BWD Adviser Census 2013

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1. Introduction

Undertaken by BWD in August 2013, this Adviser Census creates a robust analysis of earnings for UK financial advisers for the first six months post RDR introduction and includes adviser's estimates for their full year's earnings for 2013.

The report includes information on broader issues of concern to the sector – levels of client fees and the preferences for different types of client payment. We also look at how gender, type of advice given and professional qualifications all impact on earnings levels.

Who will be interested in the Census?

Financial Advisers

- Benchmark your earnings against the market
- Consider the impact of qualification levels on your earnings
- Compare your approach to client fees to the wider market

Businesses

- For those with responsibility for the recruitment and retention of financial adviser talent the Census will help you understand where your current remuneration policy fits in the wider market
- It will also help you understand the likely requirements of potential recruits to your team
- For those with responsibility for professional development in their practice the results around professional qualifications will be of huge interest
- For those responsible for setting client charging levels and methods the Census will help you see where your own firms practices compare to the market

Scope & Method

Respondents were asked to complete a confidential questionnaire addressed personally and completed individually.

Respondents were assured that the data would remain confidential and used only for analysis and aggregation purposes.

Over 170 responses were collected from individuals.

2. Executive Summary & Analysis

Against a backdrop of widespread predictions of a difficult market for financial advisers post RDR we find a buoyant sector with good earnings growth for practicing advisers. The much heralded swing to restricted has taken place but at a significantly less level than had been predicted. At this stage, this looks to be vindicated at the individual adviser level, as independent advisers attract higher earnings than their restricted counterparts.

Overall there is clear confidence in the external environment with advisers taking the view that the economy, the stock market and the housing market are all positive contributors to business. Even the RDR is only felt to have had a negative effect by around a quarter of advisers with the rest either neutral or positive.

The results show a significantly higher level of estimated 2013 earnings for self employed advisers over employed advisers. It should be noted of course that the latter group receive other employer benefits. The self employed in this as in any other sector will have earnings more sensitive to both up turns and down turns. Salaried employees will experience a more smoothed pattern of earnings. With the clear indications of improved business confidence we are not surprised at the quicker growth in earnings from the self employed group.

Within the BWD recruitment practice we see additional drivers for continued increase in adviser salaries, particularly for the better candidates. Firms are making attempts to retain their best staff, as you would expect – this creates pressure on recruiting firms to push a little higher to attract the right person. There has also been a reduction in advisers at the end of 2012 and inevitably this relative scarcity can push up price.

We also believe the sector can take great confidence from the commitment shown to further professional studies with almost half of all advisers either having achieved the Level 6 Chartered or CFP or studying for these examinations. The evidence from the earnings data also suggests that achieving Level 6 makes sense from a financial perspective.

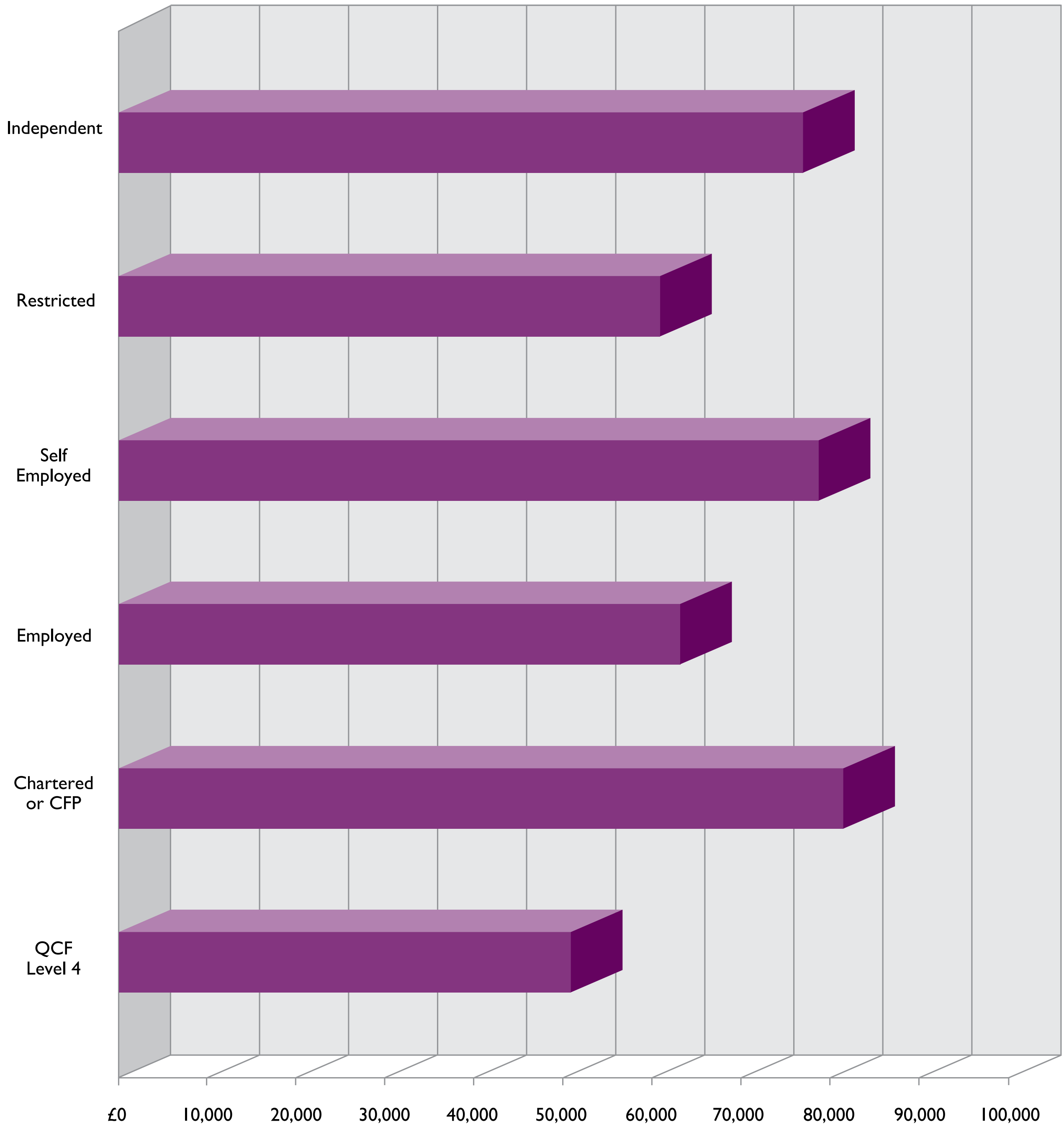
At the adviser firm level the Census looked at both the shapes and the level of revenue. The clear favoured route is a percentage of investment but with a move away from the old 3% and 0.5% model to a wider variety of shapes with typically a drop in initial fees replaced by an increase in ongoing fees. This is entirely in the spirit of the regulatory drive and bodes well for a focus on long term client relationships.

It remains a concern that there are too few advisers under the age of 30. We see, in our BWD Development business, indications that para-planners are taking the adviser qualifications and this trend is to be welcomed. Nevertheless, the sector needs a number of firms to re introduce training programmes for new entrants – otherwise the adviser population will not enjoy the growth it requires if the advice gap is to be narrowed.

3. Key Highlights

- Advisers total earnings estimates for 2013 are £70,071 compared to achieved earnings in 2012 of £64,483
- Employed advisers total earnings estimates for 2013 are £61,520 compared to achieved earnings in 2012 of £63,672
- Total earnings estimates for self employed advisers for 2013 are £78,623 compared to achieved earnings in 2012 of £65,295
- Estimated earnings for 2013 for Independent advisers are £75,619 compared to £60,283 for restricted advisers
- Estimated earnings for Chartered or CFP advisers in 2013 are 57% higher than Level 4 advisers
- In summary, the highest earning advisers are Chartered/ CFP, independent and self employed
- 45.9% of advisers are either qualified at Level 6 or studying for the Chartered or CFP examinations
- The majority of advisers, 63%, remain independent though this represents a drop from 75% in 2012
- There is a move towards Direct Authorisation with 81% DA compared to 73% in 2012
- 71% of employed advisers and 85% of self employed favour adviser charging rather than direct client charging
- The clear majority of firms , 79%, favour a % of investments as their main remuneration method
- Just 20% of firms are favouring the traditional 3% and 0.5% with a variety of patterns emerging
- For adviser firms the average initial fee is now 2.75% with the average ongoing fee of 0.8%.

2013 Adviser Earnings (Estimated)



4. Census Commentary

Adviser Status – Independent v Restricted

We asked advisers in 2012 what their intentions were for 2013 - 66% of those planning to give advice in 2013 intended to do so as independent with 34% intended to offer restricted advice. Our Adviser Census for 2013 shows that the actual number practicing as independent is a little lower at 63% with 37% operating as restricted. However, the 2013 Census also shows that 75% of respondents were independent prior to the RDR – so a drop from 75% to 63%. Other commentators have predicted a more dramatic shift to restricted status – the Census suggests otherwise.

Direct Authorisation v Network

From the 2013 Census 81% of advisers are directly authorised and 19% members of a Network. The 2013 Adviser Census shows a shift to direct authorisation as in 2012, 73% were Directly Authorised, 27% members of a network. There will be a number of reasons for this move: the costs of network membership, the use of outsourced compliance facilities and the move by some advisers to retain their independence status where their network was moving towards restricted advice.

Adviser Gender

The figures show 87% male, female 13% - this is almost identical to the 2012 figures, indicating that RDR driven exits applied equally cross gender and that the sector is still concerningly under-weight on female advisers.

Adviser age

The average adviser age is 44 compared to the 2012 where the average was 42. This is unlikely to be a significant difference and, with some nearing retirement and choosing the RDR to trigger a slightly early departure, we would, in fact, have expected a drop in average age. Nevertheless, the major concern is that the number under 30, as we see in the table below, is very low. The sector has to do more to attract new younger entrants otherwise the much discussed adviser gap will inevitably widen.

Age range	%
20 - 29	4
30 - 40	28
40 - 50	42
50 - 60	21
60 - 70	5

Adviser Qualifications

	All	Independent	Restricted
QCF Level 4 or equivalent	93.3%	61.1%	38.9%
In process of reaching Level 4	6.7%	88.9%	11.1%
Chartered	18.5%	76%	24%
In process of reaching chartered	17.8%	70.8%	29.2%
CFP	5.9%	62.5%	37.5%
In process of reaching CFP	3.7%	80%	20%

Note: The "All" column above reflects multiple answers i.e. those who had achieved Chartered will also have achieved Level 4.

On these figures almost half of all advisers (45.9%) have either achieved or are studying for the higher levels of qualification – either the Chartered route or CFP. Irrespective of the debate as to whether chartered or equivalent should be the new standard this has to be considered a very positive result. The process of establishing a minimum level resulted in some collateral damage, with some advisers exiting who would otherwise have continued to give advice. Nevertheless the fact that so many advisers wish to progress with their professional development is a vote of confidence in the sector.

Employment status

70% of advisers were employed with 30% self employed – this is almost identical to the 2012 statistics where 69% were employed and 29% self-employed.

Adviser Remuneration

The prime objective of the Adviser Census 2013 is to assess the levels of earnings amongst UK financial advisers. We have looked at this in depth. There are new issues, such as the method of charging post RDR. We also wanted to explore how advisers are expressing remuneration: fixed fees, time charging, or fund percentages.

This analysis summarised below creates a valuable set of findings about the state of the adviser nation.

Direct Charging v Adviser Charging

Not surprisingly, for business classes affected by the RDR, the majority of advisers are opting for Adviser Charging, with self employed advisers favouring Adviser Charging even more.

	Employed	Self Employed
Direct from clients	29%	15%
Via Adviser Charging	71%	85%

Method of Remuneration

The pattern for employed and self-employed is more or less identical. The vast majority favour a percentage of client investment. This method most closely resembles commission and as such represents a continuation of existing practice for most advisers.

	All	Employed	Self Employed
Hourly/ time rate	9%	8%	10%
Fixed Fee	12%	12%	12%
% of investment	79%	80%	78%

The approach to client charging, and levels of charge

Advisers were asked to specify their charges for each of these three methods. The variation in charging level is substantial and it is clear from this Census that the conventional 3 plus 0.5% is no longer a convention. In the run up to RDR advisers have clearly given in depth consideration to the method and level of charge for their services. Several advisers combine different methods of charging, and offer tiered charging dependent on size of investment.

Time based charging

Where advisers predominantly charge on the basis of time spent on a client (9% of the total) then the average charge per hour is £162. The level of variation is from £50 with in one case a range quoted from £150 per hour to £850 per hour, presumably based on complexity, and seniority of adviser.

Where advisers charge predominantly on a fixed fee basis (12% of the total) the average charge is £1500 per annum, though some advisers use a fixed fee as a minimum for new clients and then move to a % of investments for ongoing advice.

Charging on the basis of % of investment

For several years now the convention has been to charge 3% for initial advice and set up then and an annual amount of 0.5% for ongoing advice. This remains the most commonly charged basis with around 20% of advisers still using this basis. However, there is now substantial variation with the average initial charge having dropped to 2.75%. This is counterbalanced by an increase in the average ongoing charge which is now 0.8%p.a. A small number in the Census were mortgage or annuity specialists and would tend not to have an ongoing charge. Another minority charged only an ongoing charge i.e. no initial or set up and would accordingly charge a higher on-going rate. It is also common, of course, for advisers to offer tiered % charge rates for different sizes of client portfolio or for different levels of service as set down in the client proposition.

It would be wrong to conclude that the impact of the RDR has been to change ongoing client costs from 0.5% to 0.8% - a rise of 60%. The annual rates of trail commission had already increased for many advisers towards 0.875%. Nevertheless, the impact of a 0.8% average rate over a 0.5% rate would easily outweigh the drop from 3% to 2.75% and materially change the prospective valuation of the adviser's business. Moreover, as advisers move to a consistently professional business model one should expect a shift to remuneration via on-going charging as part of the migration from the world of initial commission. The costs of running an advisory practice have risen with regulation driving higher levels of rigour on many aspects of client related and general business process.

We also want to know what affect certain variables have on earnings. These fall into two categories :

1. Adviser's own perception of external factors:

- The RDR
- The Economy
- The Stock Market
- The Housing market

2. Adviser variants

- Gender
- Employment status
- Type of advice given
- Level of qualification

Advisers' perceptions on the impact of the RDR on business in 2013

	Employed	Self Employed
Unaffected by RDR	74%	46%
Reduced by RDR	26%	27%
Increased by RDR	-	27%

These figures show a clear difference in attitudes from the self employed adviser. Over a quarter of the self employed advisers appear to believe that the RDR has been positive for business. This may be because the process of re assessing proposition and client charging process has had a positive effect on client engagement levels. We shall be monitoring this trend in future studies.

The impact of the economy on business in 2013

Compared to 2012 the general view is that the economy is having a positive effect. This view is held across the employed and self employed categories.

	Employed	Self Employed
Positive	65%	71%
Negative	35%	29%

The impact of the stock market on earnings in 2013

The stock market is felt to have had a very positive impact on business this year, and this view is held consistently across the employed and self employed sectors.

	Employed	Self Employed
Positive	83%	83%
Negative	17%	17%

The impact of the housing market on earnings in 2013

The relevance at adviser level will depend on degree of involvement in the mortgage market, and to a lesser degree on the equity release market – that said, the findings are consistent across employment status.

	Employed	Self Employed
Positive	61%	63%
Negative	39%	37%

How advisers viewed their earnings so far in 2013 compared to work levels

Almost half of employed advisers consider that they are earning more in 2013 in relative terms to the work levels they are undertaking. In absolute terms they are in fact earning more, so this is not a comment on total effort - just on an improved reward to work ratio. The impact of the RDR in terms of work required for the adviser would be somewhat higher for the self employed running their own practice – this may be reflected in the figures below. Overall, though there is no clear pattern with advisers split on this question.

	Employed	Self Employed	Independent	Restricted
Same	29%	39%	16%	32%
More	44%	26%	72%	35%
Less	27%	35%	12%	33%

Adviser Salaries - Employed

	2013	2012	% change
Average salary	£53,148	£50,746	+4.7
Male	£55,293	£52,263	+5.8
Female	£42,707	£43,357	-1.5
Independent	£55,915	£52,440	+6.6
Restricted	£48,957	£48,180	+1.6

There appears to be a 5% premium in salary levels for Independents. This confirms intuition – a broader based adviser responsibility would be expected to attract a higher salary. We would suggest that the slight drop in salaried for females is unlikely to indicate a trend. Overall there is a healthy but controlled increase in salaries.

Average Bonus – Employed

	2013 (1st 6 months)	2012 (total)
Average Bonus	£6,746	£12,926
Male	£6,704	£13,726
Female	£6,938	£9,125
Independent	£7,182	£11,547
Restricted	£6,060	£15,171

The figures above show the actual bonus levels received for the first six months of 2013. The overall estimated earnings for 2013 are shown below. Some caution must be applied to any estimate of earnings – some may be naturally optimistic, others the opposite.

Adviser Earnings – Employed – Total Earnings (est. for 2013)

	2013 (Estimated)	2012	% change
Average earnings	£61,520	£63,672	-3.4
Male	£63,854	£65,990	-3.2
Female	£50,288	£52,482	-4.2
Independent	£65,281	£63,987	+2
Restricted	£55,566	£63,352	-12.3

Total projected earnings for 2013 also show a clear advantage for independent advisers, a 9% premium. This confirms and reinforces the position for basic salaries.

How bonuses are calculated

Revenue remains the dominant factor - 41% of employed advisers are paid a bonus on a defined basis relating to either sales achieved or profitability of the business. In many cases there is a minimum level of revenue before any bonus is paid.

KPI or a balanced score card basis was applied in the case of 25% of advisers. Typically the score card will take account of revenue generated though in some cases the aggregate of a score card produces a factor to be applied to annual premium equivalent (APE) or some other revenue total. Several advisers reported that they were moving for 2013 from a straight revenue based bonus to a score card system.

17% of advisers receive bonus on an entirely discretionary basis – in some cases this causes dissatisfaction where the adviser feels out of the loop and has no detailed knowledge as to the basis on which such discretion would operate.

17% receive no bonus, as they are paid by salary only – of these some 5% are new to the role and so will not yet qualify for bonus payments.

Adviser Earnings – Self Employed

	2013 (Estimated)	2012	% change
Average earnings	£78,623	£65,295	+20.4
Independent	£85,958	£71,192	+20.7
Restricted	£65,000	£54,342	+19.6

This shows a significantly higher level of projected (estimated) earnings in 2013 (32%) for independent advisers over those offering restricted advice. We can interpret this in number of ways – independent advisers are more likely, in general, to operate with clients needing more advice in total in respect of higher levels of investments. Clients may continue for their part to be attracted to an independent proposition. Although we use restricted as a heading for the 2012 figures – this more accurately describes advisers who were multi or single tied. Adviser earnings as a proportion of business revenue varied but almost 60% of advisers receive between 40% and 80% of the revenue they earn for the practice.

We also asked whether earnings as a proportion of business generated varied by source of lead i.e. own lead or provided by the firm. The vast majority of adviser firms operate the same % basis irrespective of lead source. Just 10% of firms make a distinction and the average for these firms is 55% for own leads and 40% for provided leads

Again, we should emphasise that these are estimated figures and should be treated as such. The overall figures show a good level of growth consistent with both the advisers own view of the external impacts of RDR, Economy, Stock Market and Housing Market. Consistent with an increase in level of charges made at the adviser firm level.

It is important not to make a simplistic comparison between the levels of earnings for self employed advisers versus their employed counterparts. The latter, as detailed in the BWD 2012 Census, enjoy a wide range of employer benefits. Moreover, for the self employed adviser all their income is at risk, with employed advisers the majority is lower risk – i.e. basic salary.

Note – low number of female self-employed so figures not reported separately by gender
advisers may not have operated in same category in 2012 and the restricted category as described did not apply in 2012 so % change not highlighted

Impact of professional qualifications on earnings – all advisers

Looking at those who operate at Level 4 or equivalent (the RDR mandatory level) the average estimated total earnings for advisers is £51,343. For Chartered or CFP the level is significantly higher at £80,907 – a margin of 57%. This confirms the shape of earnings shown in the BWD 2012 Census. There is a clear financial benefit in taking the Level 6 qualifications. This is also reinforced by the fact that almost a half of advisers have this higher level or are studying for it.

5. Acknowledgements/Contact Us

We would like to say thank you to all the respondents that participated in this Census and our research partner Brendan Llewellyn of Marketing Edge. Brendan has over 30 years experience in FS corporate management and strategic consultancy and has worked intensively with over 40 providers on strategy, distribution, brand, marketing and research.

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