Winning propositions:
The consumer market post-RDR

Matching your fee-based services to customer needs

August 2012

J.P.Morgan
Asset Management

Introduction

From January 2013, UK firms providing advice on savings and investments have to adhere to a new and explicit requirement: namely, if a firm wishes to receive remuneration from a client, it can only do so in return for providing a service that the client actively agrees to and is willing to pay for directly out of their own capital.

In this latest J.P. Morgan Asset Management Retail Distribution Review (RDR) report, we therefore had some simple goals: to identify what proportion of consumers in the UK are willing to pay for advisory services; assess the type of advice and services they are most willing to pay for; and, in turn, identify the attributes that advisory firms will need to demonstrate both to attract fee paying clients initially and retain their business year on year.

To help, we have drawn on exclusive research conducted across more than 2,000 mass affluent to high net worth individuals in the UK, and conducted one on one interviews with advisory firms that have already established a successful fee based proposition. Through these insights, we hope to pinpoint the essential attributes of a marketable and commercial advice service and identify the types of advice user that firms may need to target in the coming years.

At a time of economic uncertainty and stretched household incomes, marketing fee based advisory services may appear no easy challenge. We hope this paper offers some answers.

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August 2012

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Executive summary

From January 2013, authorised firms providing advice on investments and savings must be remunerated through fees agreed directly with a client rather than through commission set by product providers. It is therefore incumbent on advisory firms to develop and enhance services that consumers are explicitly willing to pay for.

In this report, we aim to ascertain the potential size of the fee based advice market, what areas of financial planning consumers are most willing to pay for advice, and the features and services that most appeal to those using professional financial advice (advise users) as part of an ongoing advisory service. In this way, we aim to identify the attributes that are likely to single out the most successful firms in a fee based advisory market.

1 Sizing the UK advice market

In a previous J.P. Morgan Asset Management report[1], we identified £55,000 gross household income as a tipping point where consumers become significantly more interested in seeking out professional financial advice. For the purposes of this report, we therefore only surveyed consumers with a gross household income of £50,000+, rising to £500,000+.

Among this group, we find that past and future engagement with professional advice appears high, with only 15% of our 2,028 respondents claiming they would NOT be interested in using a professional financial adviser in the future. Interest in advice peaks among consumers with a £150,000 £250,000 household income, with 93% claiming they want to use a professional adviser in the future. Initially therefore, we determined that the UK appetite for receiving professional financial advice is strong.

2 Motivations for seeking advice

Interest in financial advice versus actually being motivated to seek out and pay for advice are two different things. Our research indicates that the most powerful trigger for paying for advice is a recognition by an individual of the limits of their own knowledge on a particular financial issue. As to specific issues, pensions dominate as an initial advice trigger followed by investments then tax efficiency[2]. Advisory firms are most like to capture interest in their fee based services by offering expertise that a consumer is aware they don't possess and this must be central to a firm's messaging.

3 Capturing new business

In terms of attracting new business, personal or professional recommendation is the most powerful means to source potential clients across all age groups and income levels. Professional alliances with solicitors and accountants appear particularly effective for attracting clients aged 55+. Actively inviting individual prospects to become clients appears to be prevalent among those with an income of £350,000+.

Conventional advertising currently has low impact. An online presence has a low but growing importance for sourcing clients under 35, however online tools are not effective as yet for targeting particular demographics.

[1] Adviser Charging: Putting a price on financial advice – Negotiating the transition from a commission-based to a fee-based proposition', J.P. Morgan Asset Management, May 2011.

[2] Mortgages are also a key trigger but do not currently sit within the RDR's fee-based requirements.

When a prospect meets a firm, their decision to sign up as a client will be most heavily influenced by whether they feel an adviser has understood their needs and goals. Demonstration of results achieved for other clients will also be a highly influential factor.

While most prospective advice users expect their chosen advisory firm to be unbiased in terms of product providers, they do not expect them to have an exhaustive knowledge of every retail investment product on the market a 'wide' knowledge of products and providers is sufficient for most prospective advice users to choose to use a firm.

4 Managing the client relationship

The majority of existing and potential advice users currently or would like to conduct their advisory relationship on a task by task basis rather than paying for an ongoing relationship. An ongoing advisory service appeals primarily to advice users with assets of £250,000+ and to older males (average age 51).

In terms of input, most existing and potential advice users appear to seek a service that gives them a high level of control over their financial planning, with the reassurance of expert input as required. The desired level of advisory input varies with the task involved:

- For issues relating to **pensions** or **managing an estate**, most consumers want a high level of advisory input. Only a quarter of people concerned about retirement planning, for example, are confident enough to research and set up a pension plan themselves.
- **Tax efficient saving and investment** are 'collaborative activities' with a broadly even split between consumers who want to be highly self directed and those who want advisory support.
- **Choosing savings accounts**, **insurance** and managing **personal debt** are heavily self directed activities.

Advisory firms that allow clients to vary the levels of control/decision making in their financial planning may therefore find a large and interested market.

5 Delivering an ongoing service

One of the most daunting challenges for many firms post 2012 will be to deliver a service that sufficient numbers of clients will want to pay for on an ongoing basis. Our research suggests that clients will primarily pay for proactivity in the form of ongoing portfolio adjustments, regular portfolio reports, warnings of market events that may affect them, and face to face meetings.

The majority of clients (70%) want to see their adviser once a year or only as necessary.

Aside from meetings, email is the preferred means of communication across all age groups. Social media and texting becomes more acceptable among younger advice users, with 20% of under 35s favouring texting as a principal way to communicate with their adviser.

As to other technology, the majority of advice users value the ability to check portfolio valuations and research products online. A rising level of interest in smartphone services among younger age groups suggests these will be key tools for attracting clients in the future.

In terms of portfolio management, the majority of advice users favour a fund based service. Above £100,000 in assets, investors start to expect some element of bespoke management to the service they receive. However, overall, the bulk of clients (43%) are happy with a model portfolio service.

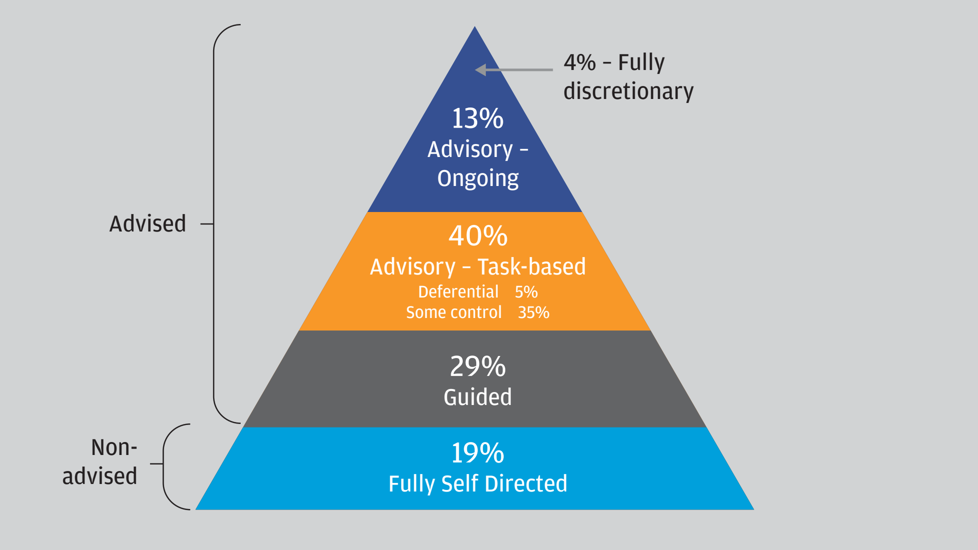
Overall, current and potential advice users most value an advisory service for providing trusted advice whenever required and enabling their capital to achieve a better return.

6 Mapping the post-RDR advice landscape

Our research into advisory preferences within our £50,000+ household income demographic has enabled us to project how the advice user market could potentially stratify post 2013:

Future advisory preferences among £50,000+ household-income earners*

Diagram 1 | Future advisory preferences among £50,000+ household income earners*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

We project that 81% of £50,000+ household earners will seek professional advice to some degree. Just over half (53%) will seek a high level of advisory input and 13% will seek specifically to pay for an ongoing advisory service. A small minority (4% of £50,000+ household earners) will seek a fully discretionary advisory service with this group having significantly higher levels of investable assets than its peers.

Taking the nation as a whole, we can roughly project that over 800,000 households in the UK (that earn £50,000+) may be interested in seeking out an ongoing advisory service, and a further 2.4 million households may be interested in receiving advice on a task by task basis.

*Totals more than 100% due to rounding. For basis of category calculation – see Appendix III.

Conclusion

For those firms that are willing to explore new approaches to delivering advice and financial planning such as task based advisory services we believe the potential market is extensive and exciting. Consumer demand for an ongoing advisory services service is currently more limited and those firms that wish to pursue this most sought after client segment need to display certain attributes to be assured of success.

The most successful firms in attracting and retaining clients both task based and ongoing will be those that:

- Demonstrate an **immediate and deep understanding** of individual clients and their needs and are committed to acting as a 'trusted' adviser;
- Have a **strong focus on pensions** and/or enabling clients to achieve a secure retirement;
- Are **proactive** in portfolio management and alerting clients to market and financial events that may affect them;
- Can demonstrate **measurable** results and benefits to clients;
- Offer **fixed fees** or at least give clients a clear and finite cost for their services.

Most of all, as more consumers make their first foray into a fee based financial advice culture, firms must initially at least assure clients of a high level of personal control over the relationship. If firms are able to demonstrate all of these attributes, we are confident the potential market for their services will be extensive and sustainable.

About the research

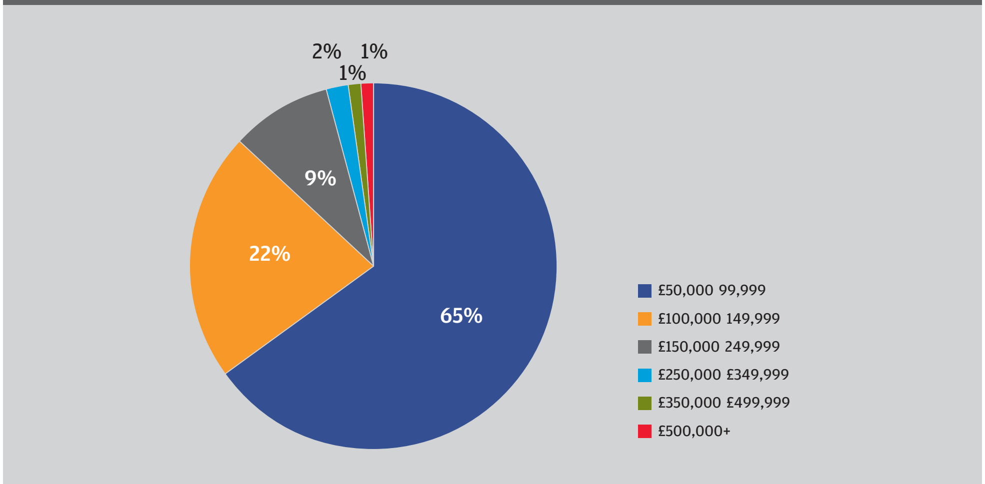
The core findings of this report are based on research conducted in March 2012 by Ledbury Research on behalf of J.P. Morgan Asset Management.

In total 2,028 individuals living in the UK were interviewed online using a combination of multiple choice and open/unprompted questions.

Profile of respondents

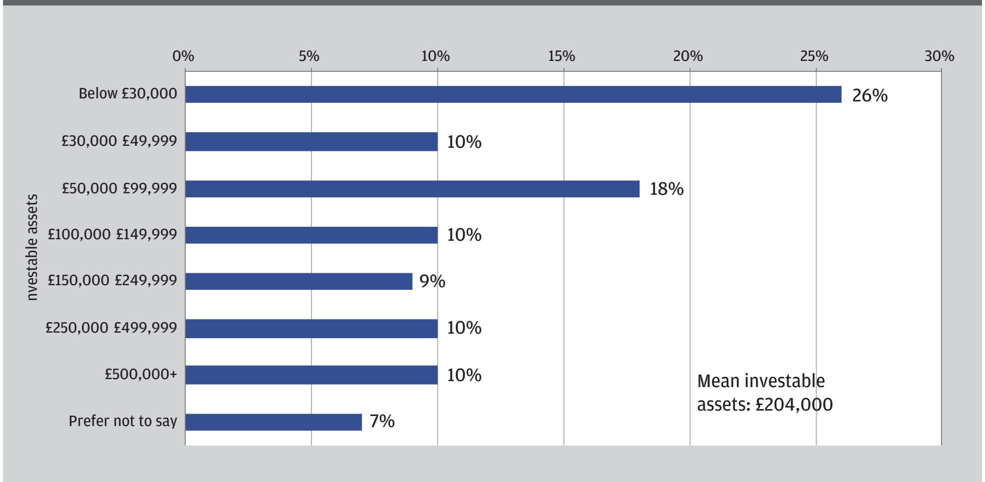
For the purposes of this report, we have chosen to focus on survey respondents with a gross household income of £50,000 or more, which places our respondents within the top 25% of UK households by income.

Diagram 2 | Respondent breakdown by annual gross household income



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Diagram 3 | Respondent breakdown by level of investable assets

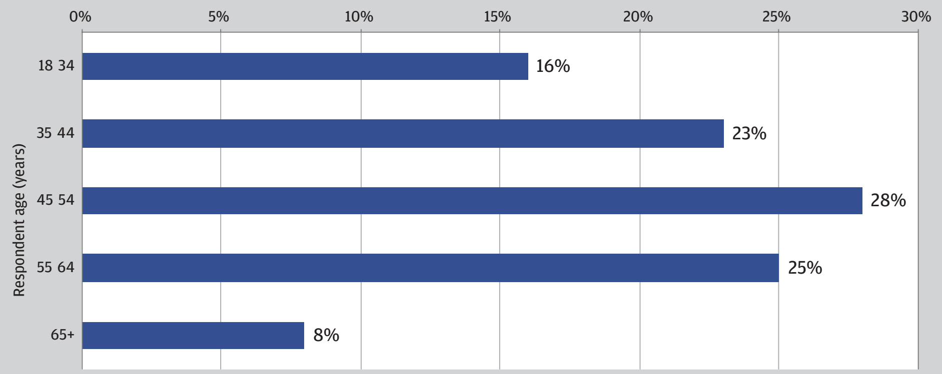


Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Respondents span all adult age groups with a focus on pre retirees. Seventy one percent of respondents were male.

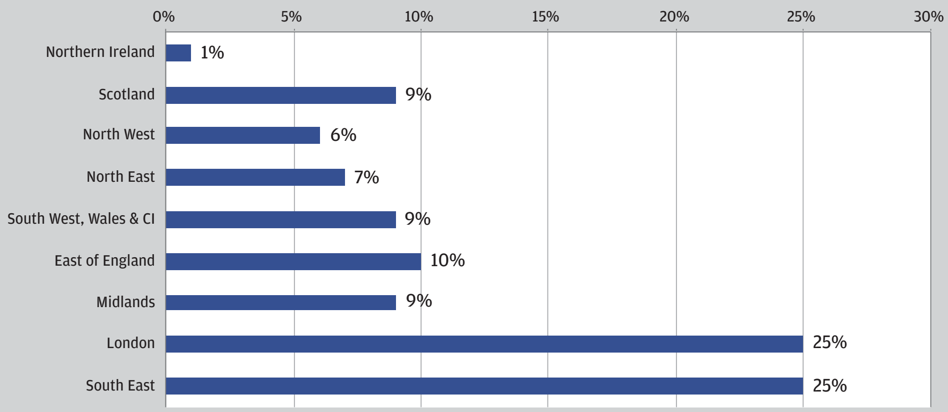
Two thirds of respondents are full time employees; the second largest group is self employed, accounting for 11% of respondents. Just 9% of respondents are retired; given our £50,000 income threshold, these can be classed as highly affluent retirees.

Diagram 4 | Respondent breakdown by age



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Diagram 5 | Respondent breakdown by region



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Part One: Sizing the UK advice market

Assessing the potential appetite for professional financial advice

Issues for firms to consider

- What's the minimum level of income/investable assets we can accept for a fee based client?
- Are there any particular age groups or other demographics we want to target?
- Do we actively need to market the benefits of financial advice?

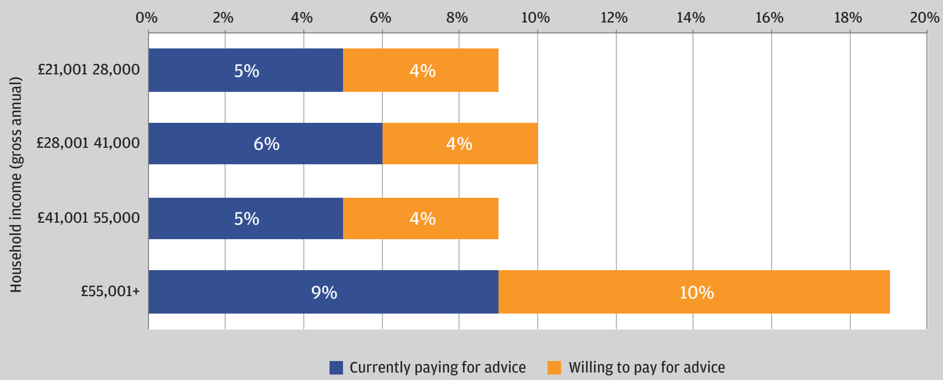
The fortunes of a fee based advice industry are contingent on market demand. At first glance, the concept of explicitly paying for the services of a professional financial or investment adviser is not a well established one in the UK. Our research suggests, however, that above certain income levels, interest in receiving professional advice is widespread.

1.1 The £50,000 threshold

Taking the UK population as a whole, the current and potential market for paid for financial advice appears very limited. When, in late 2010, J.P. Morgan Asset Management surveyed the UK population[3], we found that typically 5 10% of the overall population currently pays for, or is willing to pay for, advice on savings, investments and pensions   see Diagram 6.

Diagram 6 | Willingness to pay for advice by household income

Q: *Do you currently pay for investment advice (e.g. advice from a third-party adviser on savings, pensions, ISAs or investment funds)?*



Source: J.P. Morgan Asset Management/ICM, October 2010. Base: All respondents (2,008)

However, it was noticeable that the percentage of current or potential advice users almost doubled among respondents with a gross household income of £55,000 or more. For this current report, therefore, we surveyed only respondents with a before tax household income of £50,000 or more, which broadly represents the top 25% of UK households[4].

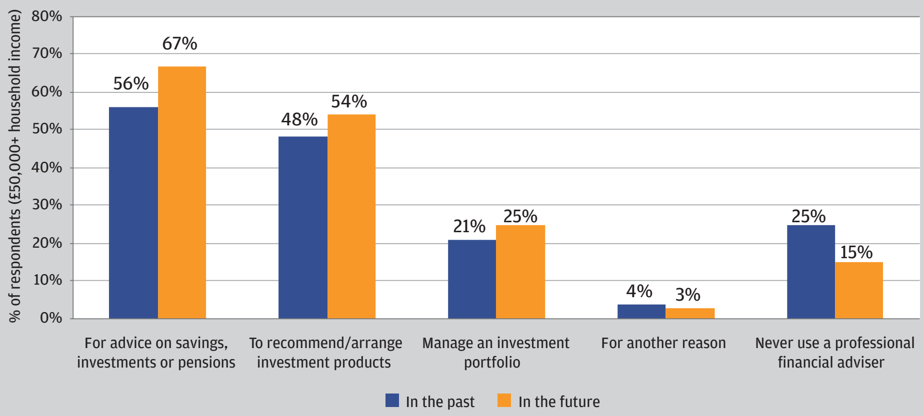
[3] See 'Adviser Charging: Putting a price on financial advice - Negotiating the transition from a commission-based to a fee-based proposition', J.P. Morgan Asset Management, May 2011.

[4] See Appendix I.

We believe that £50,000 gross household income is a critical threshold for the UK advice market. Among this group, 75% had used the services of a professional financial adviser in the past and 85% were willing to use a financial adviser in the future see Diagram 7.

Diagram 7 | Take up of financial advice among individuals with £50,000+ household income

Q: *Have you used, or would you use in the future, a professional adviser for the following tasks?*

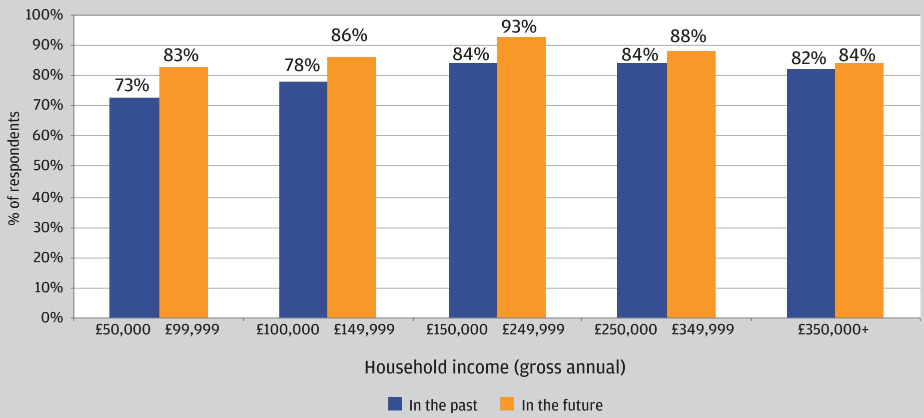


Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Moreover, the level of interest in using a professional adviser appears to increase with wealth, peaking among individuals with a household income of £150,000 to £250,000 see Diagram 8.

Diagram 8 | Current and potential users of advice by income level

Q: *Have you ever used, or would you use in the future, a professional adviser? (net positive responses)*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: Income of £50,000-£100,000 (1,300); £100,000-£150,000 (448); £150,000-£250,000 (192); £250,000-£350,000 (43); £350,000+ (45).

A healthy future advisory market

These findings suggest two things: first that interest in financial advice among the top 25% of UK households by income is high; second, those who have sought out professional advice in the past are generally willing to do so again in the future. Given that over 6 million UK households have an income of £50,000 or more[5], the prospective appetite for financial advice post RDR therefore appears extensive and sustainable.

However as we will see in this report, the extent and type of advice service sought and the willingness to fund it can vary markedly. Consequently, the target market for an advisory firm's services and the features a firm must offer as part of its fee based service need to be identified and developed carefully.

Profiling the £50,000+ advice user market

By questioning respondents on their current and future advice behaviour, we have been able to categorise our universe of £50,000+ household income earners into four groups:

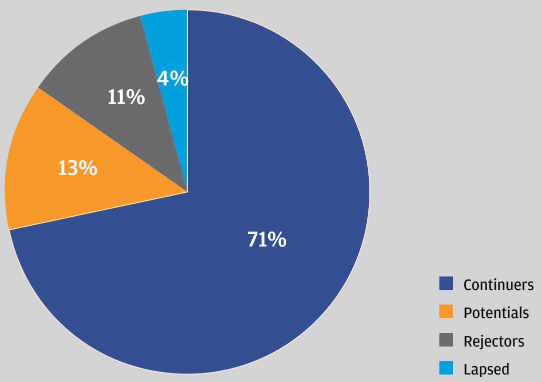
Continuers Continuers have used professional financial advisers in the past and intend to do so again in the future. They account for 71% of our survey group and span all age groups. Continuers have the highest mean gross household income of £116,000 a year, and 44% have investible assets of more than £100,000.

Potentials One in eight (13%) of individuals in our £50,000+ household income group are potential advice users. They haven't sought financial advice in the past but have strong intentions to do so in the future. Potentials have the youngest age profile, with over half aged under 45. Mean gross household income for this group is £101,000 a year.

Lapsed users Just 4% of those with a £50,000+ household income have used advisers in the past but don't intend to do so in the future. This is primarily because they see no need or haven't valued the advice they received in the past. Lapsed users include the highest proportion of constituents with investible assets of more than £500,000. This category includes a relatively high number of business owners/entrepreneurs.

Rejectors Eleven percent of our survey group haven't used financial advisers in the past and never intend to do so in the future (see 'Deterrents to seeking advice' for reasons). Rejectors span all age groups but include the second highest proportion of under 35s. Mean gross household income is £104,000 a year and 46% have investible assets in excess of £50,000.

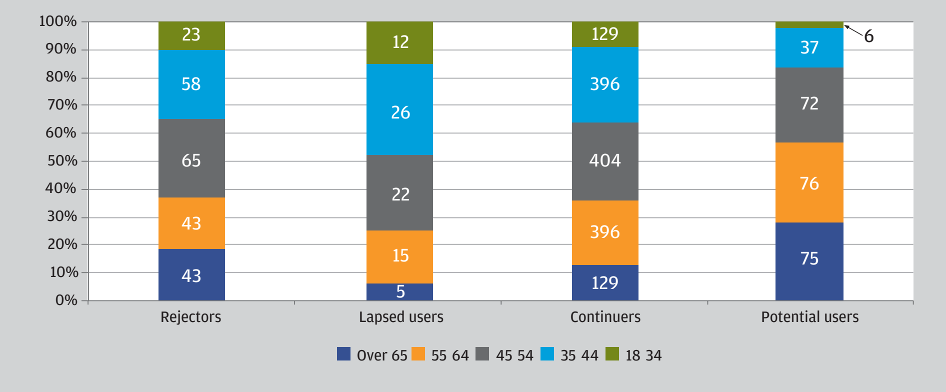
Diagram 9 | Profile of advice users by behaviour



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

[5] See Appendix I.

Diagram 10 | Breakdown of advice users by age



Source: J.P. Morgan Asset Management/Ledbury Research. Base: Rejectors (232); Lapsed users (80); Continuers (1,450); Potentials (266).

FACT

A fee based relationship may engender greater longevity: 20% of advice users who intend to continue using their adviser are fully fee based compared to 12% of lapsed users.

Comment: Deterrents to seeking advice

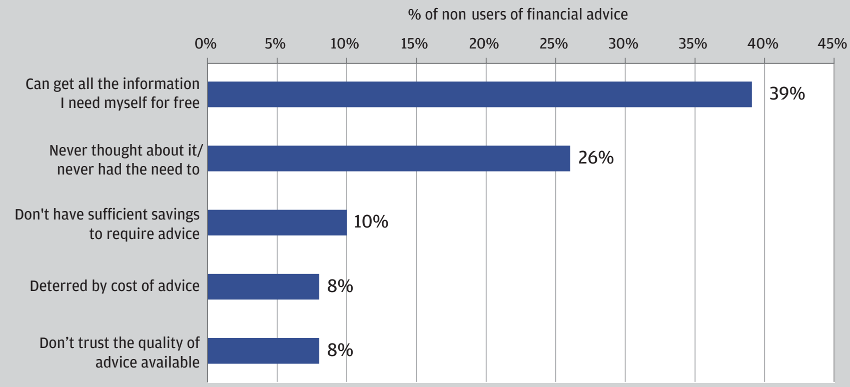
The biggest obstacle that financial advisers face in attracting non advice users is the ready availability of information on financial planning and investments. When asked unprompted why they have never used a financial adviser, close to 40% of non users said it was because they felt they could get all the financial and investment information they need for free.

It is also the case that financial advice has to be sold rather than bought. Unprompted, over a quarter of non users claim they simply haven't had the need to use a professional adviser or never thought about doing so. This mind set far outstrips non users who are primarily deterred by their own level of savings, the potential cost or a poor perception of the advice sector see Diagram 11.

Actively promoting financial advice may be worthwhile: according to our research, one in five people with investable assets of £250,000 £500,000 have never used a professional financial adviser indicating a sizeable high net worth market that still needs to be made aware of the benefits of professional financial guidance.

Diagram 11 | Free information deters advice

Q: *Why have you never used a professional financial adviser? (open response)*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All who have never used a professional financial adviser (498).

Profile: The Monthly Retainer Service

Tom Diaper of Plutus Wealth Management LLP, London

Plutus was formed in January 2009 by a young team that had worked together within another wealth management firm. Today there are eight of us, including four Registered Individuals (RIs) and one mortgage broker.

We have plenty of older and retired clients but it is fair to say we are becoming well known as an advisory firm for younger professionals.

Given the average age of our team is 31, we are able to take a very long term view of our clients. We believe in investing in our client relationships and building deep relationships as early as possible, which in turn will lead to the sustainability of our business. As part of this philosophy we are very willing to service younger people who may not have much in the way of assets now but who have the potential to be significant clients in the future.

Being based on the edge of the City of London makes us ideally placed for clients to attend meetings without taking too much time out of their working day. We have pleasant offices and decent coffee so clients can view us as much more than just an impersonal firm they speak to once a year.

We offer full financial planning   mortgages, savings, investments, pensions and inheritance tax planning. Lots of our younger clients are looking to buy a property so we do a lot of work either financing a purchase or helping them to build up a deposit. We don't believe in crude segmentation, instead we offer three levels of service; Silver, Gold and Platinum (see panel 'The Plutus Wealth Management LLP proposition') and clients then choose which service is most appropriate for them. About 30% of our clients are using our Silver service, 50% are in Gold and 20% Platinum.

Our fee structure is built around a monthly retainer which ranges from £30 to £100 a month, depending on the service level chosen. We have found that clients really like the idea of a retainer and often rationalise these fees to what they would pay for their gym membership.

In addition to this retainer, we typically levy a fee of up to 3% to implement investment advice. We also charge up to 0.9% per annum for on going quarterly portfolio advice and reviews of the contract.

We offer clients a range of investment options from single funds to full discretionary portfolio management. Most clients, however, favour our advisory model portfolio service   particularly younger clients   because it means they receive quarterly investment advice even if their assets are relatively modest. We don't impose any minimum portfolio size for our model portfolio service   partly because it's an efficient way of spreading our research and knowledge as widely as possible. Also, our processes and developments in IT make it cost effective to offer this service to our entire client base.

Every client in our model portfolio management service receives a quarterly investment report by email. This details performance and sets out the portfolio changes we intend to make for the next quarter. Clients then have a week to approve these changes. If they don't, they can keep with the previous quarter's portfolio until they are ready to change.

Post 2012, we will continue to be independent and maintain the necessary knowledge across all retail investment products to be defined as independent. We do have experience in ETFs and structured products but, in practice, use of them is limited. The interesting thing is, clients never ask if we're independent   they just assume we are.

Most new clients come to us through word of mouth. We do use Facebook and Twitter but one of our best marketing tools is our quarterly portfolio report. Quite a few new prospects have come to us because they've seen a friend or colleague looking at their Plutus portfolio report and are interested in receiving that level of service for themselves.

We never charge potential clients for the first meeting. If someone is undecided and wants a second meeting, we charge a time based fee but that will be offset against their monthly retainer when they choose to sign up as a client. We work with a lot of solicitors, accountants and lawyers and this approach is very familiar to them.

If there are lots of financial arrangements to track down and sort out, we may suggest a new client starts off on our higher cost retainer and we will reduce this when there's less work to do. Clients are unsurprisingly delighted when you tell them you're going to reduce their fees it's something they tend to remember.

Tips for building an advisory proposition

1. Engage with your clients' aspirations but don't be afraid to challenge them
2. Talk to your clients regularly to find out what they want from you and be able to adapt accordingly
3. Keep everything simple, otherwise you can spend a lot of time running the business and not actually doing any business

The Plutus Wealth Management LLP proposition

Available to all services: Client portal, 24 hour response, quarterly newsletter, access to Plutus investment committee and Plutus seminars.

Silver service	Gold service	Platinum service
£30 a month retainer	£50 a month retainer	£100 a month retainer
▸ Annual review meeting/ portfolio report/ risk profiling	▸ Six monthly review meeting/portfolio report/risk profiling ▸ Inheritance tax planning ▸ Discretionary fund management ▸ Offshore advice	▸ Three monthly review meeting/portfolio report/ risk profiling ▸ Inheritance tax planning ▸ Discretionary fund management ▸ Offshore advice ▸ Family assurance service ▸ Alternative investments ▸ Specialist workshops

Part Two: Understanding the triggers for advice

Harnessing the motivations for seeking advice

Issues for firms to consider

- Can we do more to tap into key consumer financial planning motivations such as securing a comfortable retirement?
- Do we market and communicate our particular areas of expertise sufficiently?
- How effective have we been at converting interest in our firm into new business are we happy with this conversion rate?

In a market where consumers have to fund advice directly, advisory firms may have to work harder to inspire consumers to use their services. The first step in this process is understanding and managing the trigger the triggers that motivate individuals to seek out professional advice.

2.1 Triggers to seeking out advice

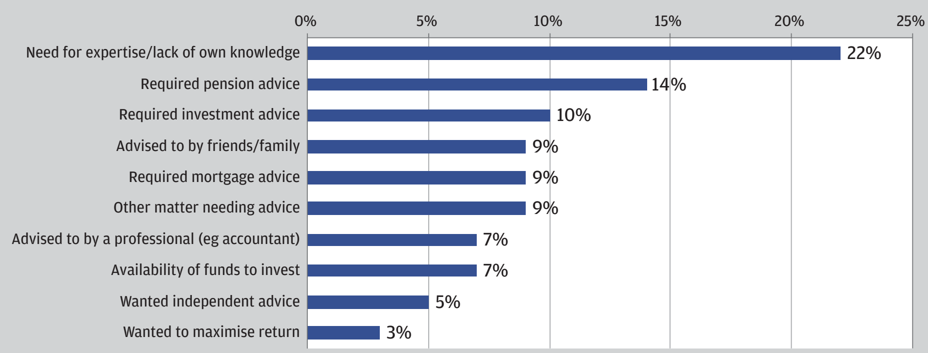
The most powerful motivation for initially seeking professional advice is a recognition by an individual of the limits of their own understanding of a particular financial concern often when that concern becomes pressing.

When asked unprompted for the trigger for using a professional adviser, 10% of existing advice users mentioned the desire to seek out professional expertise, and 12% mentioned seeking out advice once they recognised their own lack of knowledge on an issue.

In terms of specific issues, pensions dominate as an initial advice trigger followed by investments then mortgages. Sixteen percent of existing advice users were motivated to go to an adviser by friends, family or another professional. For 7% the trigger was the receipt of new funds or the greater availability of money to save and invest.

Diagram 12 | Triggers for seeking out advice

Q: *What first led you to use a professional adviser? (open response)*



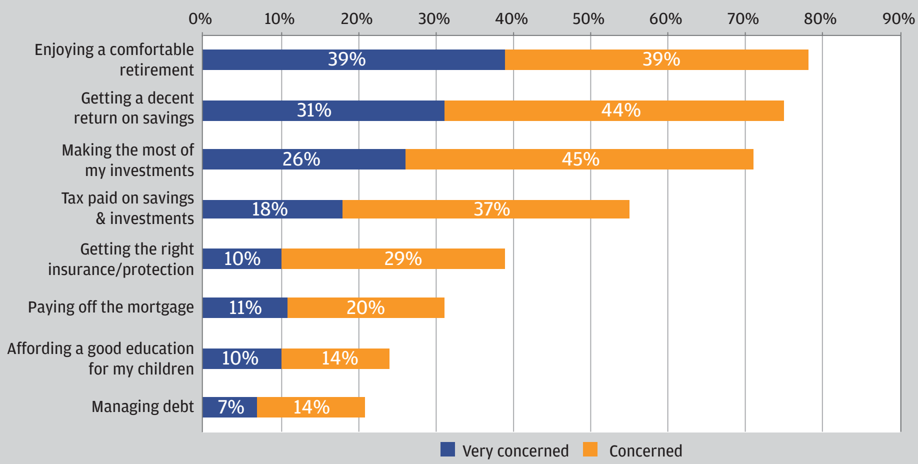
Source: J.P. Morgan Asset Management/Ledbury Research. Base: All who have used a professional adviser (1,530).

2.2 Tapping into concerns and aspirations

To assess which financial planning concerns are most likely to act as a trigger to seeking out professional advice in the future, we assessed different financial concerns and aspirations against the level of interest in using a professional to help address that concern (as shown in Part Four, Diagram 21). From this, we were able to rank advice triggers as follows.

Diagram 13 | Dominant financial planning concerns and aspirations

Percentage 'concerned' or 'very concerned' about the following financial planning issues



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Trigger 1: Retirement planning

Retirement planning is a major concern for three quarters of our respondents and is the dominant specific trigger for seeking professional advice. Half of individuals who are concerned about pension planning say they would want a professional to research an appropriate pension for them and/or set it up for them as well. Only a quarter of people concerned about retirement planning are confident enough both to research and set up a pension plan themselves.

Trigger 2: Investing and saving

As Diagram 13 shows, people are marginally more worried about getting a decent return on savings than making the most of their investments[6]. But only 40% of those concerned about their investments are confident to invest without input from a professional adviser, whereas 59% of concerned savers feel they need no professional advice as to where to achieve a good return. Investing is therefore the second most powerful goal based trigger for seeking out financial advice.

[6] Here 'savings' refer primarily to cash deposits that involve no market risk; 'investments' means capital held in assets whose capital value can be affected by fluctuations in market prices.

Trigger 3: Tax efficiency

Just over half of the population with a household income of £50,000+ are concerned about the level of tax they pay on savings and investments. This proportion rises with age, peaking at 62% among 55 64 year olds. In terms of wealth, tax concerns peak among those with £100,000 £150,000 in investable assets, at 69%. Among those who are concerned about tax, 57% would want input from a professional adviser to help arrange investments tax efficiently.

Trigger 4: Managing an estate

Understandably, managing a person's assets after they die is an event driven issue, and therefore only 21% of people currently cite it as a concern. However, two thirds of those who are concerned say they would want a professional to advise on and/or make arrangements. Therefore this can still be categorised as a strong trigger to seeking out advice.

Comment: Hitting the right triggers

Triggers for seeking out financial advice tend to be concern driven (e.g. a comfortable retirement, a better investment return) rather than event driven (one exception being mortgages). Therefore, there may be less immediate motivation for individuals to act than when, say, seeking legal advice for divorce or when purchasing property. Advisory firms actively looking to acquire new clients must be prepared to invest in their acquisition process in order to convert concern into action.

While consumers may often be motivated by concern to seek advice, we believe there is strong potential in triggering aspiration (a happy retirement, more rewarding savings, etc.) rather than fear. Advisers such as life planner Magus Financial Management (see pages 27 28) report strong success in focusing on an individual rather than their money and this may be an effective way to tap into a prospective client's most primal motivations for seeking advice.

Part Three: Building new business

Appealing to prospective fee-paying clients

Issues for firms to consider

- Are we maximising potential for personal recommendation and professional referral?
- Do we efficiently convey to prospects the results and benefits achieved for our existing clients?
- What can we realistically offer to prospects in terms of free initial meetings/ recommendations should we offer to discount initial costs against future fees?
- Do we intend to be independent under RDR definitions?

Moving to a fee based advisory proposition may not necessarily require a firm to take on new clients, provided sufficient existing clients are willing to convert to the new model. Firms that do wish to build their client base post 2013 will be at an advantage if they understand properly how their target prospects are likely to source and appraise advisory firms.

3.1 Sourcing an adviser

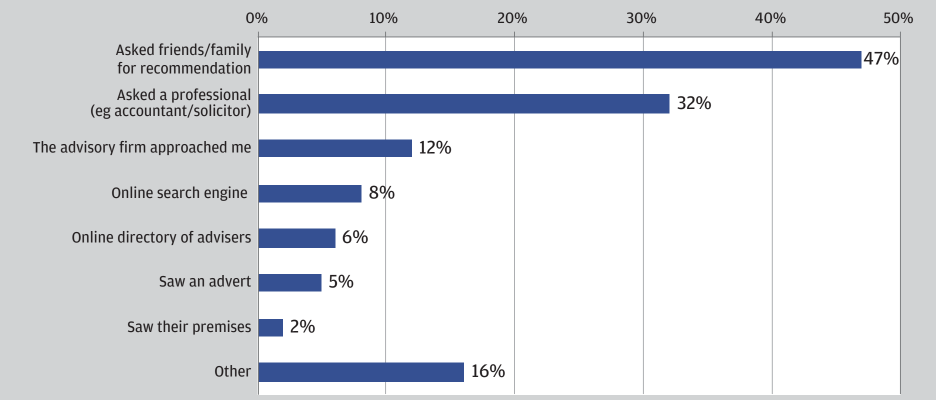
Whatever a prospect’s age, income or social status, a recommendation from an existing client or a professional services firm remains the most effective means of capturing their initial interest. Close to half of advice users say they sourced their adviser through recommendation from a friend or family member. This proportion rises to 60% among 35 44 year olds, making personal recommendation particularly effective for sourcing younger clients.

A third acted on professional referral, and this appears particularly effective for attracting clients in the 55 64 age group.

One in eight advice users had responded to an approach by a firm itself. This tactic appears most prevalent among private banks and wealth managers for those with an income over £350,000. Conventional marketing, such as advertising, currently seems to have very little impact but given that so few advisory firms advertise, we would be wary of dismissing its potential effectiveness.

Diagram 14 | How advice users find their adviser

Q: *How did you go about finding your professional adviser?*

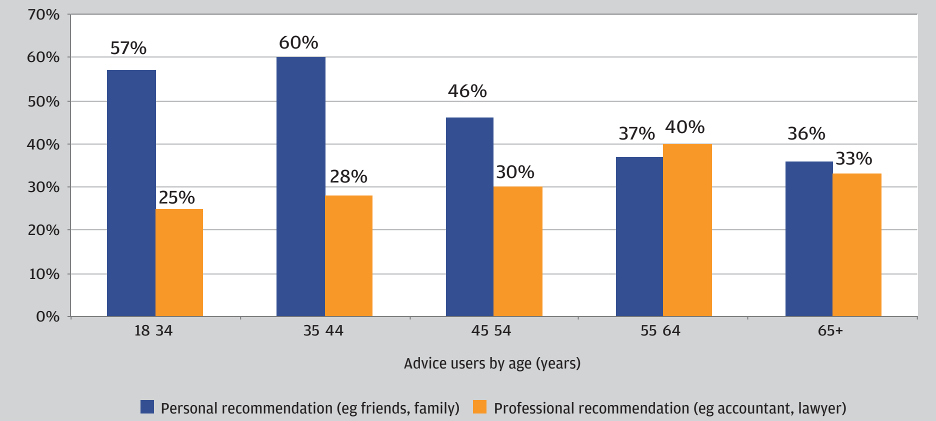


Source: J.P. Morgan Asset Management/Ledbury Research. Base: All who have used an IFA, investment broker, private bank or wealth manager (1,346). 'Other' includes: Provided by employer; already using the company for another service; attended a seminar by the firm; mentioned on a money website.

Online marketing is likely to appeal to younger age groups: 21% of under 35s are currently using online tools to source an adviser compared to 12% of consumers generally. This is still well below the 57% of under 35s who are acting on a recommendation from friends or family. Nonetheless, sourcing online is rising among younger age groups and shouldn't be discounted.

Diagram 15 | The power of recommendation

Percentage of continuing and potential advice users who found their financial adviser by personal or professional recommendation



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All who have used an IFA, investment broker, private bank or wealth manager: 18-34 (150); 35-44 (315); 45-54 (377); 55-64 (384): 65+ (120).

Comment: Fostering recommendations

The potency of personal recommendation as a means of generating new business, particularly among under 45s, suggests that advisory firms may want to explore a systematic approach to encouraging referrals from existing clients. This could range from something as simple as letting clients know that a firm is open to providing advice to friends, family or colleagues, to offering modest incentives for introductions. NOW Financial Solutions (see pages 43 44) reports on the success of offering shopping or dining vouchers, but says that offers to discount fees for clients who bring in referrals proved far less successful.

Professional recommendation from solicitors and accountants is considered among the firms we spoke to as one of the most effective ways to filter prospects within a precise demographic or income/asset range and will also generate clients who are used to operating on a fee.[7]

Conversely, IFAs attest that an online presence currently tends to generate more indiscriminate leads and is therefore less effective as a means to source clients within a target age group or wealth profile.

3.2 Appealing to prospects

Once a potential client has made contact, certain attributes may influence heavily whether they choose to sign up as a client.

Depth of understanding: Almost 9 out of 10 continuing and potential advice users say an adviser's grasp of their goals and needs would be highly influential when deciding whether or not to use their services. This was highly consistent among all demographics.

Track record: Close to three quarters of advice users say they would be influenced by evidence of the results achieved for other clients, and this was particularly important to 35 54 year olds. In addition, 82% of people who are deterred by the cost of advice say that evidence of results would influence their decision to use an adviser.

Professionalism: Qualifications and membership of professional bodies influence two thirds of prospective advice users, and are "highly influential" among almost 40% of over 65s. These factors appear to be more important to women than to men when choosing an adviser.

Professionalism of a firm's support staff is particularly valued by over 65s and those who work in financial services themselves.

Free meetings and recommendations: Promotional offers of a free meeting or free initial recommendations both appeal to around half of advice users and were significantly more interesting to those who have never used an adviser in the past and those who have been deterred by cost from using an adviser.

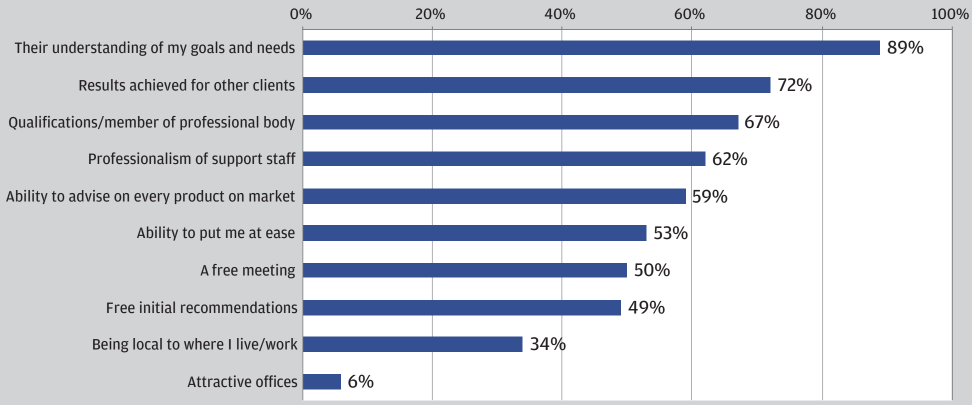
Under 45s and those with lower income and assets are also more attracted by a free consultation. There is also a gender difference: 56% of women would like to see a firm's initial recommendations before they sign up compared to 46% of men.

[7] At the time of writing (July 2012), the Solicitors Regulation Authority (SRA) only allows solicitors to refer clients to advisers who are classified as independent for investment advice. The SRA is holding a consultation to decide whether to retain this requirement once the definition of independence is revised under RDR.

Premises: The attractiveness of an adviser's offices is only relevant to a small proportion of higher net worth clients (those with income of more than £350,000). A local presence is more important to those with a household income below £150,000 as opposed to higher earners who presumably are willing to travel to use a professional who meets their needs or expect the adviser to come to them.

Diagram 16 | Influential factors when deciding to use a particular adviser/advisory firm

Percentage of past and future advice users who are highly influenced by the following factors



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or would use an adviser (1,796).

Comment: What to offer for free

Many advisory firms offer an initial meeting at no cost both to introduce their own firm and to assess if the prospect is a suitable potential client. But firms vary in what they will offer beyond this point. Our research shows that free meetings and reports appeal most to those with an income of less than £150,000 or those who have been deterred by cost from using an adviser in the past. Firms therefore have to tread a careful line between offering initial services for free and attracting potential clients who may be unable or not amenable to paying fees in the future.

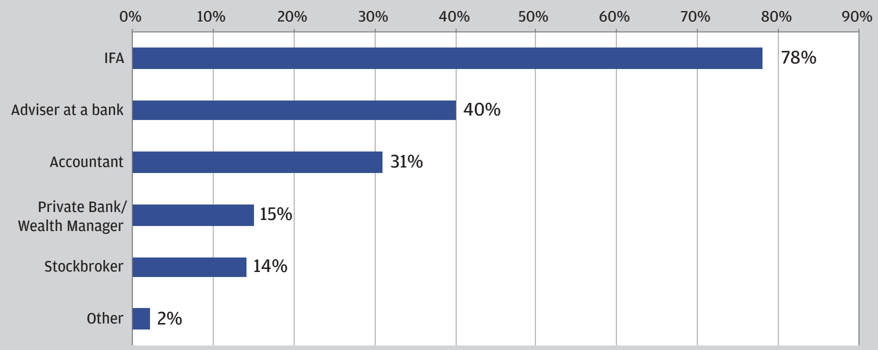
One solution used by some firms is to charge for initial reviews and recommendations but to offset these costs against future fees once a prospect chooses to become a client.

3.3 Independence and product knowledge

The ‘independent’ label remains extremely powerful among consumers seeking financial advice. Of those who have used a professional adviser in the past, 78% claim to have specifically used an independent financial adviser see Diagram 17.

Diagram 17 | Sources of advice

Q: *Which of the following have you ever used for advice or to help manage your finances?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All who have used a professional financial adviser (1,530).

Unprompted, one in five people who have used an adviser in the past say that the independence of their advice is one of their main benefits. Equally, a third of people who reject the idea of seeking financial advice do so because they are concerned about product/provider bias.

When it comes to defining independence, consumers are more likely to equate it with lack of bias rather than exhaustive product knowledge.

Seventy eight percent of those who use or intend to use a financial adviser say it is acceptable for an adviser to advise on “a wide range of products and providers”. Only 29% believe a professional adviser should advise on “every single product and provider on the market”.

An adviser who can advise on every single product on the market was most important to:

- Advice users aged 45 or less
- Clients who work in financial services themselves
- Lapsed advice users

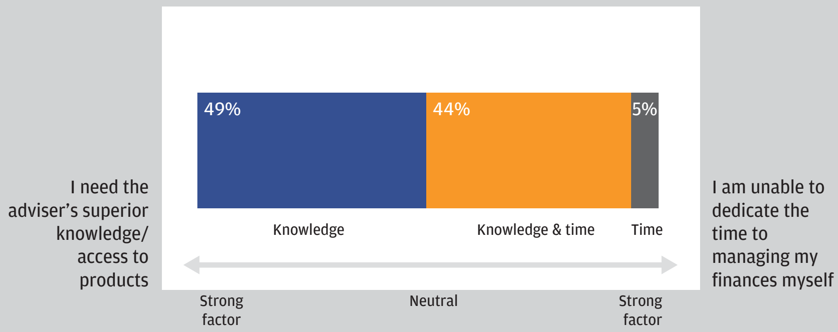
Comment: Time vs. expertise

Should an adviser market their services as providing clients with expertise or saving them time? Our research suggests that superior knowledge and access to products is the key reason for using an adviser among half of advice users.

The time saving benefits of an adviser become more important to very higher earners: 19% of those with a household income in excess of £350,000+ say they use an adviser primarily because they are unable to dedicate time to managing their finances themselves.

Diagram 18 | Factors for seeking out advice

Q: *Which of these statements best describes your reason for using an adviser?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have used an adviser (1,530).

Profile: The Life Planner

Dante Peters of Magus Financial Management, London and West Sussex

Our firm was established as a generalist IFA in 1998. In 2007, we had a radical restructure to focus on fee based financial planning. The first RDR consultation paper had just been published so it seemed timely to adapt our model and we've never looked back.

We follow the principles of the Kinder Institute of Life Planning. Traditional financial advice has gone badly wrong in the UK because it focuses on product. Life planning focuses on the individual, their feelings about money and what they really want from life and work. This helps them put their life in front of their money rather than their money in front of their life.

Many of our clients are business owners and entrepreneurs. On average clients tend to be in their late 40s. I think our approach is so different from traditional UK financial services that it resonates enormously with younger professionals. Equally, we have a substantial number of retirees who are receptive to life planning.

We target clients with £250,000 or more to invest. We are quite disciplined about this and will turn away clients who aren't appropriate for our services. As a commercial firm you can't be all things to all people. We will do one off transactional work but our minimum fee is £750 so it's only economic for clients of a certain size.

Almost all our clients come through word of mouth. We get referrals through our professional connections as well as plenty of personal recommendations via clients. We also get a lot of interest through our website but online leads tend to be less suited to our service so it's a far less effective way to source clients.

For suitable prospects, we will carry out quite a bit of work upfront for no charge. This will typically include an initial face to face consultation, detailed analysis of the individual's cashflow needs and a presentation of a strategy plan.

This process demands a significant investment of time from the prospect such as gathering information and providing letters of authority. Consequently, it's very rare that a prospect fails to become a client at the end of this process. Also, because we start by exploring personal and often quite emotional aspects of financial planning, we tend to form bonds of trust very quickly. In fact, out of 100 or so new clients in the past five years, we've only had one who went elsewhere.

Our fee structure is very simple 1% initial to implement recommendations, subject to a £3,750 minimum fee, and 1% as ongoing annual fee. In addition, there are platform fees and fund fees.

Clients rarely question our fees as they feel they are getting a premium service that they are unable to get elsewhere.

We allocate clients into three segments: 'A' clients have assets of £1 million or more and get unlimited access to us, cashflow reviews as required, plus we can work directly with their solicitors, accountants and other advisers. 'B' clients must have £500,000 £1 million in assets and get everything except professional firm liaison. 'C' clients have £250,000 £500,000 and receive an annual face to face meeting and cashflow review. As their assets grow, clients are automatically upgraded to the next level of service.

For portfolio management, we operate 11 models from 100% fixed income to 100% equity. We take a lot of time to ensure clients are taking the right amount of risk for the return they require. Often, we have to persuade clients they can afford to take less risk. For example, why have as much as 80% of your portfolio in equities if you have sufficient capital to meet your cashflow needs?

We have a clear investment philosophy which is based on asset class investing. We do not believe in stock picking or market timing and make sure a client's long term asset allocation is always in line with their goals and risk profile.

To achieve asset allocation we only use open ended funds held via platforms that allow us to access all relevant tax wrappers. We remain fully up to date with hedge funds and exchange listed and structured products, but rarely recommend them.

Clients do have online access to view their portfolio but I would say this is a bonus rather than an essential service in our client's eyes. Likewise, email is useful but nothing beats picking up the phone and calling a client, or meeting them face to face. Life planning involves a very different approach from other financial advisers, and our clients actively look forward to their meetings with us.

Over the past five years, we've developed a template that allows us to deliver both a consistent advice process and highly bespoke solutions. There's no doubt that there's a huge demand in the UK for the approach we take. If our experience is anything to go by, this is a growth market.

Tips for building a proposition

1. Devise a robust investment philosophy that you can articulate to clients
2. If you want to offer financial planning, make sure you introduce proper cashflow modelling
3. Know your cost of client acquisition and don't take on clients whose costs exceed what you will make from them

The Magus Financial Management proposition

A clients	B clients	C clients
£1 million+	£500,000 £1 million	£250,000 £500,000
▸ Comprehensive life planning and portfolio management ▸ Unlimited access to advisory team ▸ Cashflow reviews as required ▸ Professional adviser liaison	▸ Comprehensive life planning and portfolio management ▸ Unlimited access to advisory team ▸ Cashflow reviews as required	▸ Comprehensive life planning and portfolio management ▸ Annual review meeting and cashflow analysis

Part Four: The client relationship

Client preferences for interaction and involvement

Issues for firms to consider

- Do we intend to promote task based or ongoing advisory services or both?
- Can we give clients flexibility in terms of their level of input into decision making for different areas of financial planning?
- Is there any scope for our firm to offer a fully self directed service?
- Do we intend to offer a fully discretionary service?

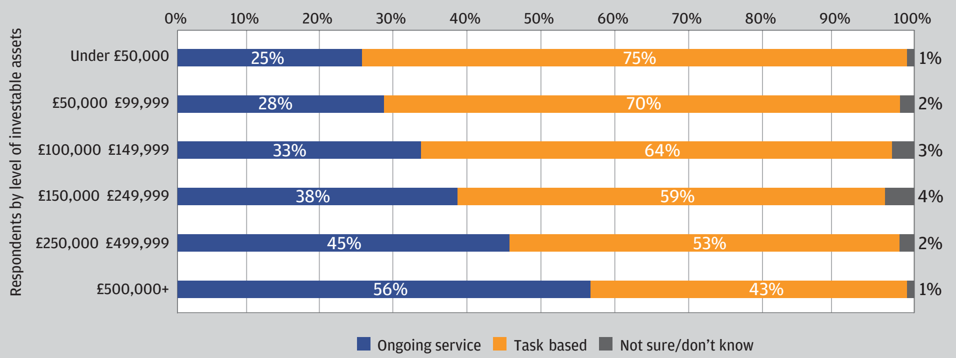
The ways in which consumers wish to conduct an advisory relationship vary enormously potentially offering opportunities to develop innovative and flexible ways to service clients.

4.1 Interaction: Task-based versus ongoing service

Two thirds of current advice users describe their relationship with their adviser as task based, where they only use their adviser as and when required. Only a third claim to have an ongoing relationship where they receive continuous advice and service. The higher an individual's assets, the more likely they are to view their adviser relationship as ongoing rather than task based see Diagram 19.

Diagram 19 | Task based vs. ongoing advice users by level of assets

Q: *Which of the following best describes how you use your professional adviser?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have used an IFA, investment broker, private bank or wealth manager, by investable assets: Under £50,000 (420); £50,000-£99,999 (228); £100,000-£149,000 (143); £150,000-£249,000 (135); £250,000-£499,999 (165); £500,000+ (175).

Looking to the future, three quarters of advice users say they would prefer to operate on a task by task basis. Only 16% of continuers and potential advice users say they want to pay for continuous advice and support (See Part Five, Diagram 28, for further breakdown of payment preferences).

Those who wish to operate on an ongoing basis tend to be:

- Older (average age 51 years)
- Male (constitute 77% of ongoing advice seekers)
- Wealthier (a quarter have investable assets of £500,000+; 12% have £1 million+)
- In senior management in large organisations (1,000+ employees)
- Marginally more likely to have used an adviser in the past

Comment: A case for simplified advice?

The level of consumer interest in task based advice would appear to support the case for 'simplified advice' a streamlined advice process put forward for discussion in the Retail Distribution Review.

The Financial Services Authority (FSA) describes simplified advice as a service, or automated advice process, which looks to provide individuals with targeted advice on a specific need, or needs. In the FSA's vision, simplified advice is aimed at low to middle income earners.

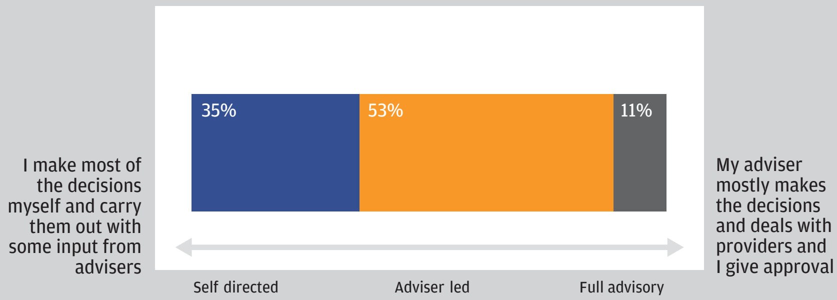
Our findings suggest, however, there is a strong appetite for a task based advice service much further and higher along the wealth ladder (up to assets of £250,000). And whereas simplified advice services are expected to offer a restricted product suite, we envisage task based advice being a core offering of fully independent firms too.

4.2 Input: Self-direction vs. advisory

In terms of input, most advice users appear to seek a service that gives them a high level of control over their financial planning, with the reassurance of expert input as required. But the desired level of involvement varies by type of person and the financial activity in question.

Diagram 20 | Preferred approach to working with advisers

Q: *Which of these statements best describes how you work with your financial adviser?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have used a professional financial adviser (1,530).

‘Adviser led’ the largest grouping spans all age groups and income levels. However we do see certain characteristics emerging among those who favour self directed or full advisory services:

Self direction appears to be most popular among:

- Under 35s
- Those with higher income (47% of those with £250,000 £350,000 in total household income favour making their own decisions)
- Professionals working within financial services

Full advisory services tend to be most popular among:

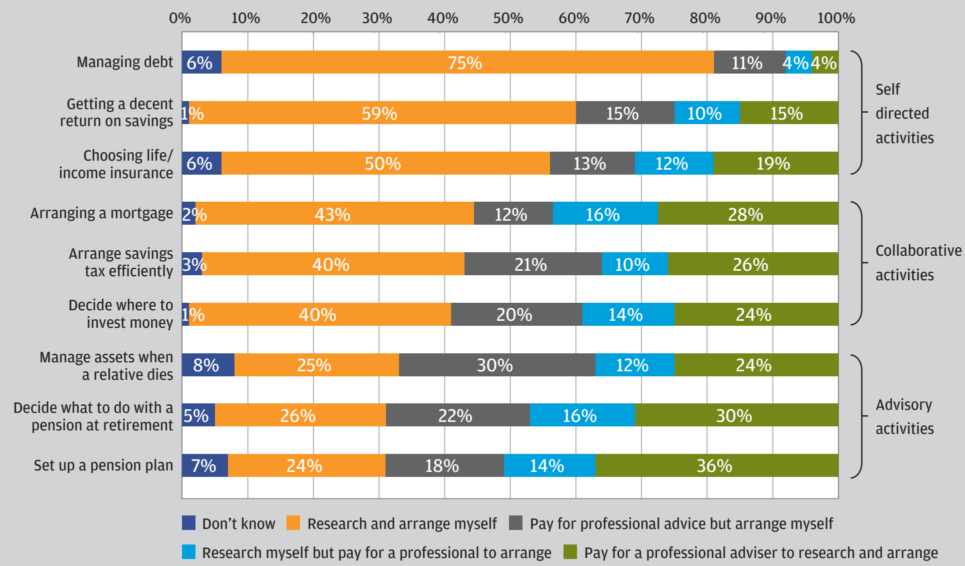
- Over 65s (20% of whom claim to be adviser led)
- Those with higher assets (16% of advice users with investable assets of £250,000 £500,000 claim to be fully advisory)
- Clients of private banks and wealth managers

4.3 Advisory input by financial activity

Most core financial planning activities have potential for some adviser input. The distinction is how much and what kind of advisory support consumers want. Choosing savings accounts, insurance and managing personal debt are heavily self directed activities, but a significant minority of advice users would still like advisory support particularly in terms of arranging products.

Mortgages, tax efficient saving and investment are collaborative activities with a broadly even delineation between consumers who wish to self direct and those who want advisory support. Managing an estate on death and pensions are heavily advice led activities with only a quarter of advice users concerned about these issues wishing to address them without paid advice.

Diagram 21 | Assessing advisory demand by activity



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have an adviser and are concerned about the following issues: Arranging a pension plan (1,646); Deciding what to do with a pension (1,646); Arranging a mortgage (815); Savings tax (1,457); Deciding where to invest (1,615); Managing assets when a relative dies (381); Choosing insurance (1,167); Getting a decent return on savings (1,646); Managing debt (599).

Comment: Tailoring intermediation

Our research shows that advice users favour many different levels of intermediation in their financial planning, ranging from full advisory to pure self direction, and something in between.

Full advisory support is most in demand for pension planning generally, and among older and wealthier advice users. But there is a strong keenness to be self directed. This is particularly prevalent among younger advice users and when choosing investments, mortgages (not under the RDR remit) or arranging tax efficient savings such as ISAs.

Advisory firms that can find a means to offer some support in these areas without the cost of a full blown advisory service may find a strong seam of client interest. However, advisers need to be fully aware of the clear delineation that must remain between advised and non advised services, if they wish the latter to continue to be remunerated by commission (as the RDR rules allow).

Part Five: Delivering an ongoing service

What clients are willing to pay for

Issues for firms to consider

- What will be the core elements of our service what will we add on for 'premium' services?
- What frequency of reviews/reports and meetings will we offer will this vary for different client segments?
- Will we be proactive in alerting clients to market volatility or financial events?
- Do we want to offer online/smartphone services to capture younger clients?
- If we offer portfolio management, how can we demonstrate bespoke servicing?

From 2013, advisory firms can only take ongoing, regular revenue from clients in return for a clearly stated service that the individual has agreed to pay for. So what services and features are most likely to appeal to paying clients?

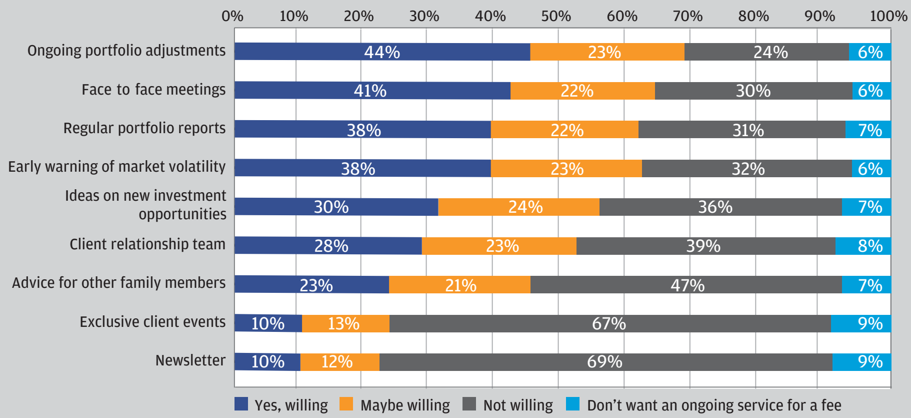
5.1 Core features

Potential clients are most willing to pay for proactivity. In particular they want to see their adviser making ongoing portfolio adjustments to keep their investments in line with their objectives, or in response to market events. The value of this increases as income and assets rise: 24% of advice users with assets of £500,000+ are 'very willing' to pay for ongoing portfolio adjustments.

There is a strong appetite to pay for early warning of market volatility, and this increases markedly in interest once income exceeds £350,000. Paying for new investment ideas scores lower, suggesting investors are more willing to pay to help avoid losses than to maximise potential gain. Face to face meetings are considered a core element of a paid for service see Diagram 22.

Diagram 22 | What clients are willing to pay for

Q: *If your adviser offered an ongoing service for a fee, how willing would you be to pay for the following services as part of this fee?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use an adviser (1,796).

Even with the advent of online portfolio reporting, clients are still willing to pay for provision of portfolio reports. Access to a named client team registers interest with half of advice users but is viewed as a nice to have, not an essential. Again, there is a wealth correlation: one in five advice users with household income over £350,000 are ‘very willing’ to pay for their own client relationship team.

Advice for family members scores modestly, even among those with dependent children. ‘Exclusive’ client events such as networking, financial seminars and ‘meet the manager’ events score low. The one group showing a significant percentage of people (20%) willing to pay for them were those with a household income in excess of £350,000. There is also more interest among under 35s, which incrementally tails off as respondents get older.

Newsletters and events score so low that clients may even resent the idea that their fee is used to fund them. Where such services are offered, firms may want to stress that they are complimentary.

Comment: Conflicts over ongoing advice

According to the research shown in Diagram 22, fewer than 10% of continuing or potential advice users said they didn’t want to pay for an ongoing service. However, in Part Five we see that only 16% of advice users actively want to pay for continuous advice and support.

This inconsistency suggests advice users want to receive an ongoing service but are less keen to lock themselves into ongoing payments. More hopefully, it may suggest consumers become more amenable to paying for an ongoing service once they know what it entails.

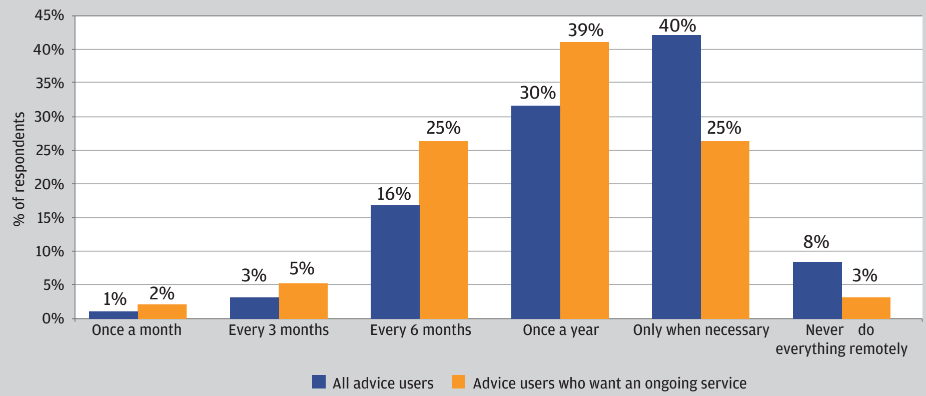
5.2 Meeting with an adviser

Although face to face meetings are valued as part of a paid for service, 70% of continuing or potential advice users say they want to meet their adviser face to face once a year or only as necessary. Preferred frequency of meetings does rise with assets and among those who want to pay for an ongoing service see Diagram 23. Yet even when assets exceed £500,000, 62% of clients only want to see their adviser once a year or as necessary.

In one of the few regional preferences we have discovered, 14% of advice users in Scotland and Northern Ireland never want to meet their adviser and want to conduct all business remotely twice the level in other regions.

Diagram 23 | Face to face adviser meetings

Q: *How often would you want to meet with your adviser face-to-face?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser (1,796); all who want to pay for an ongoing advisory service (465).

Comment: More than just a meeting

The fact that many advice users want to see their adviser once a year or less and want to communicate primarily by email may tempt advisory firms to limit how often they see their clients, or even to try to conduct client relationships completely remotely.

But this might be a mistake. All the fee based advisory firms we spoke to stressed the vital importance of meeting up with clients regularly to reinforce the client relationship, identify where further advice is required and maintain a clear understanding of an individual's circumstances.

As we see throughout this report, understanding, trust and emotional connectedness are the attributes most likely to keep a client coming back to a firm. Meeting clients face to face is essential if this sense of connection is to be achieved and maintained.

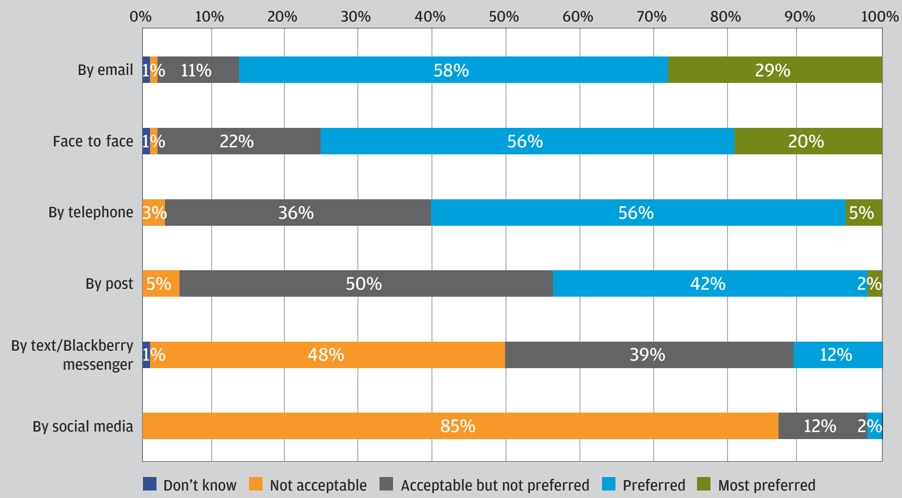
5.3 Communication

Overwhelmingly, advice users want to communicate with their adviser primarily by email, and face to face as a secondary preference these preferences even apply to our 65+ age group. Eighty one percent of advice users say they would want to use email for as many communications as possible if it can help to keep down the cost of an adviser's services.

Under 35s are most amenable to social media but even in this group, only 6% view it as a preferred means of communication. Texting is more acceptable and 20% of under 35s actively favour texts as a way to talk to their adviser. The tipping point is age 45 above this age, texting is widely unacceptable.

Diagram 24 | Preferred method of communication

Q: *What methods of communication would you prefer to use with your adviser on an ongoing basis?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser (1,796).

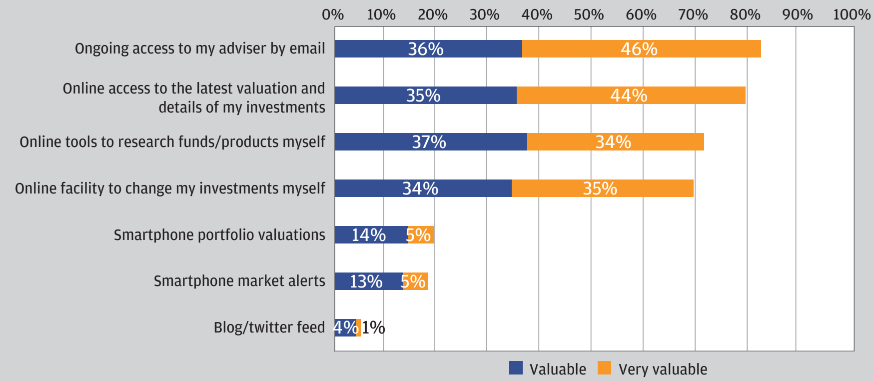
5.4 Online and technology services

Online functionality can add a new dimension to an advisory firm's proposition and, once set up, can significantly reduce the administrative burden of day to day client requests for valuations and other documentation.

Alongside email, the most sought after online service is access to portfolio details and valuations. Being able to research products and make changes to a portfolio online is marginally less important but is still valued by two thirds of advice users.

Diagram 25 | Value of online and technology features

Q: *How valuable to you are the following services?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser (1,796).

Online services by demographic

Being able to view investments and their latest value online is consistently popular among all demographics and appeals strongly to wealthier investors (online valuations become 'very valuable' to more than half of advice users once investable assets exceed £250,000).

The ability to research funds and other investment products online is marginally more appealing to under 35s than any other age group. An online facility to make changes to investments is also more popular with younger age groups (81% of under 35s value it). Once income rises above £250,000 we also see a rise in interest.

Comment: Demand for online services

It is notable that online functionality such as researching investments or making portfolio changes is of more interest to potential advice users than existing users. It may indicate that, once a person has experience of using an adviser they trust, they are much more willing to outsource these tasks. Certainly, the advisory firms we spoke to attest that, apart from checking valuations, the level of client interest in online services is limited.

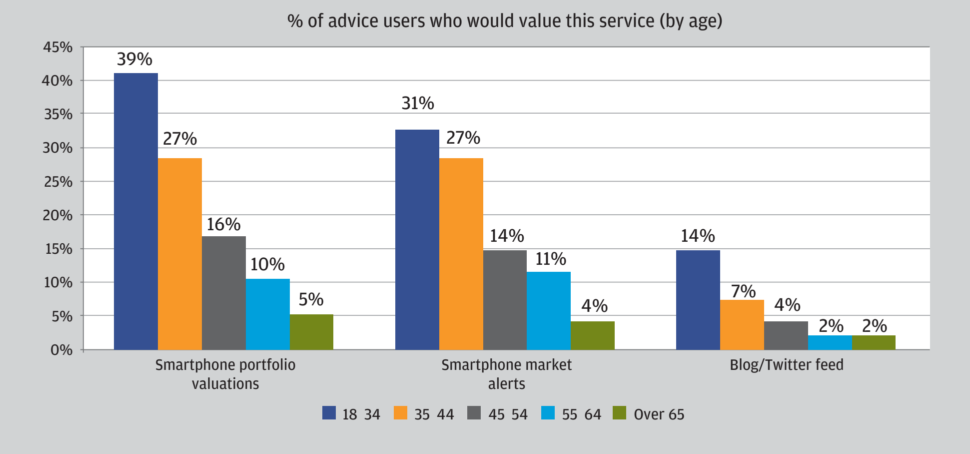
Understandably too, firms are cautious about giving clients online access to make portfolio changes or conduct tasks that may conflict with their own advisory role. Nonetheless, the level of interest in this type of online functionality among potential advice users may be of interest to any firm that's considering a self directed or guided proposition.

5.5 Smartphone services

Overall, smartphone services register low interest with both potential and continuing advice users. However, when we break down responses by age, we see a steady rise in interest in smartphone functionality as advice users get younger see Diagram 26.

Blogs and Twitter feeds remain a secondary consideration even among younger age groups. However, given the value clients place on receiving early warning of market events or volatility (see Diagram 22), we anticipate that these tools may grow in importance.

Diagram 26 | Value of smartphone functionality and blogs by age



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser by age: 18-34 (270); 35-44 (422); 45-54 (498); 55-64 (459); over 65 (147).

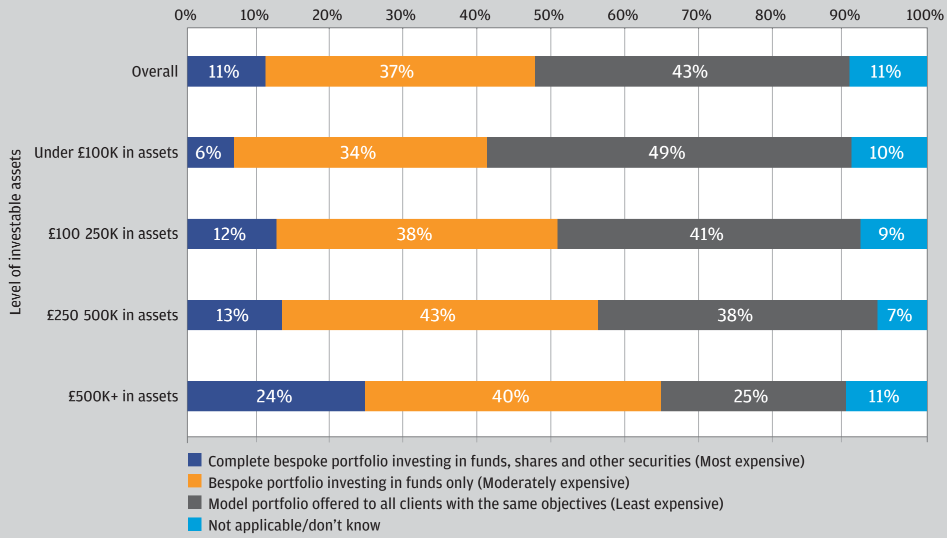
5.6 Portfolio management services

Twenty five percent of continuing and potential advice users in our survey group say they would be interested in using a professional adviser to manage their portfolio of investments for them. When investable assets exceed £250,000, this percentage rises to 32% and over £500,000, it rises to 45%. There is also a marginal increase in interest in portfolio services over the age of 55.

In terms of type of portfolio service, investors are willing to align service to affordability when informed of the relative different costs. Fund based model portfolios (the lowest cost option) appear acceptable to the bulk of clients. Once assets exceed £100,000, half of clients want an element of bespoke portfolio management. Then when assets exceed £500,000, the level of interest in a full bespoke portfolio service doubles to 24% see Diagram 27.

Diagram 27 | Preferred portfolio service by asset level

Q: *Bearing in mind the cost (as stated below), which of the following portfolio management services would you be most interested in?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser by investable assets: Under £100,000 (947); £100,000-£250,000 (344); £250,000-£500,000 (197); £500,000+ (199).

Comment: Model strategies

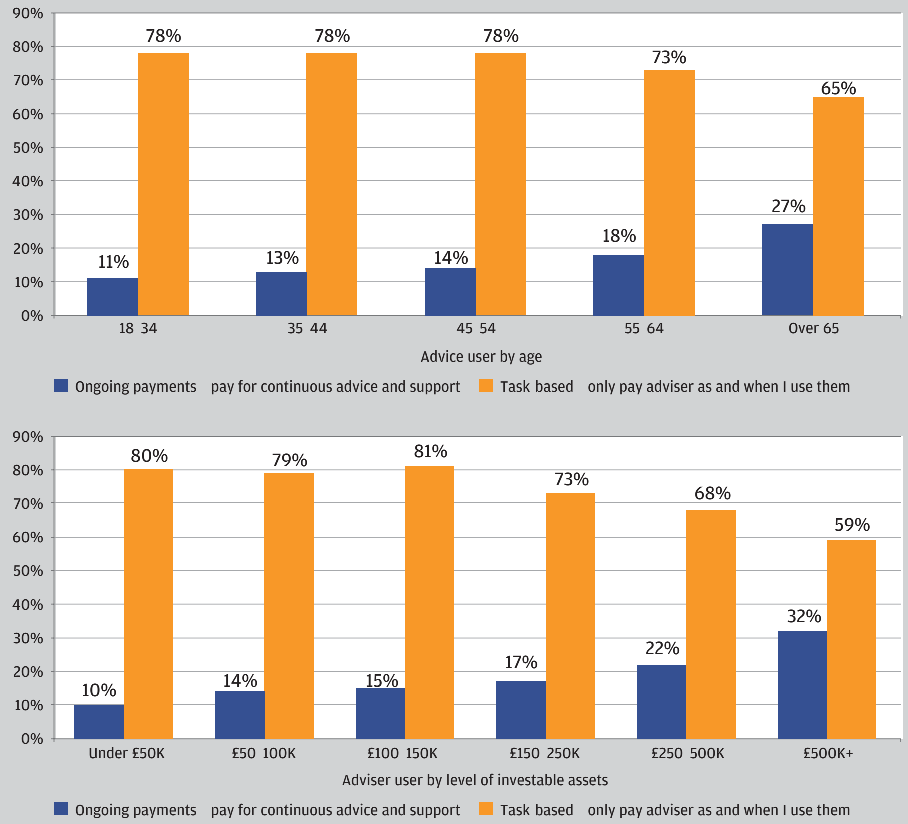
Model portfolios where a choice of asset allocations are offered to align with a client's risk profile are highly acceptable to advice users and are extensively used by the advisory firms we profiled.

Firms still need to demonstrate added value through market/asset allocation insight (be it their own or from a third party). But as Plutus Wealth Management (see pages 16 17) points out, once an efficient infrastructure has been set up, it becomes cost effective to offer a model portfolio service to all clients even those with relatively modest assets. In this way, a highly serviced portfolio offering can be used to attract younger clients who may be the higher net worth clients of the future.

5.7 Paying for an ongoing service

Three quarters of advice users claim to prefer to pay for advice on a task by task basis and only 16% want to pay for a service via a regular ongoing payment. Making ongoing regular payments gets more popular with age and as assets grow in size, but even when assets exceed £500,000, only a third of clients want to pay for continuous advice and support see Diagram 28.

Diagram 28 | Preferred basis of fee payment by age and assets



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use an adviser by age: 18-34 (270); 35-44 (422); 45-54 (498); 55-64 (459): Over 65 (147). All respondents who have or will use an adviser by investable assets: Under £50,000 (625); £50-100,000 (322); £100-150,000 (175); £150-250,000 (169); £250-500,000 (197); £500,000+ (199).

5.8 What clients are willing to pay for an ongoing service

Eighty seven percent of continuing and potential advice users claim to be willing to pay something in return for an ongoing advisory service. The average acceptable cost for ongoing service when we survey all continuing and potential advice users is just 0.56% a year. However, the perceived acceptable cost rises as an individual's amenability to an ongoing service increases.

For example, when we ask people who explicitly want to pay for an ongoing service (rather than a task based service), the acceptable fee rises to 0.69% a year. We also see a significant difference in acceptable fee by an individual's level of investable assets see Diagram 29.

Diagram 29 | Acceptable fee for an ongoing service by investable assets

Shows respondents who have said they want to pay for an ongoing advice service

Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who are willing to pay for an ongoing advisory service by their level of investable assets: Less than £150,000 (130); £150,000-349,000 (51); £350,000-499,999 (19); more than £500,000 (61).

5.9 Most valued roles of an adviser

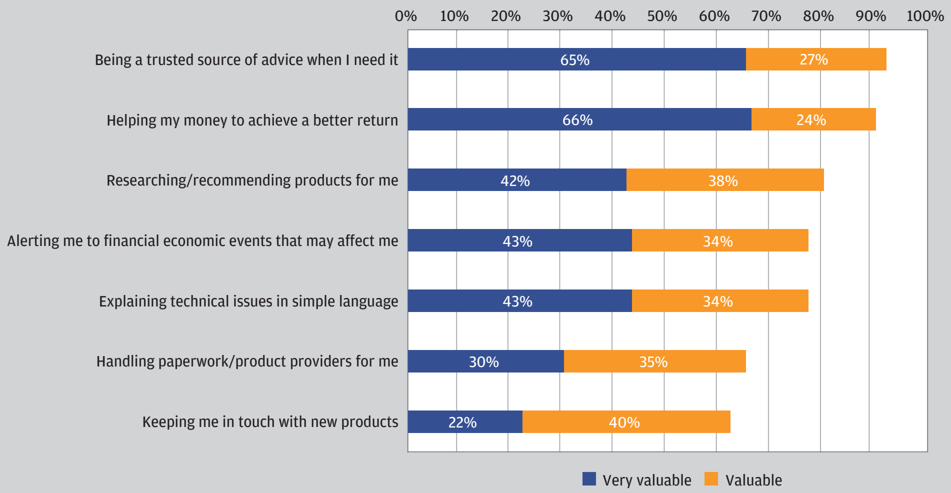
Although we have focused heavily on the desirable practical features of an adviser's service, we recognise that it is often the less tangible attributes of a firm (for example, understanding goals and needs) that clients are likely to value most and will therefore incentivise them to keep using (and paying for) a firm's services.

Advisers who are able to act as a source of trusted advice whenever clients require are a highly prized commodity across both existing and potential advice user groups. If this is combined with the ability to help clients achieve a better return on their capital, then firms can be confident they are meeting the criteria of nine out of 10 advice users across most demographics see Diagram 30.

Other activities (researching products, explaining technical issues and handling paperwork) will reinforce the relationship but do not have on their own the power to attract client loyalty that trust and good performance can deliver. These two attributes should therefore be a core objective of every advisory firm.

Diagram 30 | Evaluating the roles of an adviser

Q: *How valuable to you are the following of an adviser's activities?*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents who have or will use a professional adviser (1,796).

Profile: The Australian Model

Andrew Morgan of NOW Financial Solutions, Cheshire

NOW Financial Solutions was set up in 2002. Two of us had worked for a major life company where we had become familiar with the Australian model of financial planning which focuses on providing clients with an ongoing service, and we were keen to replicate that in the UK.

Our original aim was to serve business owners and company directors earning £60,000+ and retirees with £100,000 or more in assets. We started with just 15 clients and were pleasantly surprised how positive people were to the idea of receiving an ongoing advisory relationship and annual reviews of their finances.

As we've grown, we've recognised the importance of enabling clients to choose what service they want and that led to NOW membership which we launched in early 2011. NOW membership has three core levels of service (see panel 'The NOW Financial Solutions proposition'), offering different meeting frequencies and value added features such as free annual ISA advice and complimentary access to tax and will writing services. Of our NOW members, 50% are in the Managed service, 33% are Advisory service and about 16% are Bespoke. Assets of our bespoke clients range from £300,000 to £2.4 million.

All NOW members get access to the True Potential Platform where they get 24/7 real time valuations, details of all their investments and a place where they can upload/download all their essential documentation. Clients can also get valuations by smart phone and iPad. We don't let clients buy, sell or switch investments online it carries big risks and there is little demand for it.

The majority of clients want to see us once or twice a year. However, recently, it's been interesting just how many clients want to see us more often. The world is more uncertain and clients want reassurance. However, because we take the time to explain markets, risk and the importance of sensible asset allocation, we rarely see clients panic.

We like to use highly visual graphics to explain the financial facts of life even to quite sophisticated clients. One particular concept clients like is the 'larder, fridge, freezer' approach to explain short, medium and long term investments. Once clients know they have enough in the 'larder' to meet their short term needs they don't panic about their 'freezer' investments.

We run five model portfolios and determine the asset allocations ourselves in monthly meetings. We use a third party fund analytics system to help filter funds. We only use open ended collectives but we are looking at ETFs and investment trusts, partly in light of the RDR rules on the scope of products that independent advice must encompass.

When launching NOW membership, we also launched a new fee structure, which has three elements. First is an advice fee. We hate hourly fees and so do clients so we try to work out a fixed cost for advice based on the time required and the margin we need to earn above our break even costs. Our advice fees range from £495 to £1,495.

Second, to implement a recommendation, we charge a fee based on the value of the money being invested. This is 2% up to £1 million then 1% thereafter. Finally, we have an ongoing management fee which can range from 0.75% to 1% with most clients paying around 0.85% a year.

We stipulate that at least 2% of a client's portfolio must be held in cash on platform to pay our costs. For company directors, we point out that financial advice can be a tax deductible business cost. We don't charge VAT. We take the position that as long as it can be shown that advice is leading to a transaction then VAT isn't payable.

We gave clients a lot of warning over the new fee structure, first through our blog and at then at each client's review meeting. One potentially thorny issue was the replacement of 0.5% pa trail by ongoing management fees of 0.75 0.85% pa.

Naturally, lots of clients wanted to know what they would get for this extra cost. But once we explained about online valuations and regular reviews, most clients were more than happy to pay it. Of the 300 or so clients who qualified for NOW membership, only two chose not to switch to the new model.

We incentivise clients to recommend us to friends and associates. If someone becomes a NOW client, the introducing client can receive £100 in vouchers for Marks & Spencer, for champagne or our local high end Italian restaurant or as a donation to charity of their choice. We did offer an incentive to deduct £150 off our future fees but that went down like a lead balloon.

We are proactive in keeping clients informed about financial events that may affect them because that's what they are paying us for. We advised clients to move out of Icelandic banks three months before they became a major news story and recently we've been keeping clients up to date on events in the eurozone through our blog. You need to be proactive and unequivocal in your opinion. If clients feel you're giving clear advice that will make them better off in the long run, you've got a very rewarding relationship.

Three tips for building a service proposition

1. Don't undersell yourself: sit down and look carefully at what it really costs to run your business it can be surprising.

2. RDR is great news segment your clients and let them choose your different services.

3. Increase contact with your clients; out of sight is out of mind.

The NOW Financial Solutions proposition

NOW Advisory	NOW Managed	NOW Bespoke
£100,000 assets under advice (AUA) or up to £300pm	£100,000 £300,000 AUA or £300 £1,000pm	£300,000+ AUA or £1,000+pm
▶ Annual review	▶ Six monthly review	▶ Up to four reviews a year
▶ True Potential Platform	▶ True Potential Platform	▶ True Potential Platform
▶ Model portfolios	▶ Model portfolios	▶ Model portfolios with option of bespoke portfolio management
	▶ Free annual ISA advice (no initial charge)	▶ Free annual ISA advice (no initial charge)
	▶ Complimentary access to tax and will writing advice	▶ Complimentary access to tax and will writing advice

Part Six: Mapping the post-RDR advice landscape

The advice-users that may emerge post-2013

Issues for firms to consider

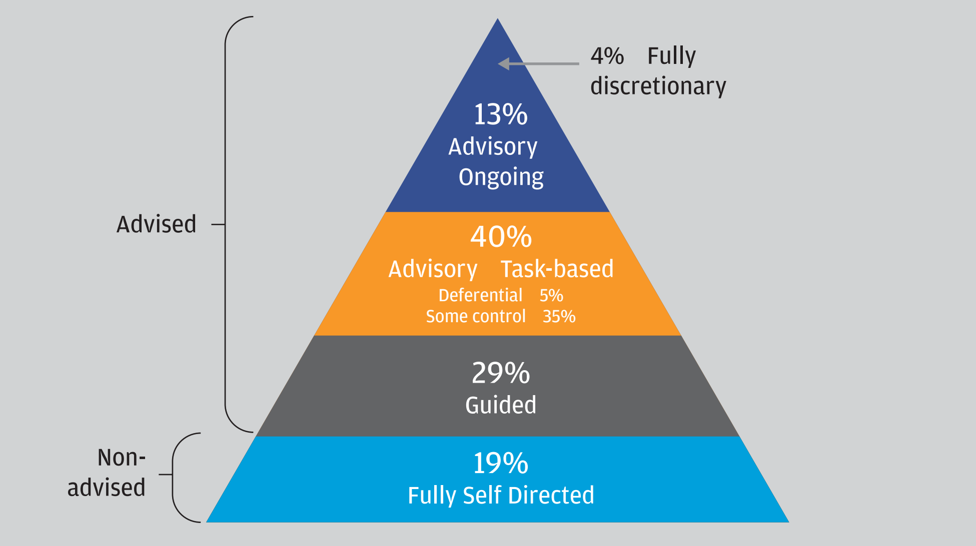
- Do we only want to target clients wanting a full advisory service or should we consider consumers who want task based and guided services as well?
- Is there any scope for us to provide a service to consumers who want to be fully self directed?

In Part One of this report we ascertained that 85% of individuals with a gross household income in excess of £50,000 are interested in using the services of a professional adviser for investments, savings and pensions indicating a large and sustainable market for the advisory industry post 2013.

But as we stressed there, the type and depth of advice sought is likely to vary enormously. As our research has shown, advice users differ in their preference for ongoing versus task based (or transactional) advice and in their desired level of involvement in their own financial planning.

Taking all these factors into account (as well as consumer interest in the types of advice service defined under the Retail Distribution Review see Appendix II), we project that the market could potentially stratify into a number of key types of advice user post 2013 see Diagram 31.

Diagram 31 | Future advisory preferences among £50,000+ household earners*



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents except those answering 'Don't know' to any of the questions used as the basis for category calculation (1,679).

*Totals more than 100% due to rounding. For basis of category calculation - see Appendix III.

We anticipate that the advice market (among £50,000+ income households) will stratify into the following four categories:

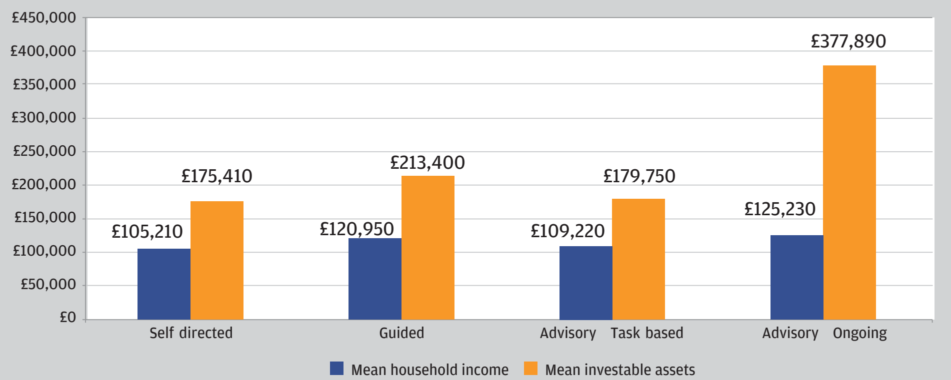
1. Fully Self Directed: We estimate that 19% of £50,000+ household income earners will be non advised and seek to handle all their financial planning themselves. This group is strongly driven by cost. It will look to online sources to research its options and may be receptive to the 'free' Money Advice Service (MAS). This group has the lowest average household income and investable assets.

2. Guided: Close to 30% of £50,000+ household earners will be primarily self directed but are receptive to receiving professional guidance on selected areas primarily pensions and retirement. This group may be highly receptive to the idea of simplified advice see Appendix II. Surprisingly, this group has the second highest mean level of investable assets at £213,400.

3. Advisory Task based: Around 40% of individuals in our £50,000+ income group will be committed to paying for advice but preferably on an individual task basis to address specific financial planning needs such as setting up a pension or an investment portfolio. This category further subdivides into those who want a reasonable level of control (35%) and those who will defer heavily to an adviser (5%).

4. Advisory Ongoing: Approximately 13% of £50,000+ household income earners are willing to pay for advice and to pay for ongoing service and support. A third of these (4% of our total £50,000+ demographic) want a highly discretionary service where an adviser makes decisions on their behalf. This category has both the highest mean income and, by some considerable degree, the highest level of investable assets at £377,890.

Diagram 32 | Mean income and assets of advice user types



Source: J.P. Morgan Asset Management/Ledbury Research. Base: For mean income: Self-directed (312); Guided (481); Task-based (670); Advisory – Ongoing (216). For mean investable assets: Self-directed (283); Guided (451); Advisory Task-based (633); Advisory Ongoing (209).

Sizing the national market for advice

This additional analysis reinforces our projection that around 80% or more of individuals with £50,000+ household income will seek out professional advice in some form. However, the percentage seeking to use advisers intensively reduces to 53% and the most sought after category those seeking to pay for an ongoing advisory service accounts for just 13% of £50,000+ household income earners.

The potential market for ongoing fee based advice, then, is limited but still remains significant. With over 6 million households in the UK recording a gross income in excess of £50,000pa[8], we can roughly project that over 800,000 households in the UK may be interested in paying for an ongoing advisory service, and a further 2.5 million households may be interested in transactional/task based advice.

For those firms that are willing to explore new approaches to delivering advice and financial planning, we believe the potential market is extensive and exciting.

Comment: Is task based advice practical?

The apparent consumer appetite for hiring advisers on a task by task basis raises many questions regarding the practicalities of delivering ad hoc advice. What level of fact find must a firm conduct? What burden is there on the advisory firm to ensure that 'one off' advice remains appropriate for the client? How can firms ensure predictable revenue streams if there is no certainty a client will come back?

If task based advice is to be workable, then the limits of the advice (its suitability based on current circumstances only) must be made clear to, and acknowledged by the client. Equally, firms will need to make clear whether the client is paying for a full or partial fact find.

However, there is lots of potential for firms to build future revenue by offering clients the option of further one off reviews for an additional price, which has the appeal of not locking them into ongoing payments.

A good analogy here may be the travel insurance market. While an ongoing annual policy may be more economic, many travellers still prefer to purchase cover on a trip by trip basis. Equally, consumers of financial advice may respond well to being given the choice between the convenience and reassurance of an ongoing service versus the flexibility of on demand support.

[8] See Appendix I for basis of calculations

Profile: The Existing Client Model

Tony Conner, Director of Eldon Financial Planning Ltd, Co Durham

We are based in the North East of England, although we welcome anyone who's willing to come to our offices for meetings. We have six employees, including three Registered Individuals.

The firm was formed in 2002 by two IFA sole traders working on a traditional commission basis but with a high service ethic, and one chartered accountant with experience working as a financial planner in major accountancy firms. Our intention with the new business was to establish a fee based model offering true long term financial planning.

It took time to get things right. Initially we had a quasi fee model where standard trail commission covered the cost of investment monitoring and a £20 per month standing order was introduced to cover financial planning. We also charged new clients a £375 fee for an initial review. But we quickly discovered we weren't charging enough primarily due to our own reticence to charge fees, rather than because clients were unwilling to pay.

Today, our fee model has fully evolved. All prospective clients are offered a free 60 to 90 minute initial meeting. We then charge a minimum £1,500 (plus VAT if applicable) for a full review and financial plan. If the client wants to implement our recommendations there's a tiered implementation fee starting at 2% and falling to 0% for assets over £1 million. If the client has more than £150,000 to invest, the £1,500 review fee is offset against this implementation fee. For our ongoing review service we then charge 1% pa + VAT, subject to a £1,500 minimum.

Age wise, clients tend to be near or in retirement (61 is the average age) and earn £100,000 plus or have investable assets of £150,000 or more. We did trial an 'Eldon Lite' service to appeal to younger prospects but the costs really didn't stack up. Realistically, clients under 40 are only going to pay around £600 a year for financial planning. That would require an adviser and paraplanner to service around 250 clients a year to make a profit. Maybe that's possible to do with a fully remote service but we strongly believe you have to work with clients face to face. We have therefore decided to remain focused on our core client base and work primarily with pre and post retirees.

All our clients qualify for an annual face to face review, which includes risk profiling and cashflow modelling. This face to face review is a key element of our service and we have a highly structured schedule of around 25 client reviews every month. Before their annual review, each client receives a comprehensive consolidated report detailing all their assets, the performance of their portfolio against benchmarks, their income generation and a breakdown of all fees paid over the past year. Every six months, they also get a portfolio valuation direct from our discretionary manager.

Beyond these core services, we offer additional services based on the level of ongoing review fees that a client is paying (see panel 'The Eldon Financial Planning Ltd proposition'). As a firm with a high level of pre retirees, we also offer extensive support as clients seek to move from accumulation to decumulation, including additional cashflow modelling, retirement illustrations and arrangement of annuities and unsecured pensions. For existing clients, we look to offer these services as part of their existing review process and we don't impose a minimum cost for implementation. By ensuring a really great service at this stage in a client's life, we aim to remain their trusted adviser well into retirement.

For us, becoming a fee based firm has never been a 'numbers game'. In 2002 we had a legacy client bank of 1,000 and just 100 of those clients were appropriate and amenable to moving to a fee based financial planning service. Over ten years we've built that number up to around 250 clients. That may not sound like a huge client base but the recurring income we receive now accounts for 90% of our total income and 120% of our required income. Plus by imposing minimum fee levels, our revenues have some protection.

We have decided as a firm that we are at the optimal size with around 80 clients to each adviser. That means we no longer have to take on large volumes of new clients and we can focus our energies primarily on serving the clients we have.

We believe our approach is a strong testament to the principle that, by servicing your existing clients properly it is possible to build a healthy, stable long term business.

Three tips for building a service proposition

1. Work out how many clients an adviser needs to look after to be economic and don't be afraid to turn away clients who aren't appropriate.
2. Provide the services and solutions you would want yourself as a client. If you wouldn't hold a particular product, why should one of your clients?
3. Never do anything just to generate income, do it because it's right for your clients. Your business will ultimately be more resilient as a result.

The Eldon Financial Planning Ltd proposition

All clients: Annual review meeting; annual consolidated report of assets, performance and fees; six monthly portfolio valuations; unlimited contact with advisory team, regular newsletter.

For clients paying £2,500+ in ongoing fees:

- Personal tax return service
- Discounted implementation fees

For clients paying £5,000+ in ongoing fees:

- Personal tax return service
- Discounted implementation fees
- Will writing service
- Inheritance tax planning
- Long term care planning
- Nil fee life policy arrangement
- Six monthly review meetings
- Free financial review for offspring

Part Seven: Advisory approaches for post-RDR success

Attributes of sought-after advisory propositions

The advisory needs of consumers are varied and different. Yet our research into consumer preferences suggests there are clear traits and practices that are likely to characterise those firms that are able to attract clients and retain their business over the long term.

7. 1 Core attributes of attractive advisory firms

1. Demonstrable client understanding Understanding of a client is more powerful than exceptional financial performance or even market insight (although understanding and insight will tend to go hand in hand). Prospects will primarily sign up to a firm that they feel immediately grasps their requirements, goals and aspirations. Strong communication and empathy will characterise the most successful advisory propositions post 2013.

2. Flexibility to offer both ongoing and task based service options Consumers are receptive to paying for advice but many are resistant to locking themselves into ongoing costs. Firms that offer the flexibility to service clients for one off tasks will find a highly interested audience across all age groups and income levels. Firms that solely want to focus on a traditional ongoing service will be fighting for a sought after, but proportionately smaller, market post 2013.

3. Measurable results Clients need to put the cost of a service in context, not just against the cost of comparable services from other firms but against the benefits that 'investing' in an adviser's expertise can offer. Firms mustn't shy away from being explicit about the 'pounds and pence' results achieved for existing clients as well as the less measurable outcomes such as peace of mind.

4. Fixed and finite costs Both prospective and existing advice users are highly wary of open ended costs. Firms may benefit from marketing fixed costs for particular financial planning services or at least making explicit the likely cost involved (this will be required under the FSA Handbook in any case).

5. No bias plus wide (but not exhaustive) product expertise Firms will not require an exhaustive knowledge of every retail investment product in order to attract clients to a fee based service. Not being tied to product providers remains essential however.

Marketing strategies and messaging to attract clients to a fee based advisory service

Strong focus on retirement planning
This is the area of financial planning in which the widest range of consumers are willing to pay for expert advice. Even if a firm's core skill is portfolio planning, it should stress how this can result in a more secure retirement.

Structured approach to networking and referrals
Professional and personal recommendation are, by far, the most effective means to attract clients across all age groups and income levels. Firms wanting to expand their client base should consider setting up professional alliances and offering incentives to clients to encourage introductions.

Convey expertise…
Consumers are primarily willing to pay a fee for the knowledge an adviser offers rather than convenience/time saving. Allaying a prospect's concerns about the limits of their own financial understanding is essential.

…but promote time-saving for higher net worth clients
Although clients are primarily attracted by a firm's expertise, the time saving benefits of an advisory service do become important once assets exceed £350,000, so this may work as a key marketing message for premium advisory services.

Free meetings or offset against future costs
Over 60% of respondents said they would be attracted to a firm by the prospect of a free initial meeting or recommendations. Going as far as offering free recommendations may not be economic. One potential solution is to offer to offset fees for initial recommendations against future costs once a prospect chooses to sign up as a client.

Proactively approach prospects
One in eight existing advice users say they were actively approached by the firm they use. Where a firm wishes to target a very specific target audience, then active approaches should be seriously considered. Our research indicates that one in five people with investable assets of £250,000 £500,000 have never used a professional financial adviser, suggesting there is still a major gap in the market for actively approaching high quality prospects to discuss the benefits of professional financial advice.

7.2 Core attributes of an ongoing advisory service

The percentage of people within our £50,000+ household income demographic who are explicitly willing to pay for an ongoing fee based service is relatively limited (13%, or approximately 800,000 households). But we believe that many of those who state a preference for a task based approach (40%, or 2.4 million households) will be attracted by an ongoing proposition, providing it can offer the right elements.

We would summarise the most compelling elements of an ongoing advisory service as follows:

1. Offers clear proactivity
Investors want to pay to receive an adviser's expertise on an unprompted proactive basis. Offering ongoing portfolio adjustments, regular reports and early warning of market volatility are the aspects of an ongoing advisory service that are considered most worthy of payment far more so than quotidian tasks such as handling paperwork or dealing with product providers.

2. Constantly reinforces position as 'trusted adviser'
Regular actions that can reinforce a client's sense of security and relief about their finances will help to strengthen and sustain a client relationship and reinforce their conviction that this is a service 'worth paying for'.

3. Clear sense of client control
We have been surprised by the degree to which advice users want to retain control over their financial planning even when paying a specialist to manage it. Over time, advice users may be willing to delegate more as trust is gained. However, initially at least, firms will benefit from making clear how all actions are ultimately controlled by the client. Plutus Wealth Management cites, for example, how it gives clients a week to approve quarterly model portfolio changes a practical way to demonstrate client control without creating excessive administration for the firm.

4. Face to face meetings at least once a year
There is a big temptation to hold face to face meeting only when a client wishes to reduce the cost of client servicing. However the advisory firms we profiled for this report all repeatedly stressed the value of face to face meetings as a means of reinforcing the client relationship. The idea of offering an advisory proposition on a completely remote basis should therefore be approached with caution.

5. Offers investment management with a bespoke element
One in four people with a household income of £50,000+ want a professional to manage an investment portfolio for them making this a huge potential market. When the relative cost of different portfolio services is explained, most clients are willing to use a model portfolio approach. Nonetheless, an element of bespoke construction is widely expected (particularly once assets exceed £100,000), so firms need to show how a model portfolio is still tailored to a client's needs.

6. Efficient use of technology
Offering technical functionality such as online services to check portfolios is widely valued and can help firms service clients more efficiently. Smartphone technology is currently of low interest but rapidly gaining importance among younger age groups and this needs to be monitored carefully by any firm hoping to attract a clientele under age 45.

7.3 Appealing to specific target groups

While it is impossible to be prescriptive as to how different clients should be serviced, our research has highlighted some preferences of particular target groups, which may help to inform marketing strategies and the development of advisory propositions.

Diagram 33 | Traits of specific groups

Younger clients (under 35 years old)	Women	High net worth clients (£500,000+ in investable assets)	Older clients (over 65 years old)
▶ Highly likely to find an adviser through personal recommendation ▶ The most likely group to source an adviser online ▶ Attracted by the offer of a free initial meeting ▶ Strong preference for self-direction and task-based advice services ▶ Most keen to use texting and social media to communicate with their adviser ▶ Higher-than-average interest in client events and newsletters ▶ Growing interest in online and smartphone servicing	▶ Marginally more likely to choose a firm on personal recommendation ▶ More influenced by a firm's professionalism and qualifications ▶ More interested in receiving a free meeting and recommendations ▶ More interested in using advisers on a task-based rather than ongoing basis ▶ Greater preference to see their adviser "only as necessary" ▶ Less confident about their knowledge regarding savings and investments	▶ Influenced by the attractiveness of a firm's offices ▶ More likely to want to use a firm that can advise on every retail investment product on the market and to receive fully bespoke portfolio management ▶ More attracted than other groups by the time-saving aspect of using a professional adviser ▶ More interested in using advisers in an ongoing rather than a task-by-task basis ▶ Most willing to pay for ongoing portfolio adjustments, market volatility warnings and their own client relationship team ▶ Highly interested in receiving online valuations ▶ More amenable to paying a time-based fee	▶ Highly likely to find an adviser through professional recommendation ▶ Highly influenced by a firm's professionalism and qualifications ▶ Least influenced by free meetings and recommendations ▶ Have the highest interest in a full discretionary advisory services ▶ One in four (27%) prefer paying for an ongoing service ▶ Highly concerned about getting a decent return on savings and investments ▶ Value regular reports on their financial planning and face-to-face meetings ▶ Most interested in paying a time-based fee and paying out of their investments

7.4 Advisory preferences by level of assets

Firms may look to tailor the service they offer to clients' level of investable assets, ('segmentation'). Our research broadly indicates the following preferences as they relate to asset size.

Diagram 34 | Preferences by investable assets

	Level of investable assets			
	Less than 150,000	£150,000-£350,000	£350,000-£500,000+	£500,000+
Attraction of professional advice	Expertise	Expertise	Expertise and time-saving	Expertise and time-saving
Best means to source clients	Third-party recommendation	Third-party recommendation	Third-party recommendation/ personal approach	Third-party recommendation/ personal approach
Offer of free meetings	Very interesting	Marginally interesting	Marginally interesting	Marginally interesting
Type of advisory relationship*	Mostly likely to be task-based	Mostly likely to be task-based	Ongoing/task-based	Most likely to be ongoing
Meeting preferences	Annually	Annually	Annually to six-monthly	Annually to six-monthly
Communication	Email and face-to-face	Email and face-to-face	Email and face-to-face	Email and face-to-face
Ongoing portfolio adjustments	Valuable	Valuable	Valuable	Very valuable
Early market warnings	Valuable	Valuable	Very valuable	Very valuable
Online valuations	Valuable	Valuable to very valuable	Very valuable	Very valuable
Named client relationship team	Not valuable	Not valuable	Valuable	Valuable
Portfolio service	Model - fund-based	Model/Bespoke - fund-based	Bespoke - fund-based	Bespoke - funds/ funds and direct securities
Fee calculation	Fixed fees	Fixed fees	Fixed fees	Fixed/time-based fees
Fee basis	Task-based	Task-based	Task-based	Task-based/ ongoing
Fee payment	Pay separately	Pay separately	Pay separately/ out of portfolio	Pay separately/ out of portfolio
Acceptable annual fee for advice	0.65%	0.82%	0.89%	0.61%

*Based on responses of current advice users only. NB: These preferences are broadly indicative only.

Conclusion

Appetite for advisory services is strong but the most sought-after client segments are limited.

Among £50,000+ households in the UK, the market for financial advice is large with 81% of individuals seeking expertise guidance to a greater or lesser extent.

But, as we have shown, the most sought after market those individuals willing to pay for ongoing advisory service is more limited, accounting for around one in eight £50,000+ households. If we then filter this market by level of client assets, the market that advisers may find profitable to service becomes smaller still.

For this reason, firms will need to work hard to develop appropriate propositions. Alongside ascertaining what reporting, meetings and other service features to offer, firms must be highly mindful that it is primarily their less definable qualities insight, empathy and proactivity that consumers are most willing to pay for and recommend to others. Most of all, it is those firms that are truly able to achieve 'trusted adviser' status that will not only attract clients but hold onto them.

Firms may also need to be more creative in the propositions they develop. Self directed, guided and task based services all appear to have huge potential markets and firms may do well to consider how they can integrate these less conventional approaches into their offering if growing a client base is a priority.

Offering control

We suspect as many advisers probably do that many of those consumers claiming to seek out a task based advisory service will ultimately find that an ongoing service best suits their needs (particularly those who say they want a task based relationship but also wish to defer heavily to their adviser).

But perhaps it is more important to market a service that resonates with what consumers think they want but also give them the option to upgrade to what might actually be more appropriate. As consumers find their feet in a new fee based advisory market, the ability to offer them choice, flexibility and most of all control will be critical to winning their business.

A potential loyal market

For many firms, the prospect of developing a fee based proposition for the first time may be daunting but the long term rewards of getting it right could be extensive. More than half (57%) of all respondents in our £50,000+ income group say that if they could find a financial adviser they trusted, respected and could afford, they would use them to manage all of their finances. Most promising of all, this feeling is stronger the younger a respondent is see Diagram 35.

Diagram 35 | A huge market for advisers who get it right

Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents – 18-34 (313); 35-44 (465); 45-54 (563); 55-64 (517); 65+ (170).

The transition to a fee based advisory culture in the UK is going to be hugely challenging, but the potential market for firms that do deliver attractive, commercial propositions is undeniably compelling.

Appendix I: Office for National Statistics (ONS) gross household income deciles

The 2011 Family Spending Report from the Office for National Statistics was used to estimate how many households fall within our £50,000+ gross income demographic.

Diagram 36 | Gross household income in the UK by decile

	Weighted number of households in UK	Lower boundary of gross income	
Decile		per week	per annum
1	2,630,000	£0	£0
2	2,640,000	£160	£8,320
3	2,620,000	£238	£12,376
4	2,630,000	£315	£16,380
5	2,630,000	£413	£21,476
6	2,640,000	£522	£27,144
7	2,630,000	£651	£33,852
8	**2,640,000**	**£801**	**£41,652**
9	**2,630,000**	**£1,015**	**£52,780**
10	**2,630,000**	**£1,368**	**£71,136**
Total	**26,320,000**		

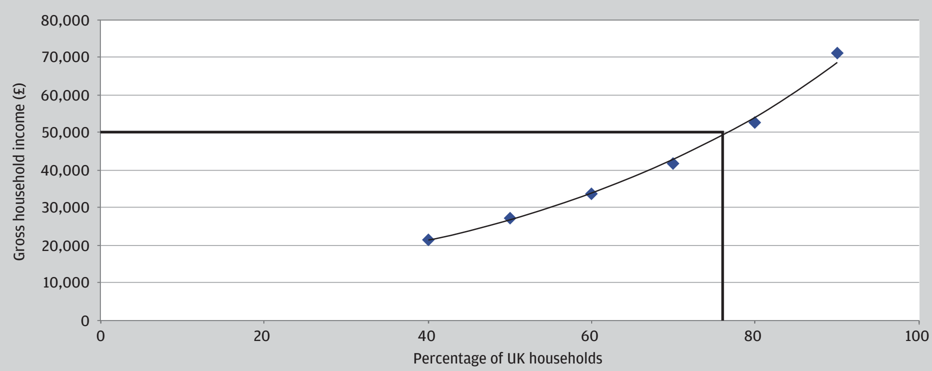
Source: ONS – 2011 Family Spending Report.

No. of £50,000+ households in the UK

Using the ONS household income deciles in Diagram 36, we were able to plot the percentage point at which gross household income exceeds £50,000+ see Diagram 37.

This indicates that 24% of households in the UK or 6.3 million households have a gross income of £50,000 or more.

Diagram 37 | Calculating number of £50,000+ income households



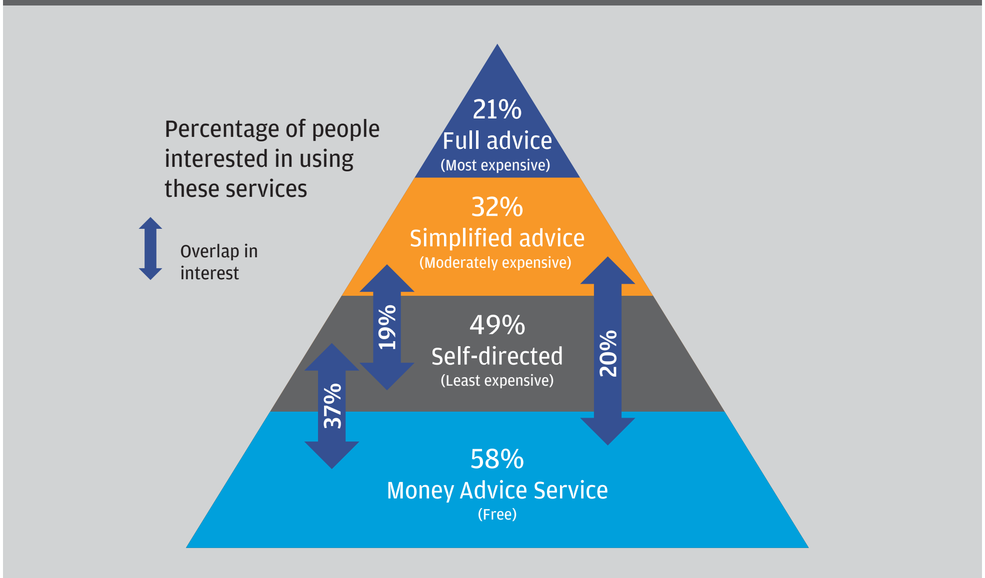
% of households with < £50,000 income	76%
% of households with > £50,000 income	24%
Total UK households	26,320,000
Number of UK households with £50K+ income	6,316,800

Appendix II: Consumer interest in RDR-defined advice services

The Retail Distribution Review aimed to structure a well functioning market that supports a range of advice services to meet the needs of different types of investor.

When we asked respondents in our survey group of £50,000+ earners about the different advice services that may emerge post RDR, levels of interest were closely correlated to relative cost. There is also a strong overlap in service usage: 37% are interesting in both using Money Advice Service (MAS) and being self directed and one in five people are interested in a simplified advice service and MAS. Those who are interested in full advice, however, show little interest in using any of the other services (overlap of 10% or less).

Diagram 38 | Expected advice channels by level of interest



Source: J.P. Morgan Asset Management/Ledbury Research. Base: All respondents (2,028).

Appendix III: Basis of advice-user calculation

In Part Six, the research overlays used to calculate percentage distribution within our advice user categories were as follows:

- **Fully Self Directed:** Includes all respondents who do not want to use advisers (rejectors/ lapsed advice users)
- **Guided:** All respondents who want to use advisers and prefer to have complete control of decisions themselves
- **Transactional Some control:** All respondents who want to use advisers, would like some control and would prefer to use an adviser on a task by task basis
- **Transactional Deferential:** All respondents who want to use advisers, would prefer to defer control to the adviser and would prefer to pay an adviser on a task by task basis
- **Ongoing Some control:** All respondents who want to use advisers, would like some control and would prefer to pay for an ongoing service
- **Ongoing Deferential:** All respondents who want to use advisers, would prefer to defer control to the adviser and would prefer to pay for an ongoing service

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