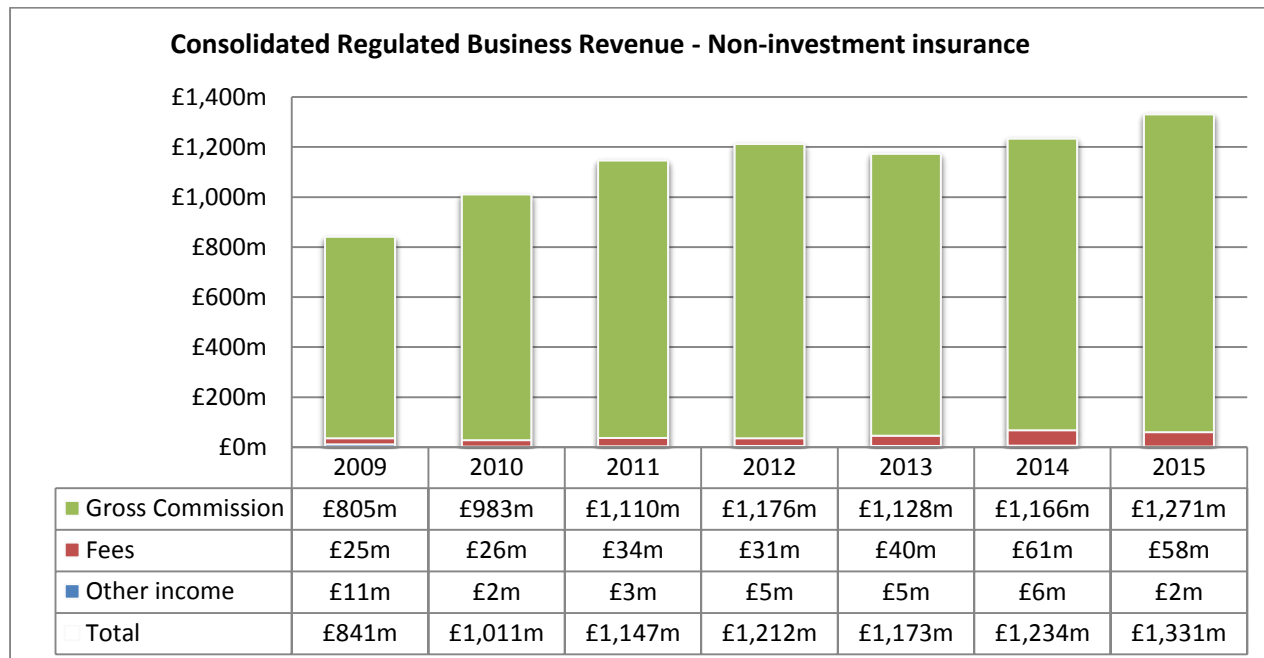


Figure 8

⁵ FSA sector statistics for retail intermediary firms, 2012, and aggregated FCA RMAR data since 2013.

⁶ The figure for "other income" included in mortgage business increased significantly in 2010 as a result of one large firm joining the dataset. It then decreased significantly in 2013 when one large firm left the dataset.

^c The previous FCA categorisation for 2013 shows total consolidated revenue for retail investments as £2,309,887,785, non-investment insurance as £1,282,837,063, and mortgages as £232,877,075

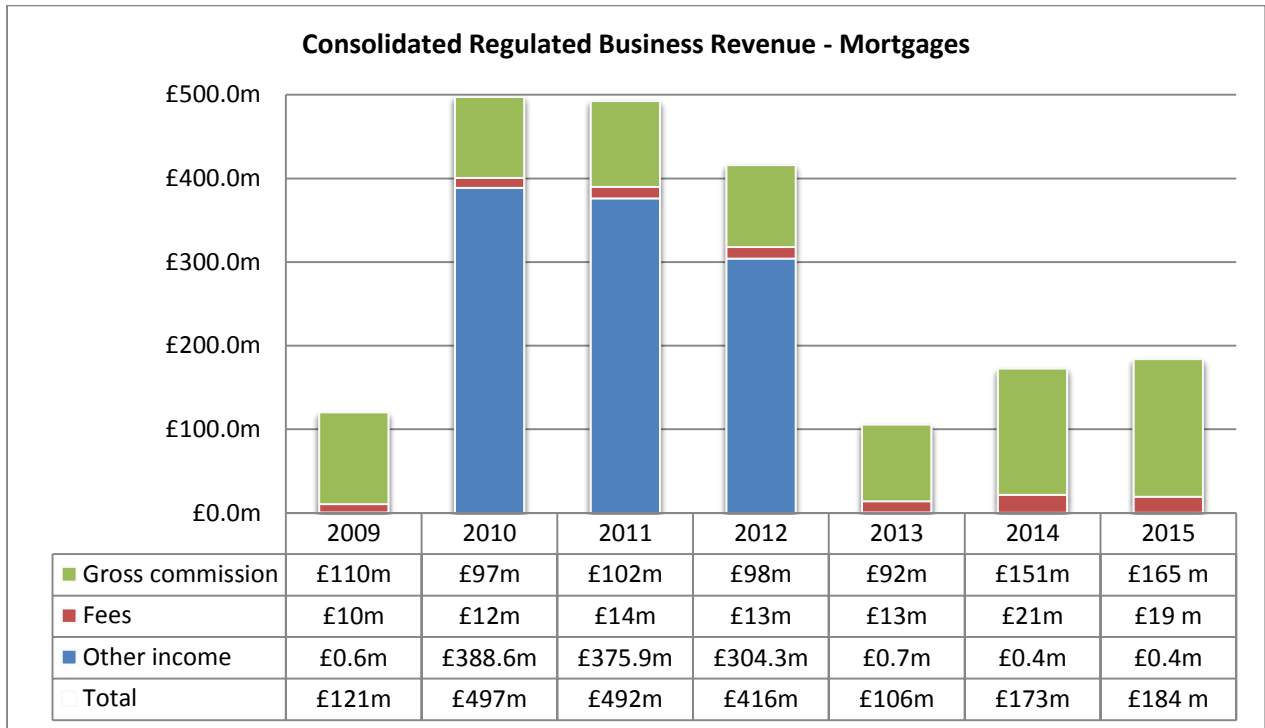


Figure 9

Figure 10 below shows the consolidated figures^D for all types of regulated business reported by Financial Advisers.

The figure for mortgage business increased significantly in 2010 as a result of one large firm joining the dataset. It then decreased significantly in 2013 when one large firm left the dataset. It should also be noted that commission from investment business is reported on a net basis whereas mortgage and general insurance commission is reported gross. The chart is therefore an amalgamation of differing types of income. Nevertheless it gives an indication of the trendsⁱ within the market – in 2014 reported revenue was up by 8%.

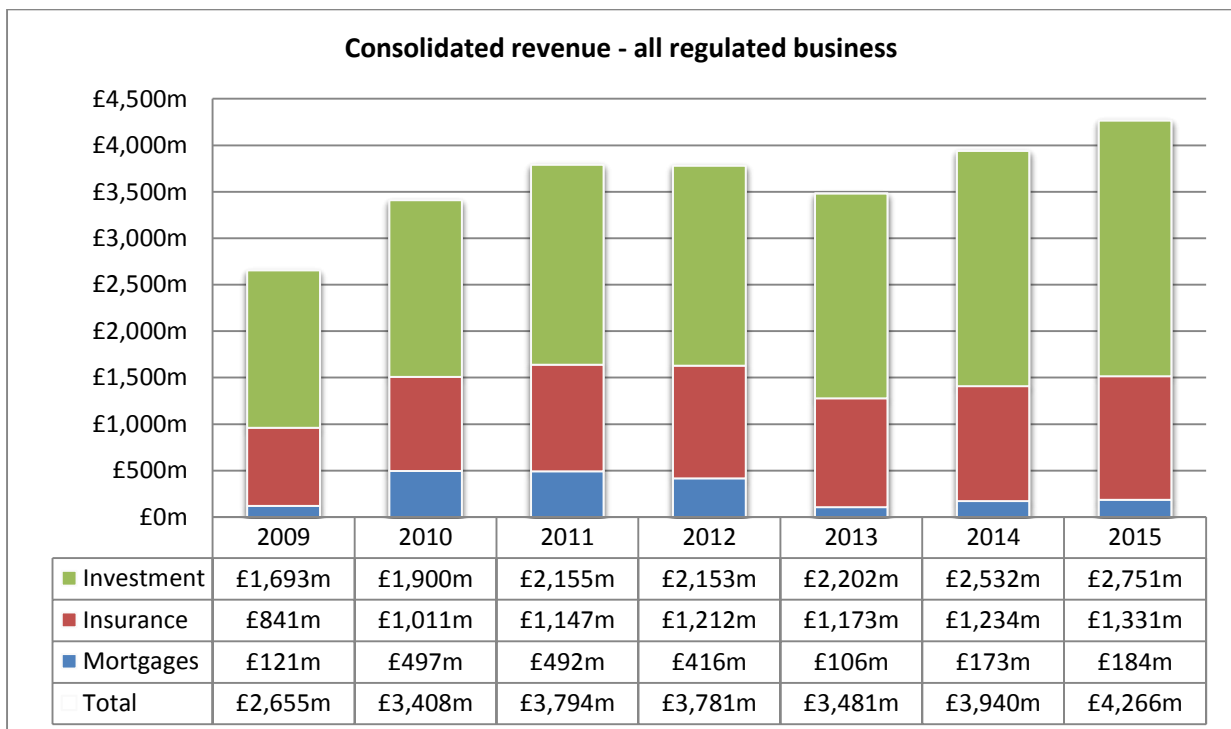


Figure 10

^D The previous FCA categorisation for 2013 shows total consolidated revenue as £3,852,601,923

Figure 11 below shows the proportion of income from investment, insurance and mortgage business ⁷ and reflects the decline in revenue from mortgage business reported in 2013^E and 2014 due to one large firm leaving the dataset.

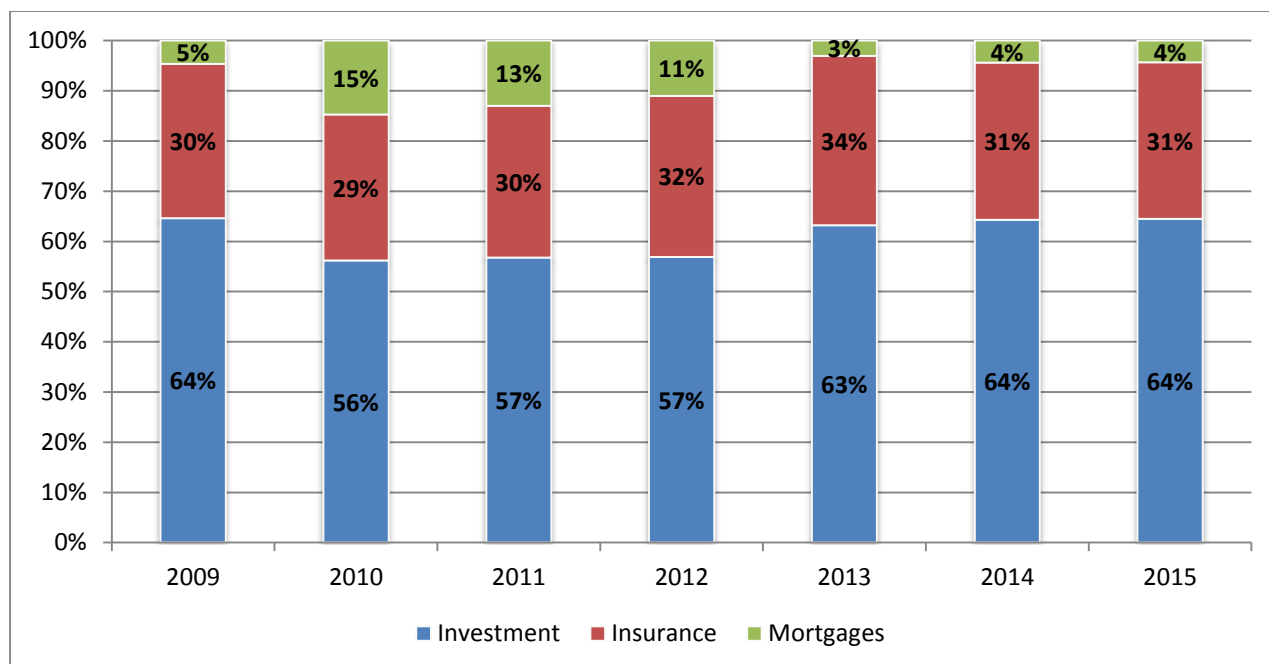


Figure 11

The charts below show the average revenue^F figures in relation to (a) the number of directly authorised financial advice firms and (b) the number of advising staff (as defined earlier) for retail investment business (Figure 12), non-investment insurance (Figure 13) and mortgages⁸ (Figure 14), with Figure 15 showing the averages across all types of business.

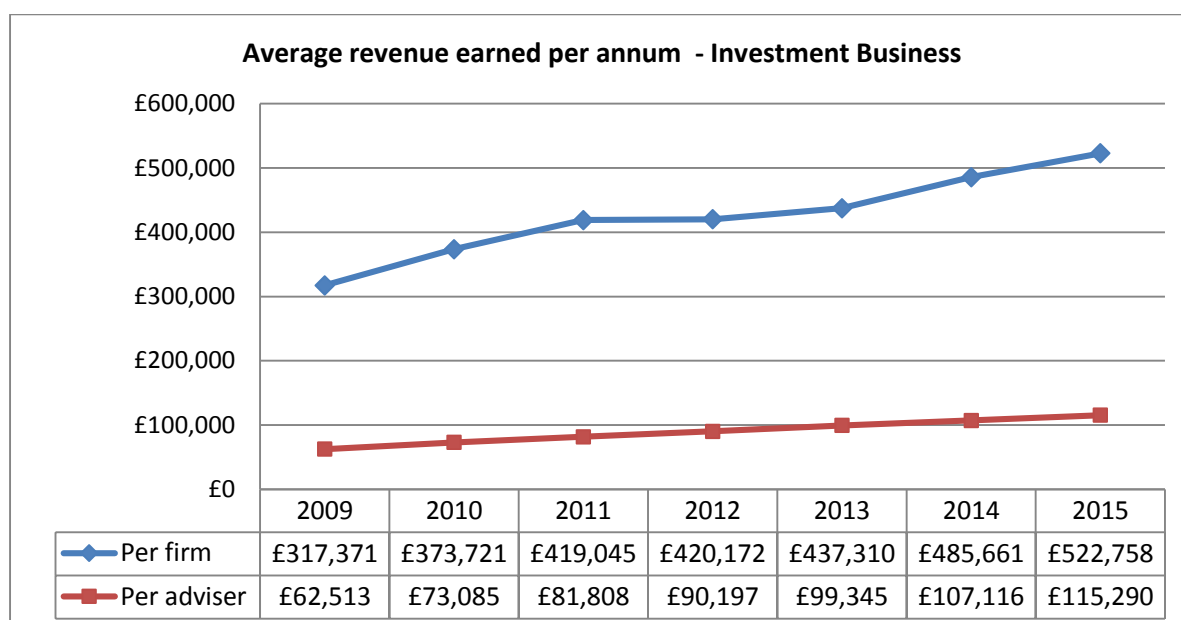


Figure 12

⁷ The figures for mortgage business increased significantly in 2010 as a result of one large firm joining the dataset and decreased significantly in 2013 and 2014 due to one large firm leaving the dataset.

^E The previous FCA categorisation for 2013 shows 60% of income from investment, 34% from insurance and 6% from mortgages.

^F For investment business the previous FCA categorisation for 2013 shows £101,355 for per adviser and £458,675 per firm, for non-investment insurance £56,289 and £254,289, for mortgage business £10,218 and £46,242 respectively.

⁸ The figures for mortgage business increased significantly in 2010 as a result of one large firm joining the dataset and decreased significantly in 2013 and 2014 due to one large firm leaving the dataset.

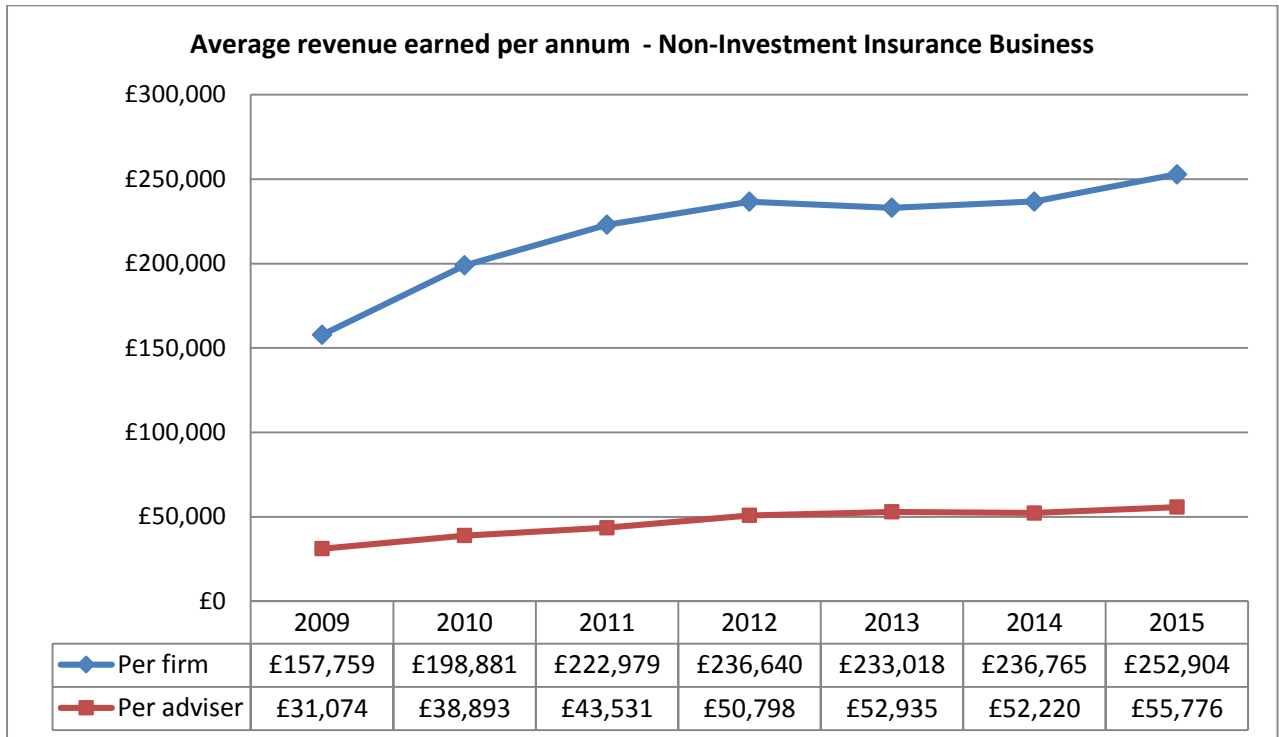


Figure 13

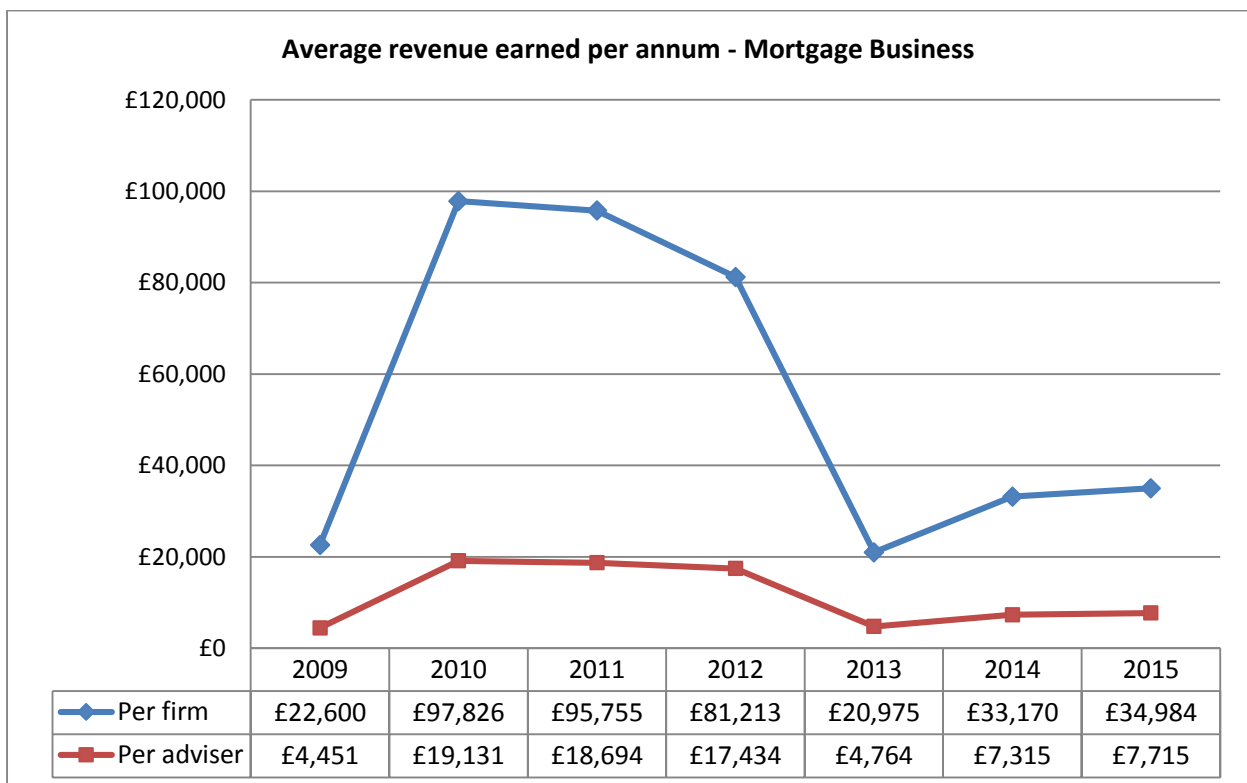


Figure 14

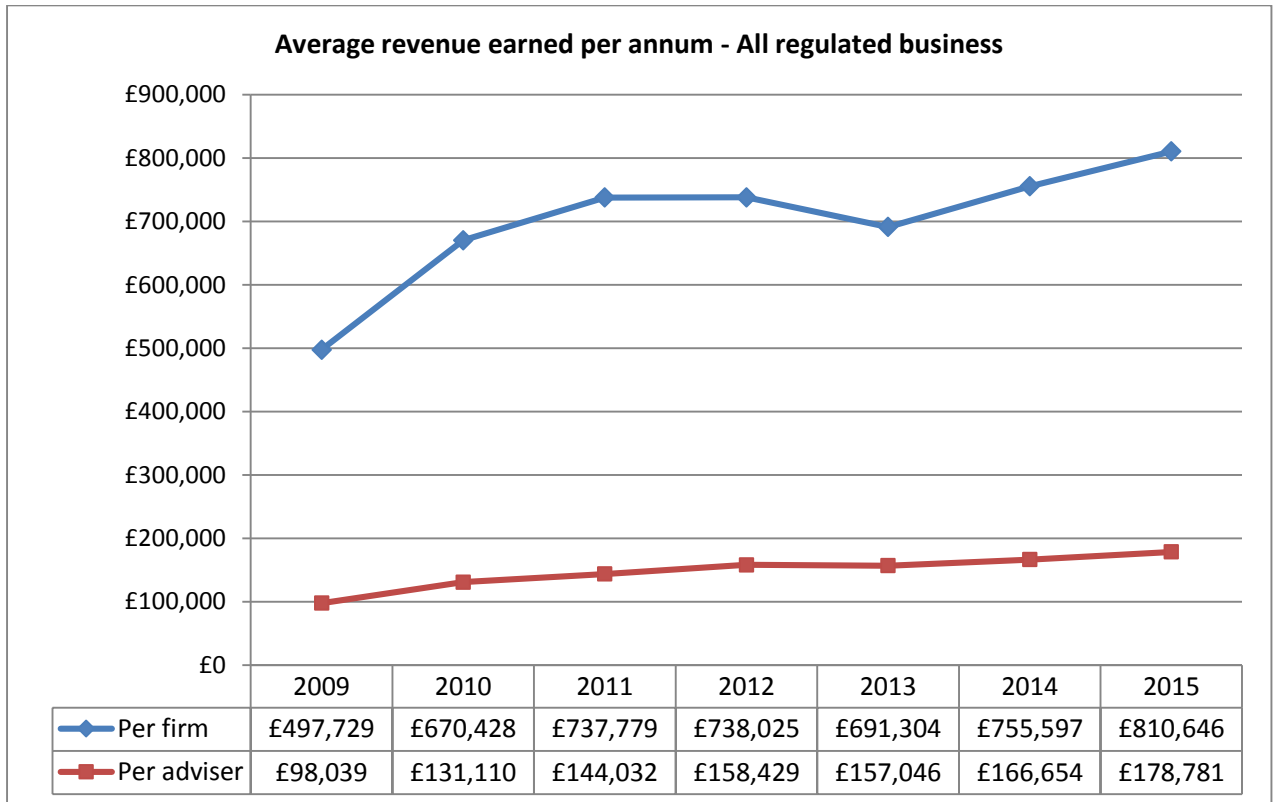


Figure 15

The consolidated profit⁹ figures (Figure 16) are from ordinary activities before tax and are in respect of all business generated by firms with an FCA Primary category “Financial Adviser”⁶. However it should be noted that these figures are shown before dividends, which in the case of smaller director owned businesses may be used to pay remuneration rather than paying a salary. The profit figures may not therefore reflect the full costs of running financial adviser firms.

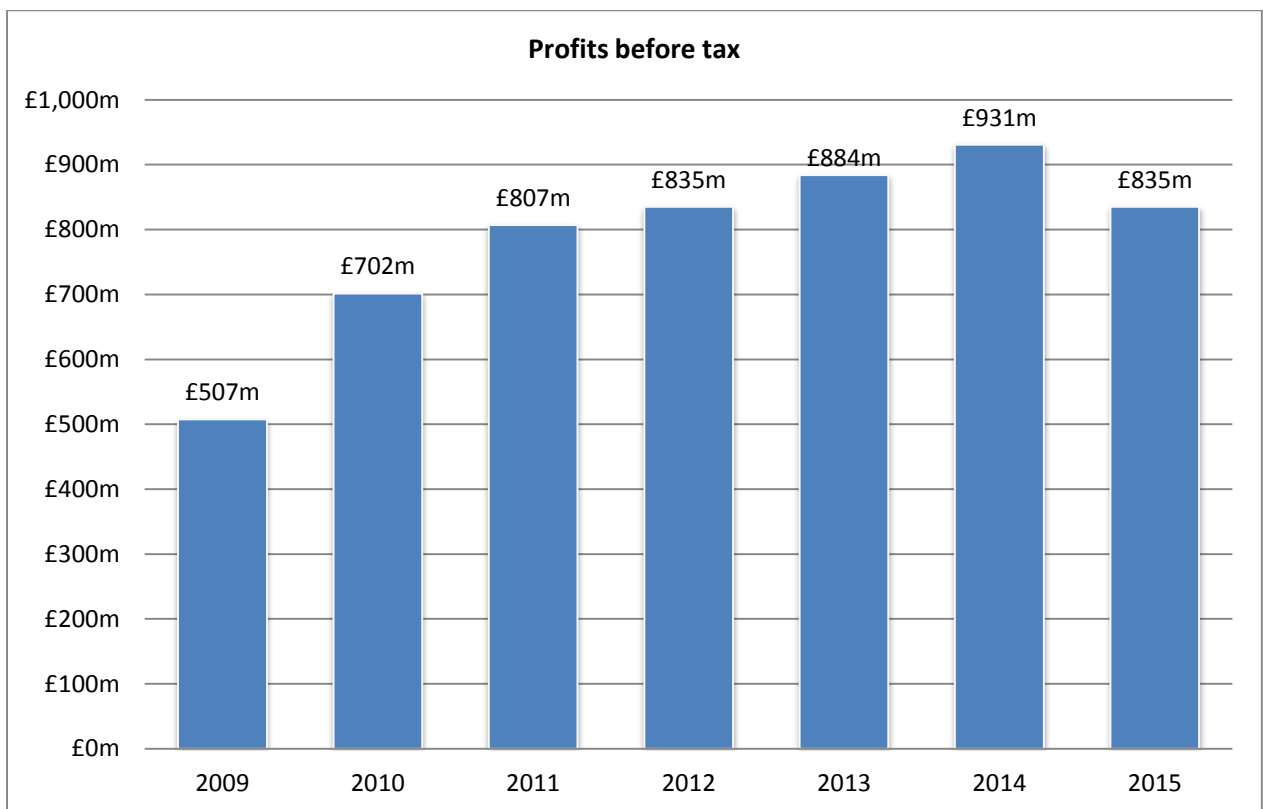


Figure 16

⁹ FSA sector statistics for retail intermediary firms, 2012, and aggregated FCA RMAR data since 2013.

⁶ The previous FCA categorisation for 2013 shows consolidated profit as £953m.

The average profit figures^H below (Figure 17) are for all types of business generated by firms with an FCA Primary category “Financial Adviser” (as shown in Figure 16 above) and are shown in relation to (a) the number of directly authorised financial advice firms and (b) the number of advising staff (as defined earlier). The comments above about dividends (see Figure 16) apply to these figures as well.

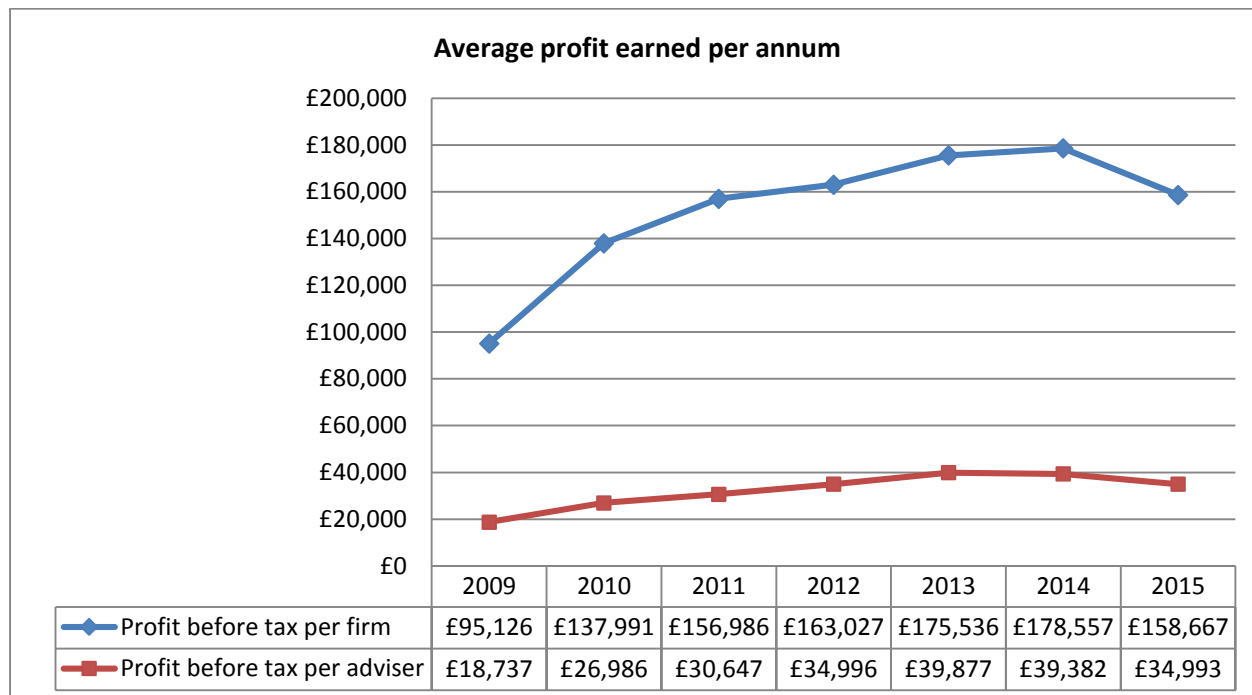


Figure 17

The chart below (Figure 18)^I shows profits before tax as a percentage of total revenue from all regulated business for firms with FCA primary category “Financial Adviser”. The comments above about dividends (see Figure 16) apply to these figures as well.

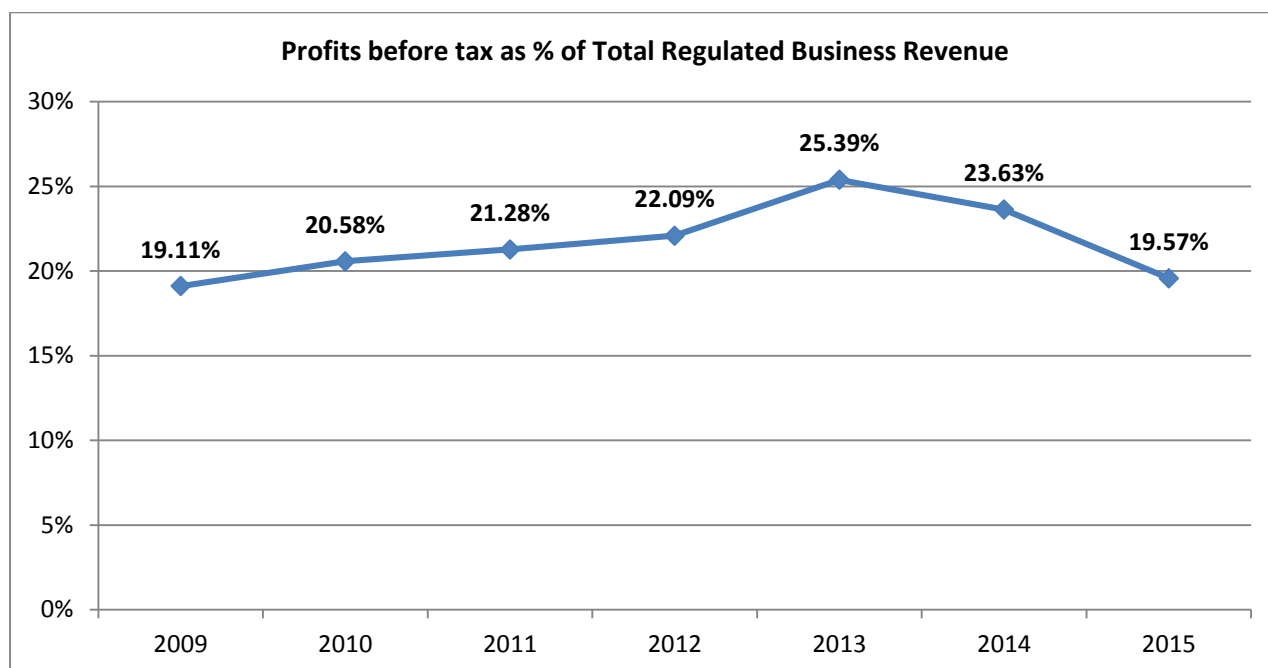


Figure 18

^H The previous FCA categorisation for 2013 shows average profit before tax as £189,281 per firm, and £41,826 per adviser.

^I The previous FCA categorisation for 2013 shows profit as a percentage of total regulated business revenue as 24.92%

The chart below (Figure 19) shows retained profits (i.e. profits after tax and dividends) for firms with FCA primary category “Financial Adviser”.^J Figure 20 shows retained profits as a percentage of total regulated business revenue.^K

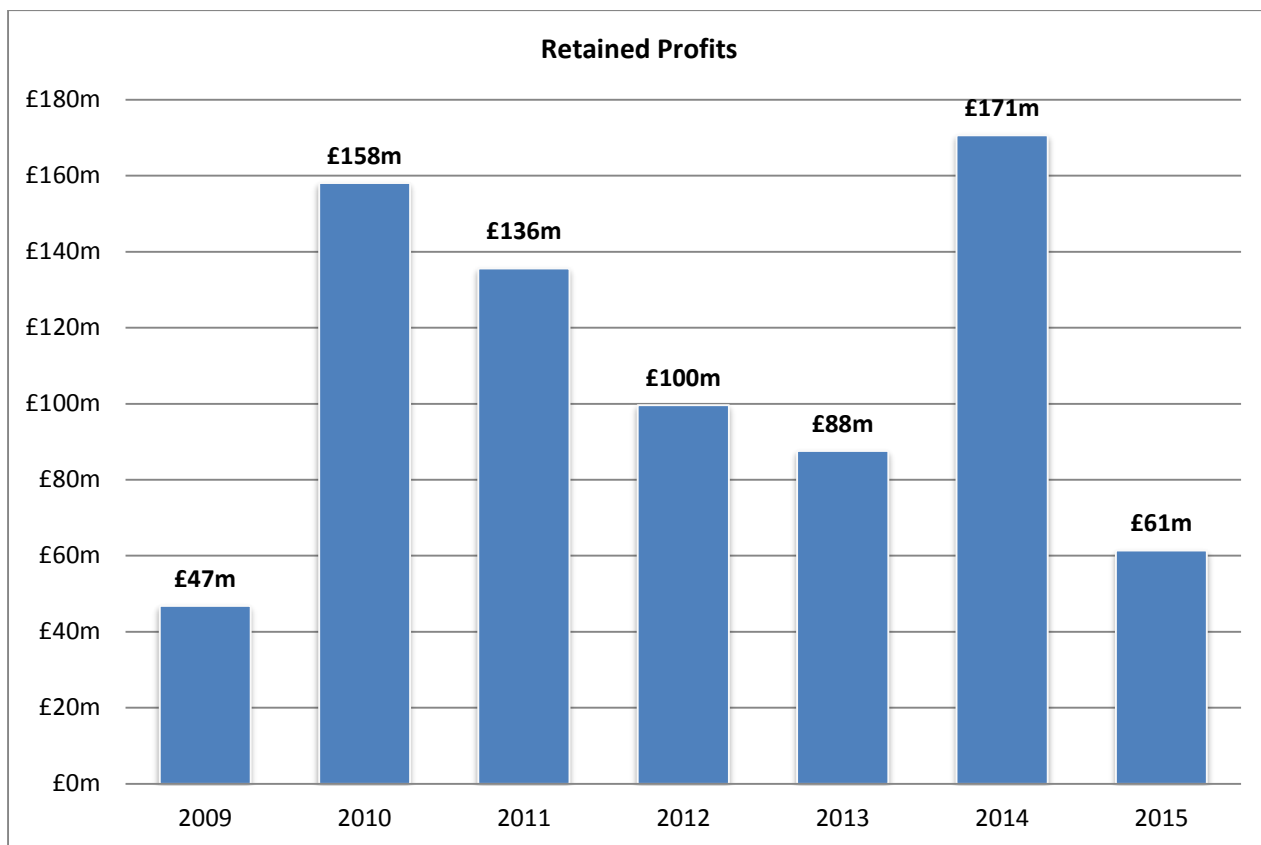


Figure 19

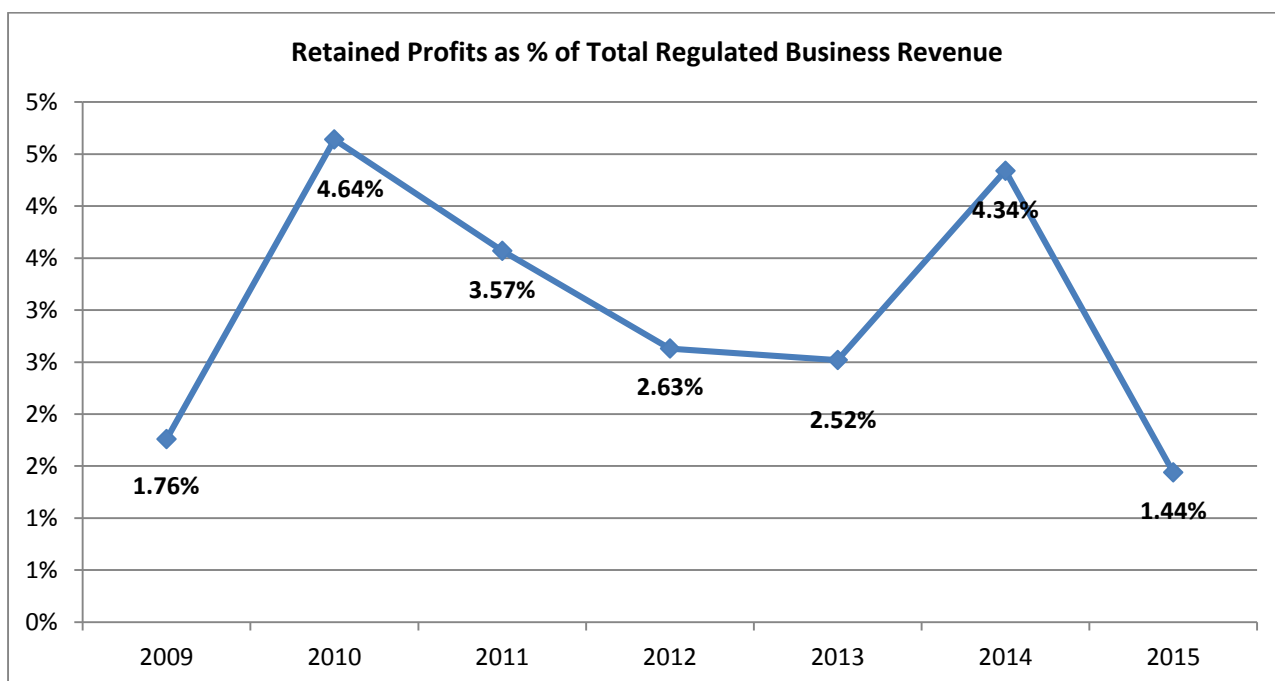


Figure 20

^J The previous FCA categorisation for 2013 shows retained profit as £128m.

^K The previous FCA categorisation for 2013 shows retained profit as a percentage of total regulated business revenue as 3.33%

Figure 21^L shows the trends over time for both profits before tax and retained profits.

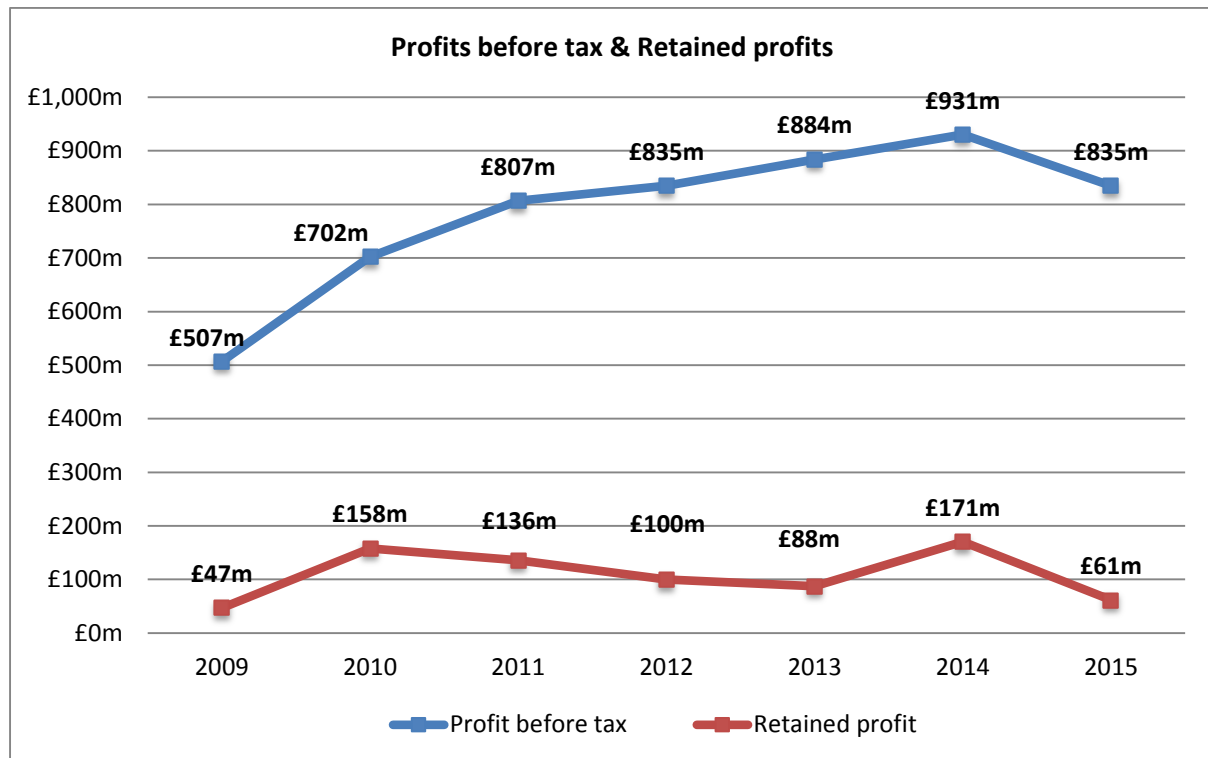


Figure 21

2.5 Business split and income breakdown

The chart below shows the volume¹⁰ of protection and retail investment product¹¹ sales by Personal Investment firms¹² (Figure 22) as reported in the FCA's Product Sales Data¹³ reports up to Q2 2015.

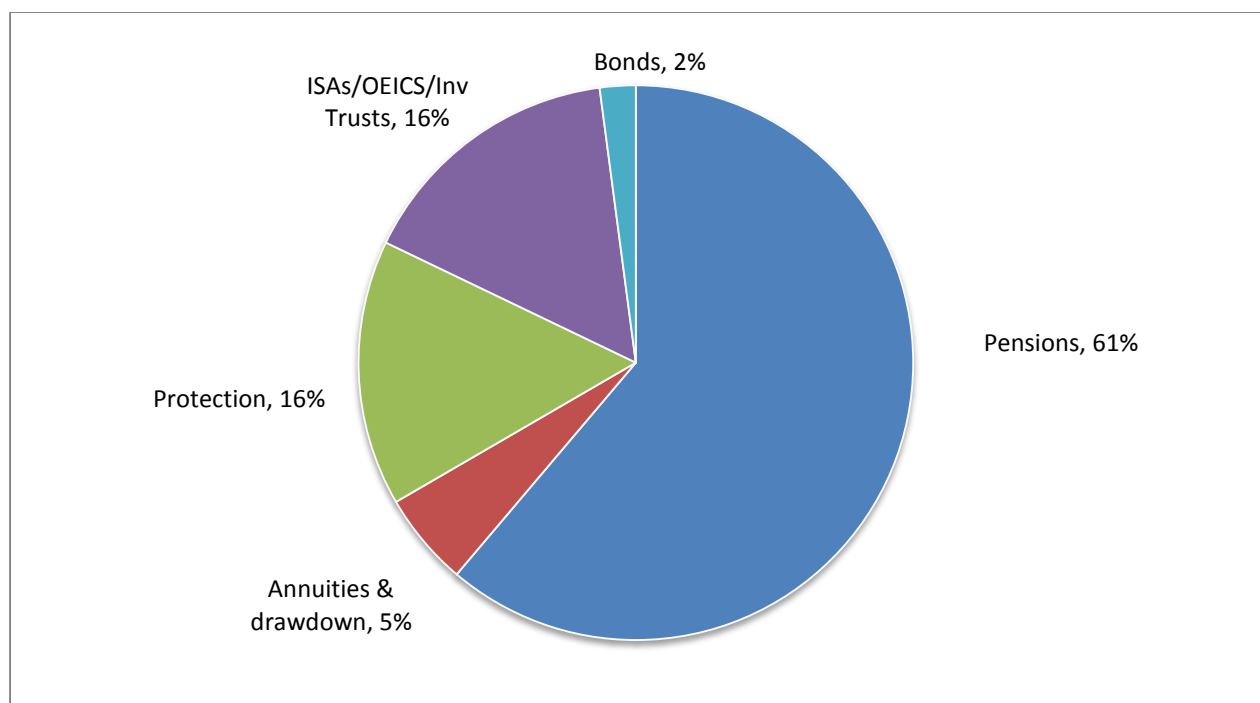


Figure 22

^L The previous FCA categorisation for 2013 shows profits before tax as £953m and £128m for retained profits.

¹⁰ Excluding business transacted via platforms.

¹¹ Excludes mortgage business.

¹² Defined by the FCA as Arranging-only Intermediary (except Stockbroker), Financial Adviser & Independent Financial Adviser.

¹³ FCA Retail Investments Product Sales Data 2015, FCA Pure Protection Contracts Product Sales Data 2015.

NMG survey data¹⁴ shows the distribution of advisers' income between commission and fees (Figures 23 and 24) and between independent and restricted advice models (Figure 25 and 26). Figures 27 and 28 shows the split between different payment methods for both years.

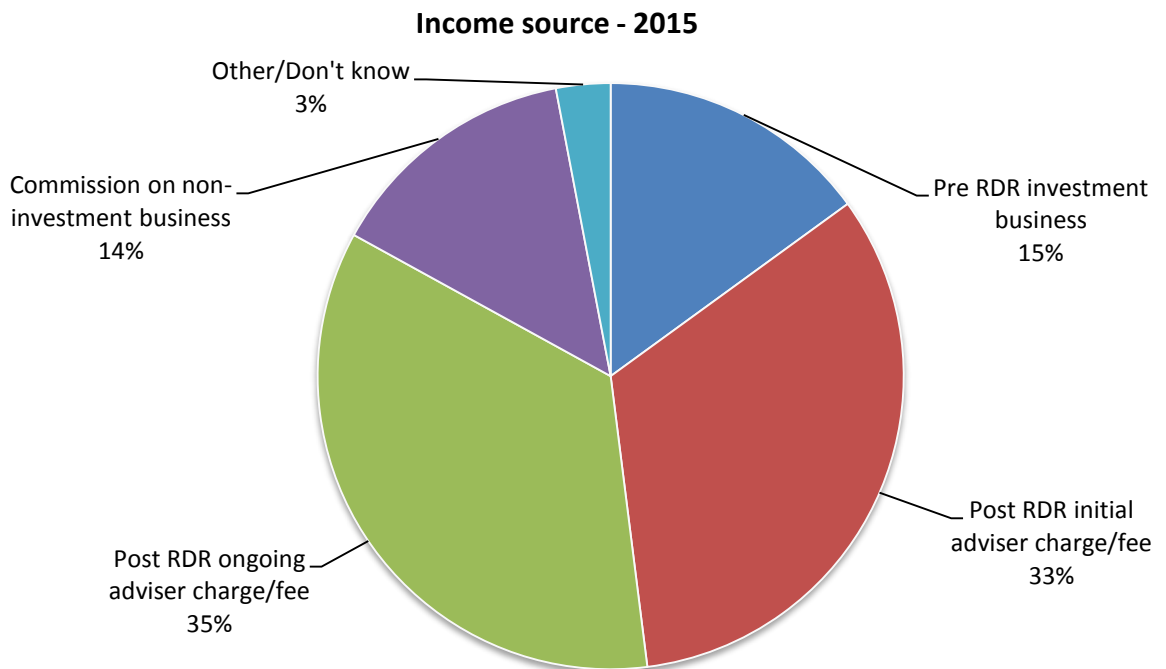


Figure 23

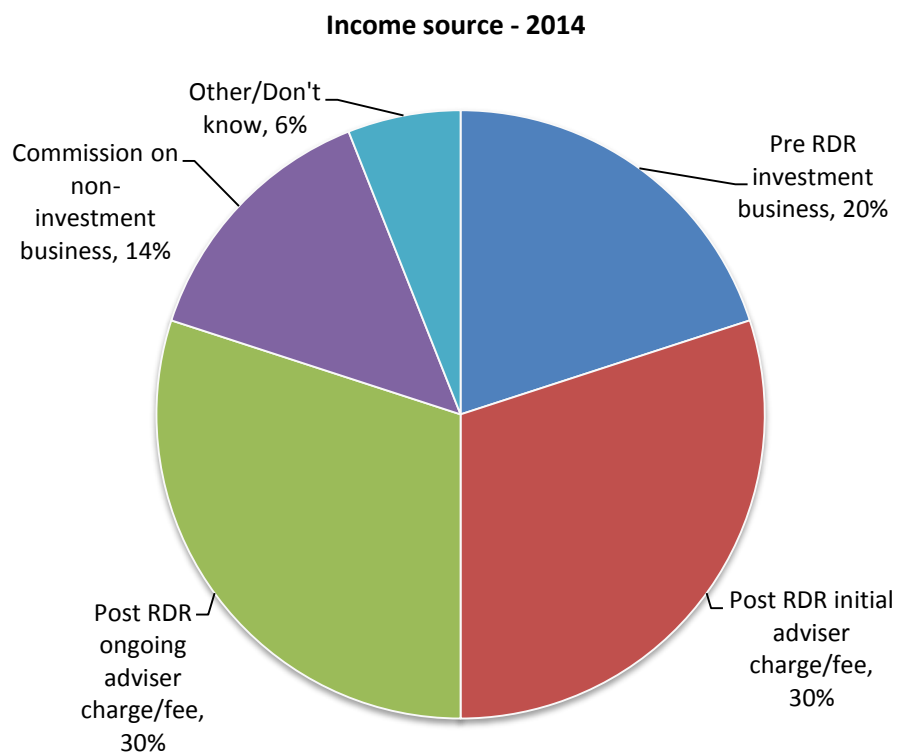


Figure 24

¹⁴ NMG Consulting's Financial Adviser Census* Quarterly Trends, December 2014 and 2015.

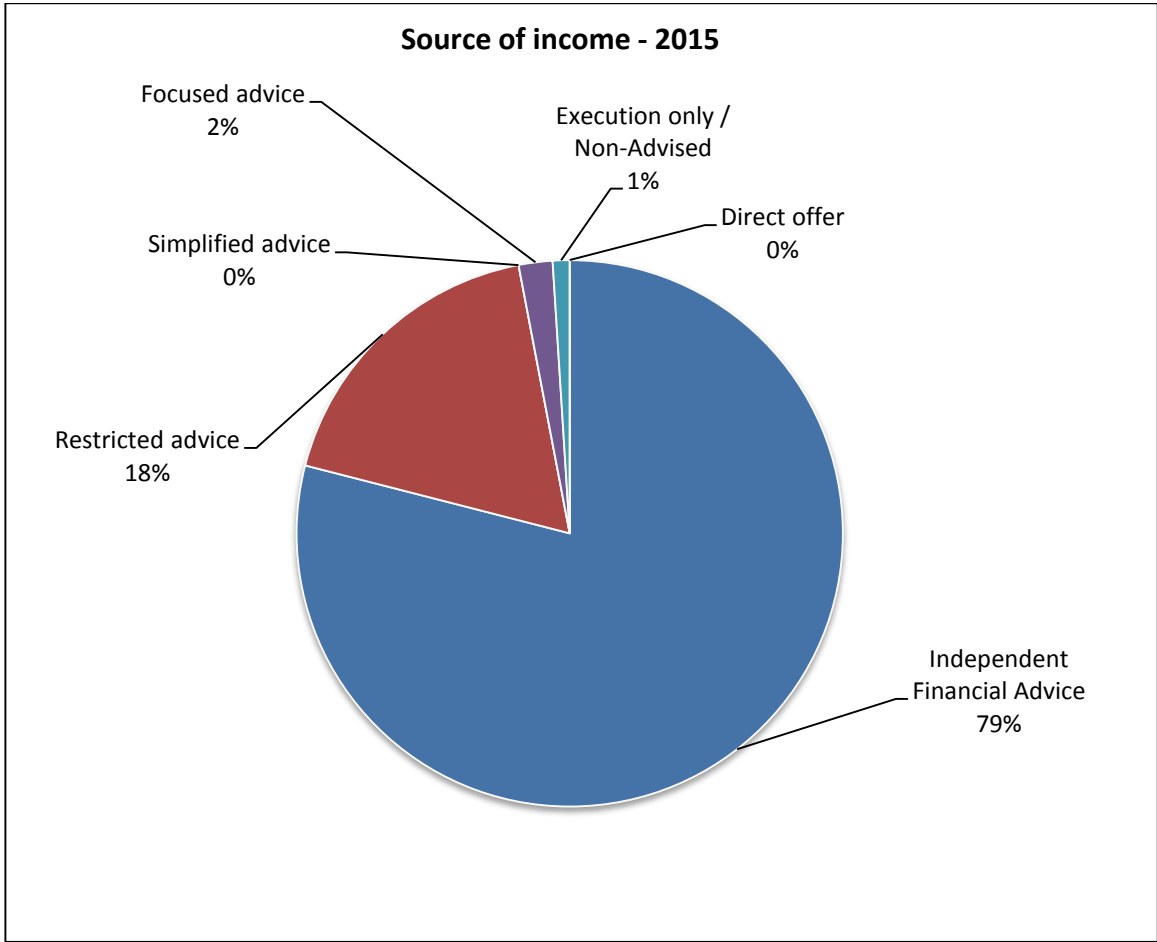


Figure 25

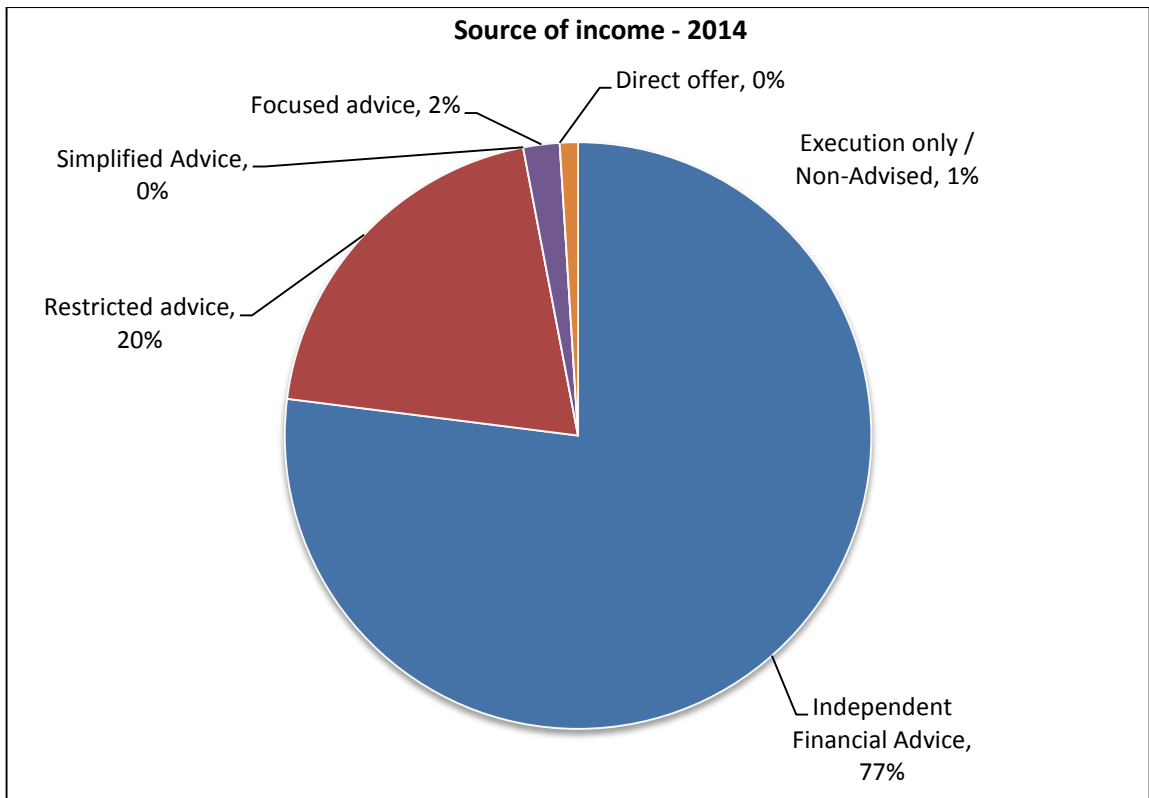


Figure 26

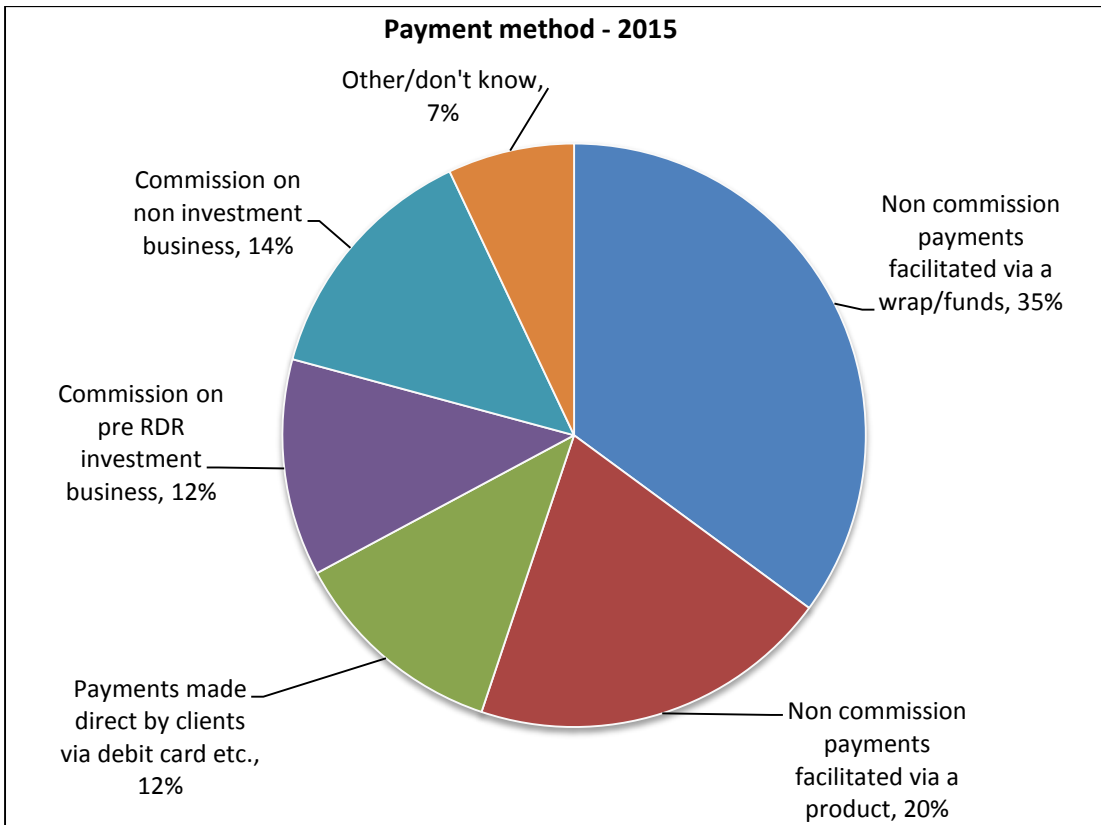


Figure 27

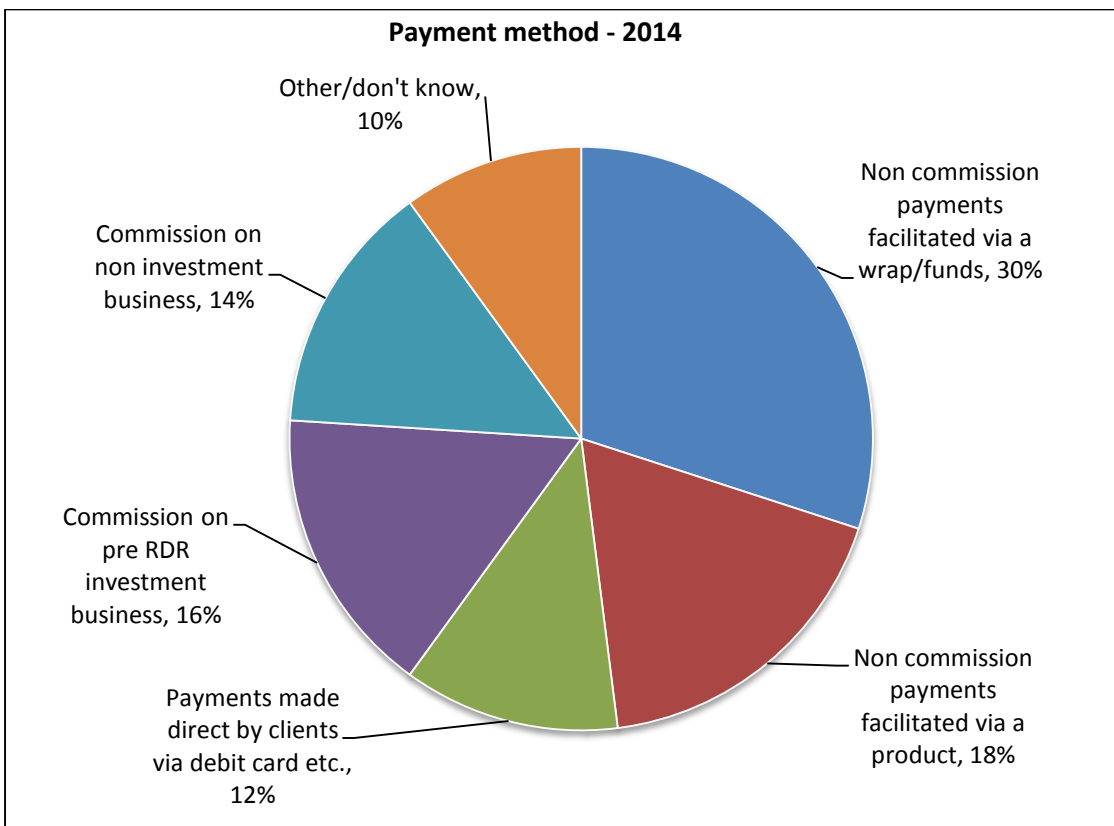


Figure 28

2.6 Advised versus Non-advised product sales

The charts below show how the proportion of product sales on a non-advised basis¹⁵ has grown over recent years. Figure 29 shows the figures for all firm types, Figure 30 for Personal Investment firms.

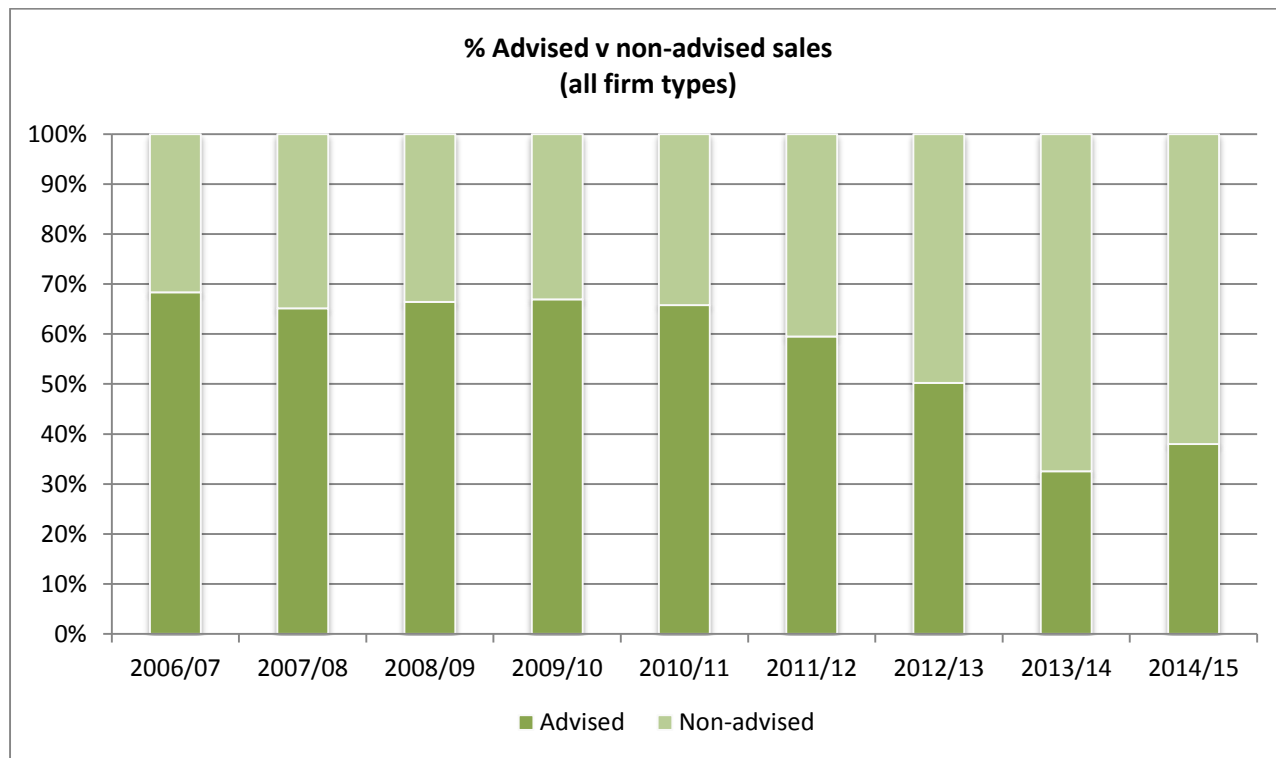


Figure 29

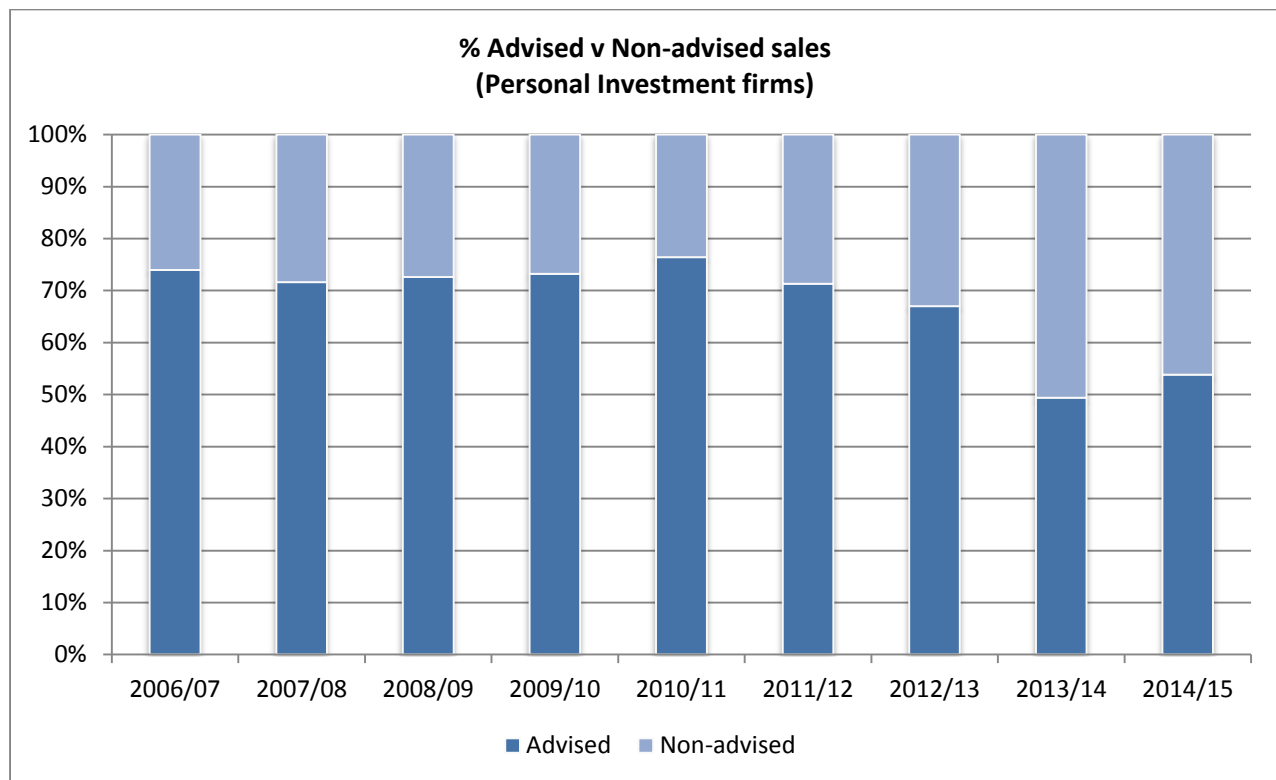


Figure 30

¹⁵ FCA Retail Investments Product Sales Data, 2014 and 2015.

3. CLIENT BASE

NMG¹⁶ has been monitoring the average number of clients (active or reactive) that adviser firms have post-RDR. Figure 31 shows the figures for each quarter throughout 2014 and 2015 – during this time the number of clients has remained broadly steady at about 200, of which the number of active clients seems to be edging up towards 130.

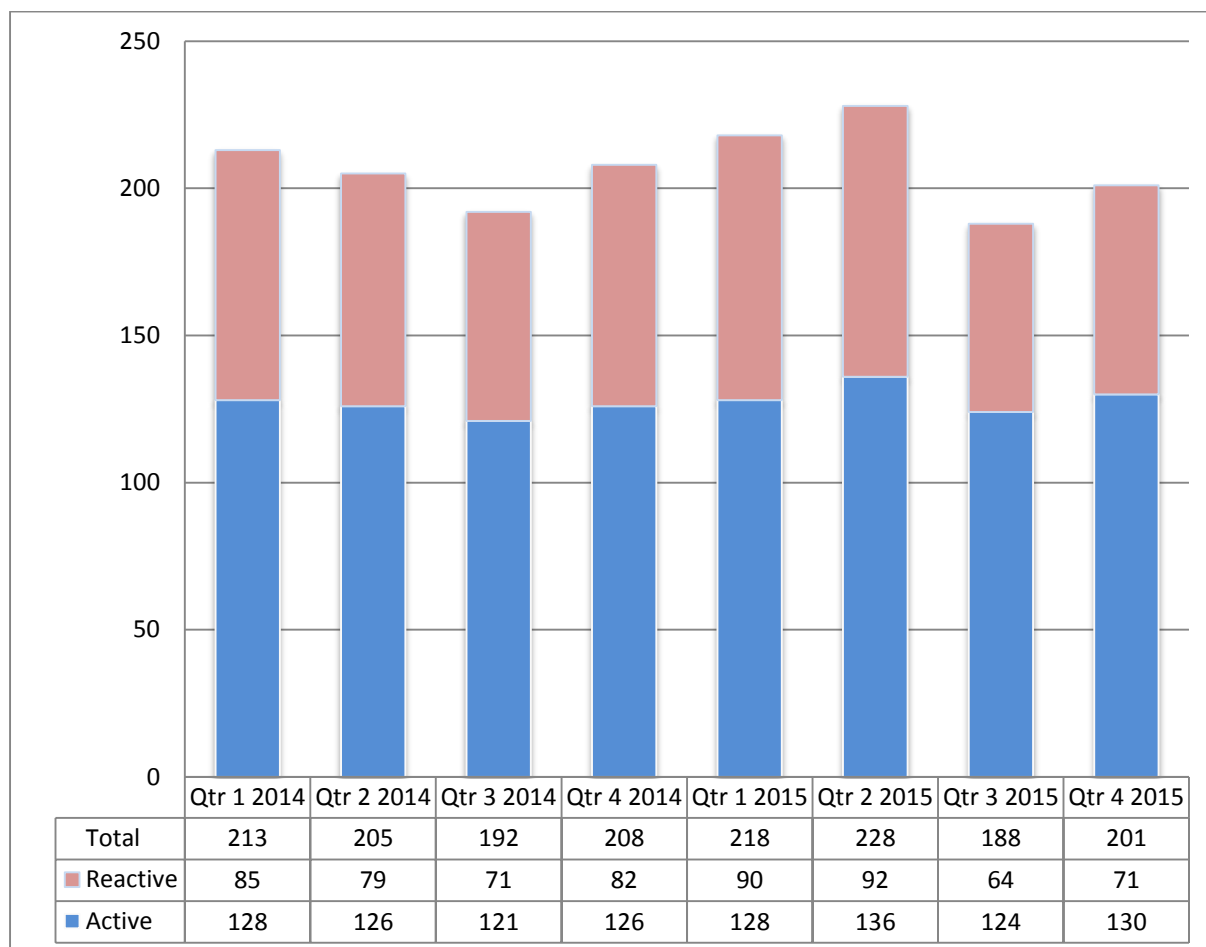


Figure 31

¹⁶ NMG Consulting's Financial Adviser Census* Quarterly Trends, December 2014 and 2015.

Figure 32 shows the movement in the number of clients for each quarter throughout 2015.

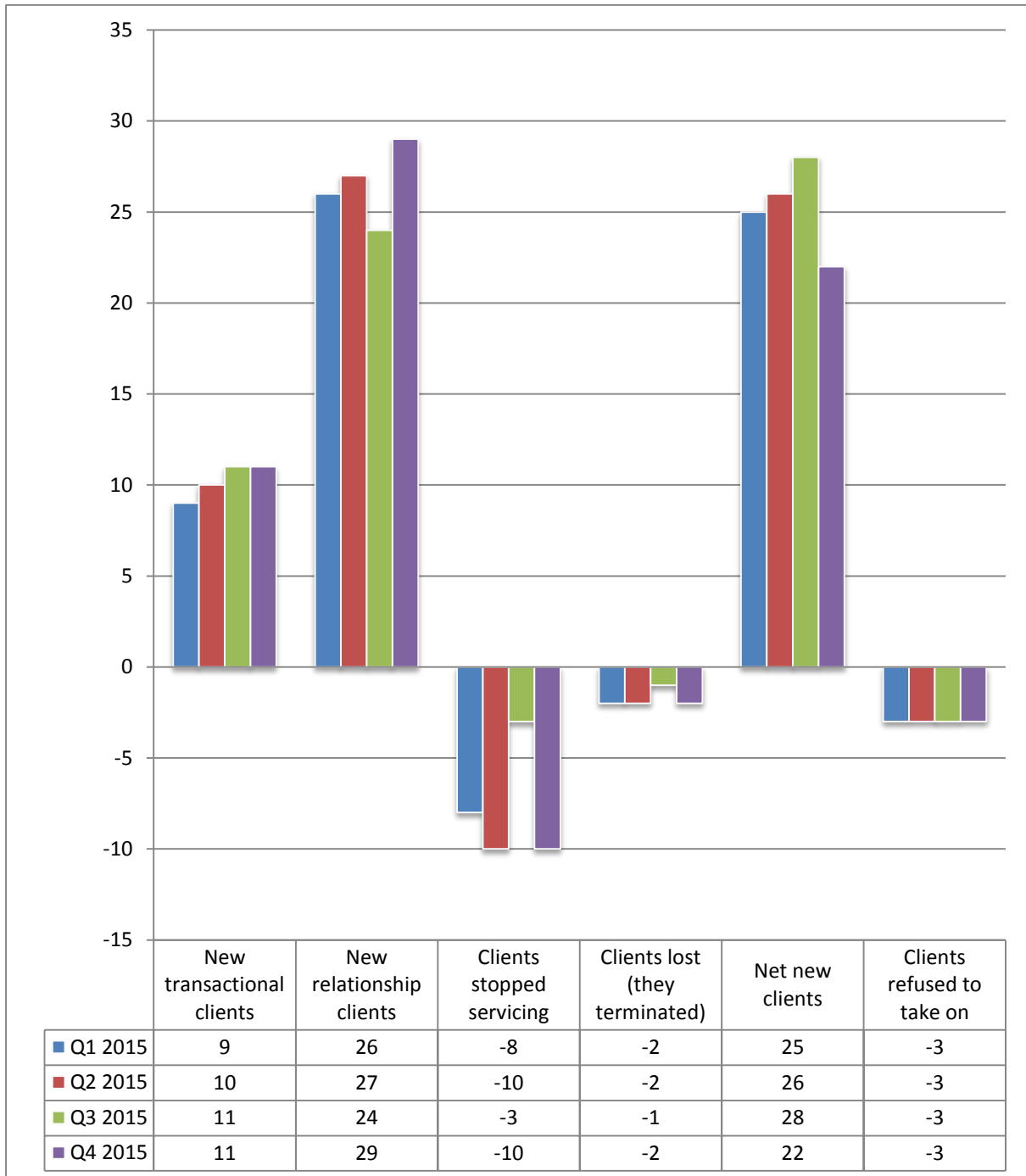


Figure 32

4. SAVINGS MEASURES

4.1 UK savings ratio¹⁷ (%) (1997 to 2014)

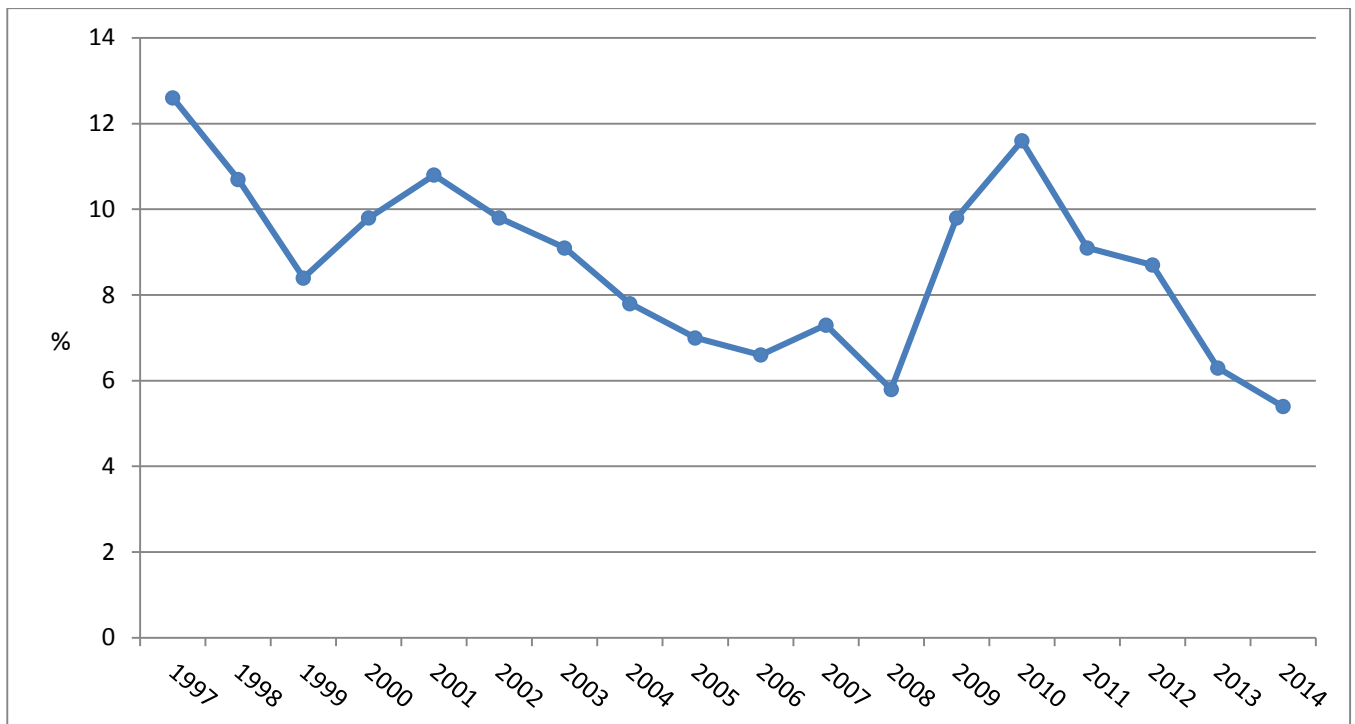


Figure 23

4.2 Number of individual long term business policies in force (millions)¹⁸

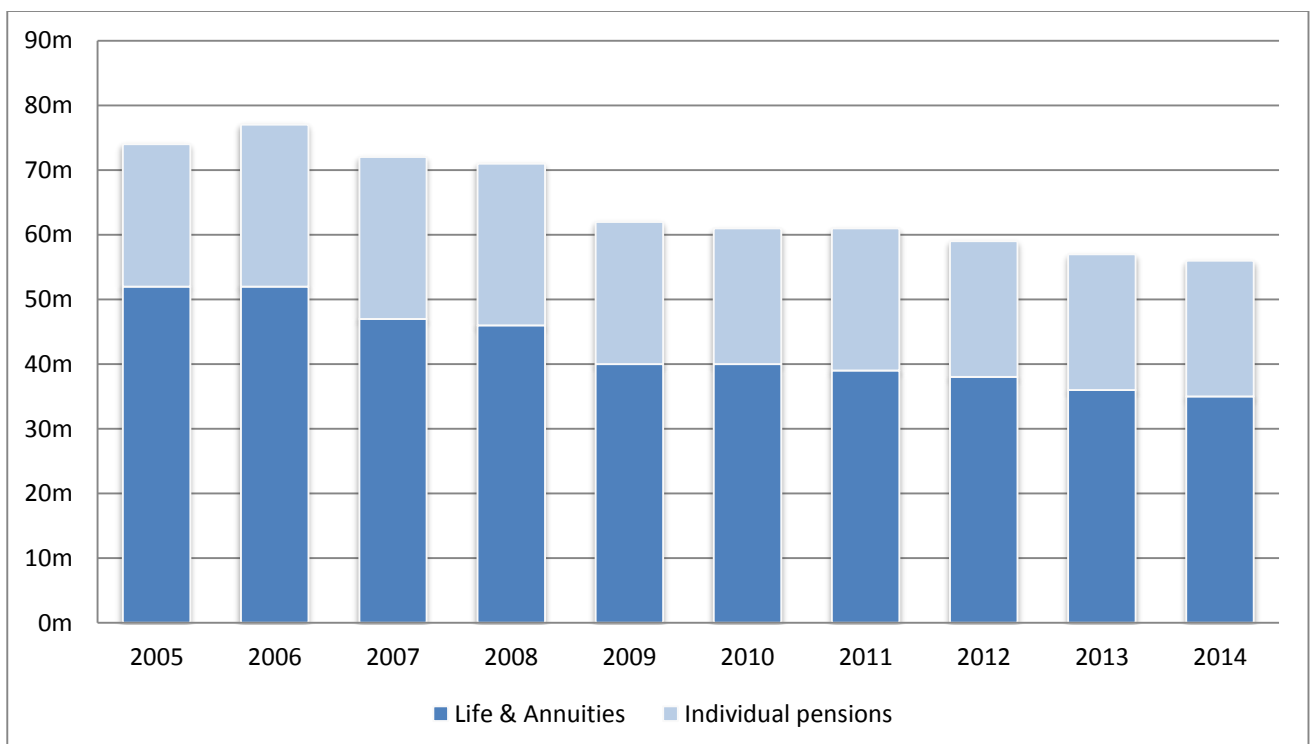


Figure 24

¹⁷ Office for National Statistics

¹⁸ Association of British Insurers

4.3 Quarterly gross sales of UK domiciled unit trusts and OEICs by distribution channel (£ million) (2012 to 2015)^{19 & 20}

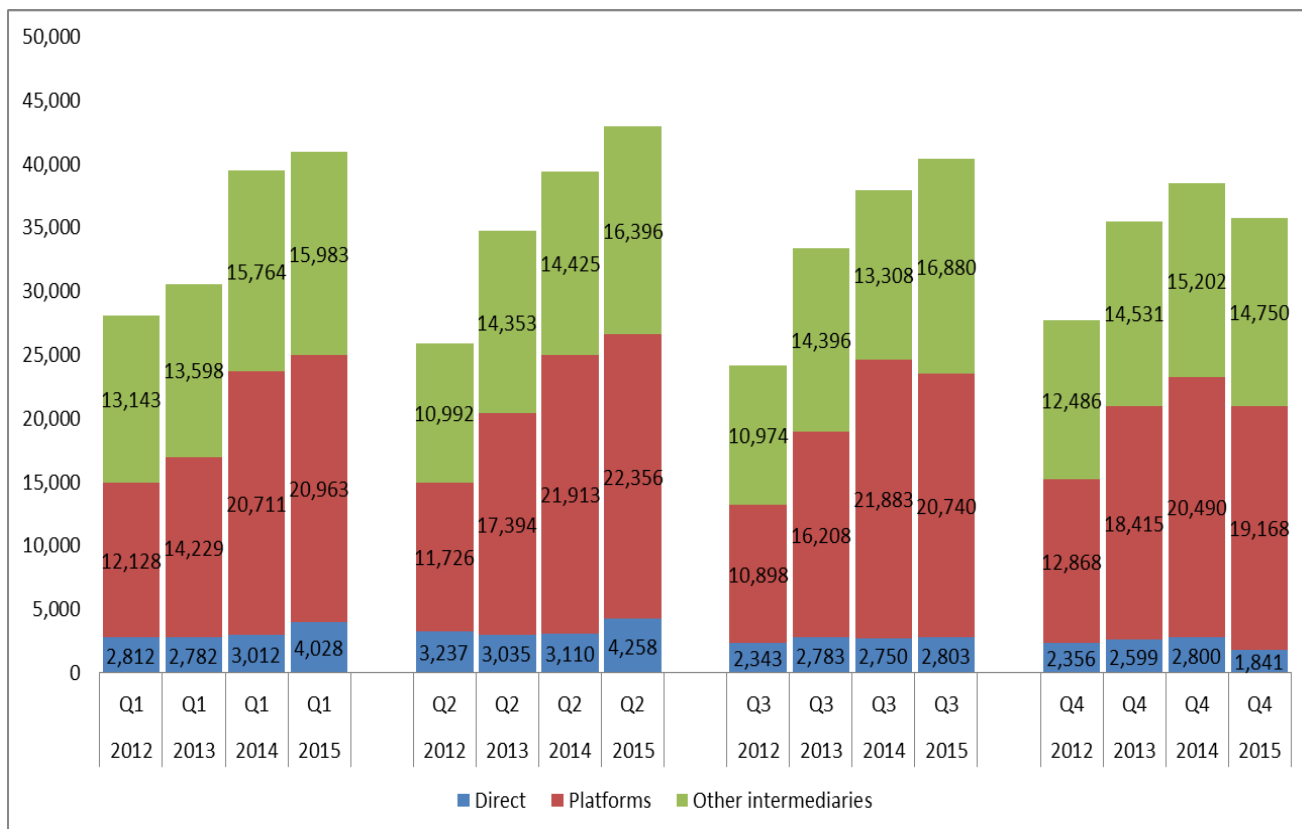


Figure 35

4.4 Amounts subscribed to adult ISAs (£ billion)²¹

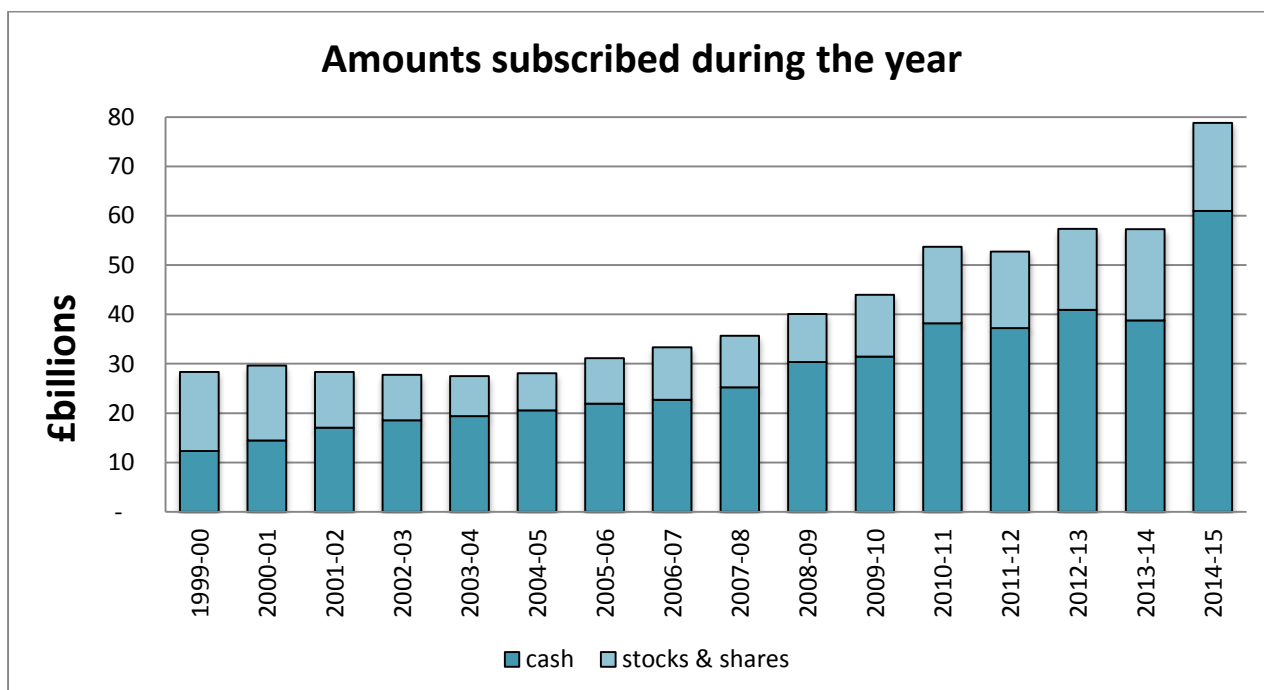


Figure 36

¹⁹ The Investment Association.

²⁰ Direct includes sales forces and tied agents, private clients and other direct to investor sales without intermediation; "Other Intermediaries" includes Wealth Managers, Stockbrokers and IFAs.

²¹ HM Revenue and Customs.

4.5 Funds under management, held in stocks & shares ISAs (£ billion)²²

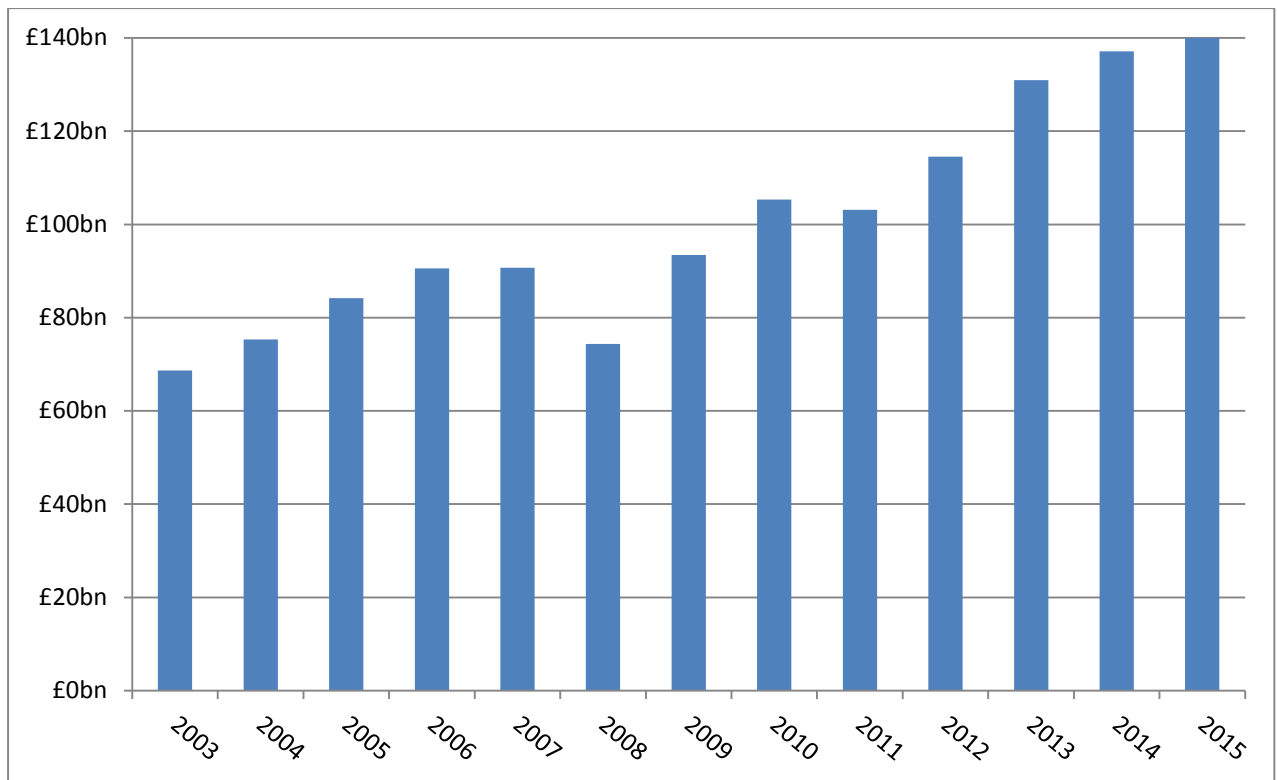


Figure 37

²² The Investment Association.

5. SOURCES

FSA sector statistics for retail intermediary firms, September 2012

Aggregated FCA RMAR data for firms with Primary Category “Financial Adviser” for 2013 – 2015

FCA Retail Investments Product Sales Data 2014 and 2015

FCA Pure Protection Contracts Product Sales Data 2015

NMG Consulting’s Financial Adviser Census* Quarterly Trends, December 2014 and 2015

Office for National Statistics

Association of British Insurers

The Investment Association

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