embark group

EMBARK INVESTOR CONFIDENCE BAROMETER 5

embarkgroup.co.uk/icb

MAY 2023

One of the largest surveys in the advice industry

Welcome to the latest edition of our Investor Confidence Barometer. Bigger than ever before, we now survey over 1500 individuals (503 advisers, 501 advised investors and 504 non-advised investors), making it one of the largest and most representative surveys in the UK advice industry.

The Barometer's USP lies not just in its size however, but in the breadth of its coverage. It is the only place where advisers can compare and contrast the views of their peers, advised investors and non-advised consumers on a range of critical advice industry issues. It allows you to gain insights into what your peers think, what your clients think and what your prospective clients think.

In this edition, we focus on four key themes: the pressures advisers face from higher costs and regulatory burdens and an insight into adviser mental health; the shift in focus on retirement income approaches now that annuity rates are more attractive; the psychology of investing and the critical role advisers play in protecting investors from the pitfalls of emotionally-driven investment decisions; and the pronounced impact advice can have on closing the gender retirement confidence gap.

This is the fifth edition of the Barometer, which was first in the field in November 2020. It has been an eventful few years since, which have seen us move full circle from COVID lockdowns and monetary easing to economic reopening, inflation and higher interest rates. We have certainly entered more volatile times, a fact that is reflected in how much advised clients are contacting their adviser to discuss market movements.

We also reveal the performance potential that advisers believe their average active, advised client gives up due to emotional decision-making. Plus, we have the latest adviser views on Consumer Duty and the FCA's proposal for a simplified advice regime. Read on for our four key insights, each with an expert take.

Who took part?

	HOW MANY?	CRITERIA:
FINANCIAL ADVISERS	503	• Firm assets <£500m
ADVISED INVESTORS	501	• At least £100k investable assets • Pension • Aged 35-70
NON-ADVISED INVESTORS	504	• At least £100k investable assets • Pension • Aged 35-70

Fieldwork between 16-23 March 2023

Nick Armet
Content Strategy Lead, Embark Group

CONTENTS

Are advisers under more pressure than ever?

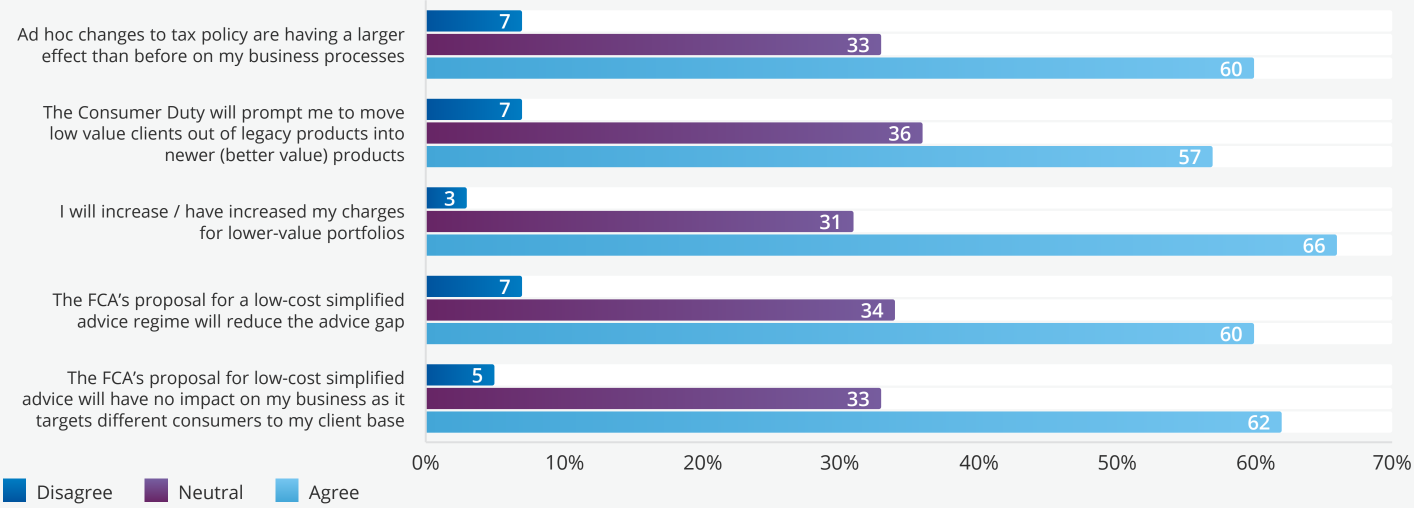
- Advisers are being pressured by inflationary business costs and heavier regulatory burdens
- Many advisers have responded by raising charges and minimum portfolio sizes for clients
- Post the pandemic, some advisers are also reporting notable impacts on their mental health

Advisers are responding to industry pressures

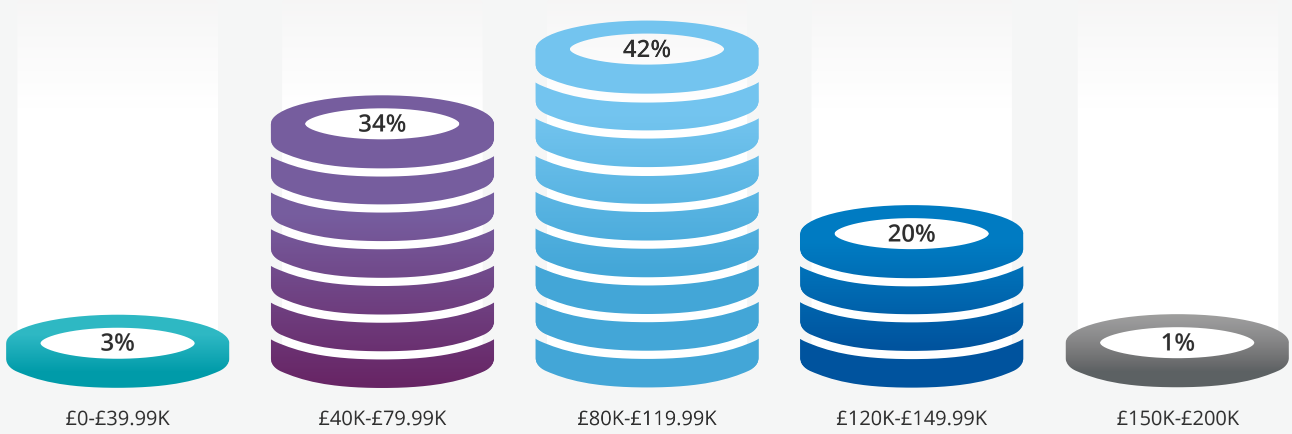
Our latest Barometer reveals financial advisers are being pressured by a range of industry headwinds, including the impact of regulatory compliance, increased workloads and higher business costs.

The challenge of higher workloads shows up in relation to government policy on savings and Consumer Duty. If the government's surprise removal of the pension lifetime allowance is welcome among advice firms, the admin workload that such changes have created over recent months is not. A 60% majority of advisers believe that ad hoc changes to tax policy are having a larger effect than before on their business processes. Add to this the fact that a 63% majority of advisers admit that their firm will need to outsource to meet Consumer Duty requirements and a picture emerges of regulatory-driven workloads driving up advice firm costs. ▶▶

TO WHAT EXTENT DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENTS?



WHAT IS THE MINIMUM PORTFOLIO SIZE THAT YOU TAKE ON?



Mixed news on the advice gap

The majority of advisers (57%) agree that the Consumer Duty will prompt them to move lower-value clients out of legacy products into new, lower-cost products. While this is the outcome the FCA wanted to see, there may be an unintended consequence. Perhaps because of the extra work involved, 66% of advisers say they have increased, or will increase, their charges for lower-value portfolios. Indeed, 84% of advisers told us they have also increased their minimum portfolio size. Given these developments, it is no surprise to see that most advisers still believe the Consumer Duty could exacerbate the advice gap.

However, there is some good news for the FCA. The majority of advisers (62%) believe that their proposal for a low-cost simplified advice regime will have no impact on their business since it targets different consumers with smaller (£10-40K) cash balances sitting in bank accounts. This belief is underlined by the fact that the average minimum portfolio size among our adviser sample is a chunky £91K. Encouragingly, a 60% majority of advisers believe that FCA intervention in this part of the market could be successful in reducing the advice gap.

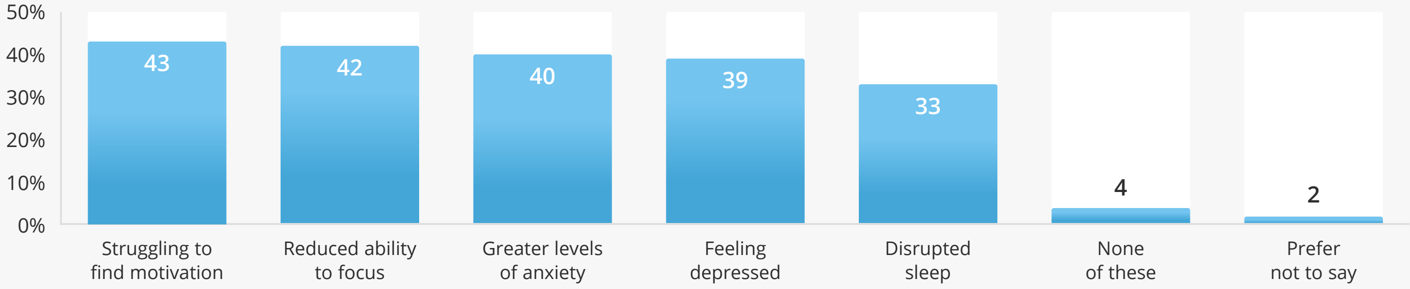
84%

84% of advisers have increased their minimum portfolio size in the last year.

£91K

£91K is the mean minimum new portfolio size of our sample.

SINCE THE PANDEMIC, HAVE YOU EXPERIENCED ANY OF THE FOLLOWING INDICATIONS OF MENTAL HEALTH PRESSURES?

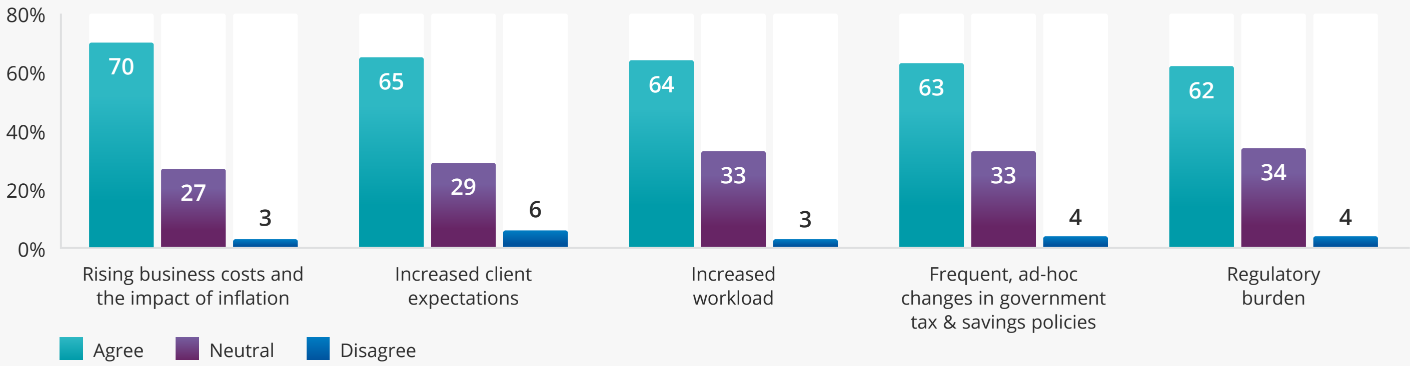


Adviser mental health

In the post pandemic era, the level of awareness around mental health has never been greater. Since COVID, businesses have had to deal with lockdowns, new ways of working, inflation, higher interest rates and borrowing costs, and supply disruptions due to the war in Ukraine. Recent research from Mental Health UK shows that 80% of small- and medium-sized enterprise owners have experienced some symptoms of poor mental health at least a few times a year*. Our survey reveals the advice industry is also feeling an impact, with a sizeable proportion of advisers reporting that they have experienced indications of mental health pressures.

* Source: mentalhealth-uk.org

DID THE FOLLOWING FACTORS CONTRIBUTE TO YOUR MENTAL HEALTH PRESSURES?



ANALYSIS

Platforms can support advisers by lightening their workloads

Mental health is something I feel strongly about. People's awareness of it and their willingness to discuss it has grown immeasurably in recent years. Our parent company, Lloyds Banking Group and Mental Health UK formed a partnership to help SMEs with their mental health and resilience, which offers free therapeutic coaching to business owners. It allows us to support our business partners directly and is just one small part of Lloyds' mission to 'Help Britain Prosper.'

We know from our engagement with advice firms that they are working through the impact of heavy compliance burdens, higher workloads, and higher costs, but our survey really helps put these pressures in perspective. Providers and platforms can support advisers by lightening their workload. We are determined to be the easiest, most highly connected platform on which to do business and are investing heavily in our platform development roadmap to achieve that goal.

Ranila Ravi-Burslem
Intermediary Distribution Director, Embark Group

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KEY INSIGHT

New economic age, new options for retirement income?

- Advisers are reassessing their approach to retirement income as annuities make a comeback
- Uncertainty among investors points to the enduring value of advice at retirement
- Advised clients remain more confident about their retirement plans than their advisers

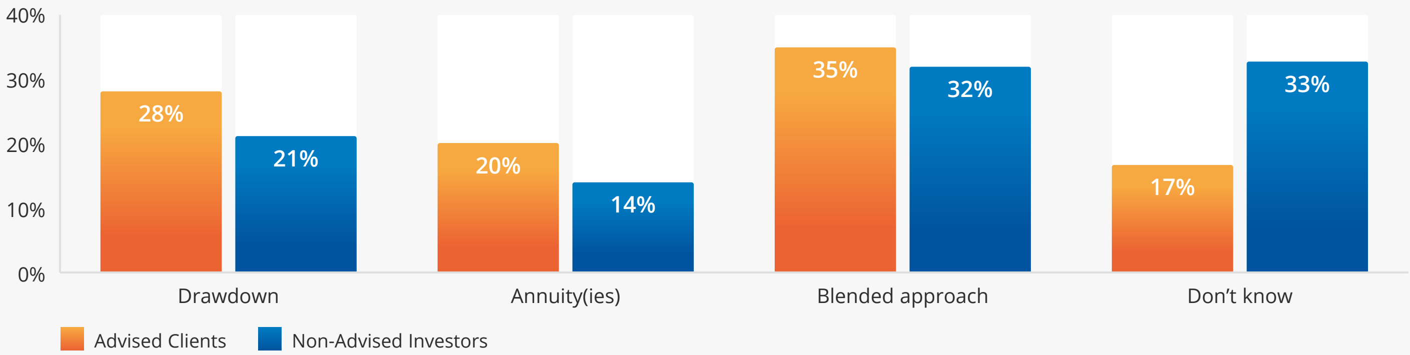
A shifting approach to retirement income

Since the 2015 pensions freedom reforms, income drawdown has been the dominant approach to retirement income among advisers, but annuities are back. A regime change in the economic environment to one of higher interest rates and higher bond yields has made annuities an attractive option again.

As a result, 73% of advisers would now consider a blended approach to retirement income for the majority of their clients, which combines the continuing growth potential of flexible income drawdown with the ability to annuitize part of the pension fund.

Interestingly, a firm 88% majority of advisers fear that the rise in annuity rates could simplify retirement choices. Yet, our survey suggests that fear could be overdone, as investors reported high levels of uncertainty when asked to select a retirement income route. While the blended approach came out on top for all investors, a third (33%) ▶▶

TO PROVIDE RETIREMENT INCOME, DO YOU USE OR ANTICIPATE USING DRAWDOWN, ANNUITIES OR A BLENDED APPROACH?



73%

of advisers would recommend a blended income approach

38%

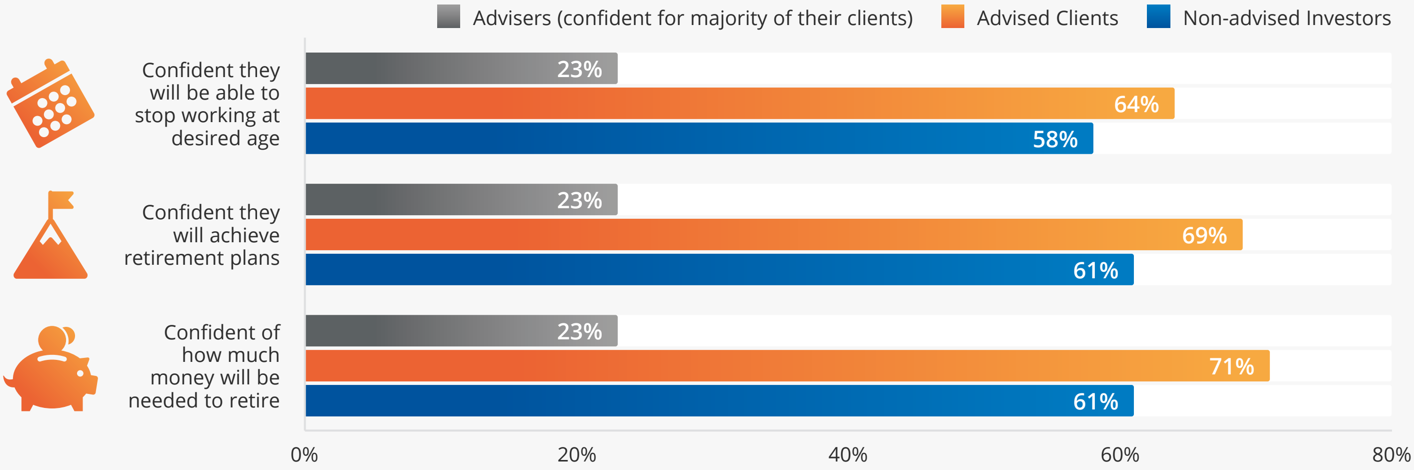
of advisers believe inflation will be brought under control

of non-advised investors are unsure about which approach to use. Encouragingly, only 17% of advised investors are uncertain, highlighting the benefits of advice and the greater financial confidence advisers can instil in their clients.

It's not just about annuity rates. The other side of the coin is shifting consumer priorities. Due to rises in the cost of living, greater numbers of investors now want the certainty and peace of mind provided by a guaranteed level of income that can match their higher monthly outgoings. Over a third (34%) of advised clients told us they have reduced their investment contributions (ISA/GIA) due to the higher cost of living, while one in five (20%) have reduced their pension contributions. It is for this reason that a defined level of income has moved up within some investors' hierarchy of needs.

Lastly, higher interest rates and annuity rates could be sticky. Only 38% of advisers believe that central banks will bring inflation under control in the next three years. This new economic environment with a higher cost of living, combined with the impact of Consumer Duty and the FCA's thematic review of retirement income augurs for continued strong use of the blended approach. ▶▶

RETIREMENT CONFIDENCE



Revisiting retirement readiness

There are two noteworthy gaps on retirement readiness. The first is the greater confidence of advised clients over non-advised investors, which again speaks to the value of advice. Advised clients are notably more confident than non-advised clients that they will be able to stop working at the age they want, that they will be able to achieve their retirement plans and they know how much money they need to retire.

The second noteworthy gap is between advisers and investors. Retirement readiness remains a concern for advisers, especially in the present economic environment, with 22% of advised clients reporting they have reduced or will have to sell some investments to maintain their standard of living. Less than a quarter (23%) of advisers are confident that the majority of their clients will have enough in their portfolio to meet their retirement expectations; 31% believe half their clients will have enough, while 46% believe only a minority of their clients will have enough.

This concern does not carry over to investors, however. 69% of advised investors and 61% of non-advised investors are confident that they will still be able to reach their retirement goals. This confidence gap has been a long-established one in our survey. However, the fact that the gap persists in the face of the current cost of living challenges suggests there may be a degree of complacency or wishful thinking on the part of investors when it comes to retirement.

Given each investor's expectations are specific to them, one way of closing this gap may lie in a more detailed exploration of their post-retirement lifestyle: the food, house, clothing, transport and holiday expenditures that they expect to make. The PLSA's Retirement Living Standards* shows these costs for a minimum, moderate and comfortable level of retirement. That exploration could help with the finely balanced client conversations advisers may need to have with certain clients about maintaining their pension contribution levels.

* Source: www.retirementlivingstandards.org.uk

ANALYSIS

The blended approach offers an attractive mix of security and flexibility

Attractive annuity rates and innovations in product design to allow a blended approach to retirement income have put a new focus on adviser-client retirement conversations. Even for clients with larger funds, advisers are increasingly discussing the option of securing defined levels of guaranteed income at their annual drawdown reviews. The blended approach allows advisers to offer appropriate clients a best of both worlds mix of security and flexibility: the peace of mind of knowing that living expenditures are covered by a guaranteed income, and the ongoing growth and income generation potential that comes from having the rest of the pension in flexible drawdown.

Jamie Drewett
Head of Intermediary Sales, Embark Group

Do investors need saving from themselves?

- Many advised investors contact advisers as markets fall with strong opinions on allocations
- Advisers are regularly surprised by their clients' investment proposals and decisions
- 95% of advisers think emotional decisions cost their clients at least 2% pa in foregone returns

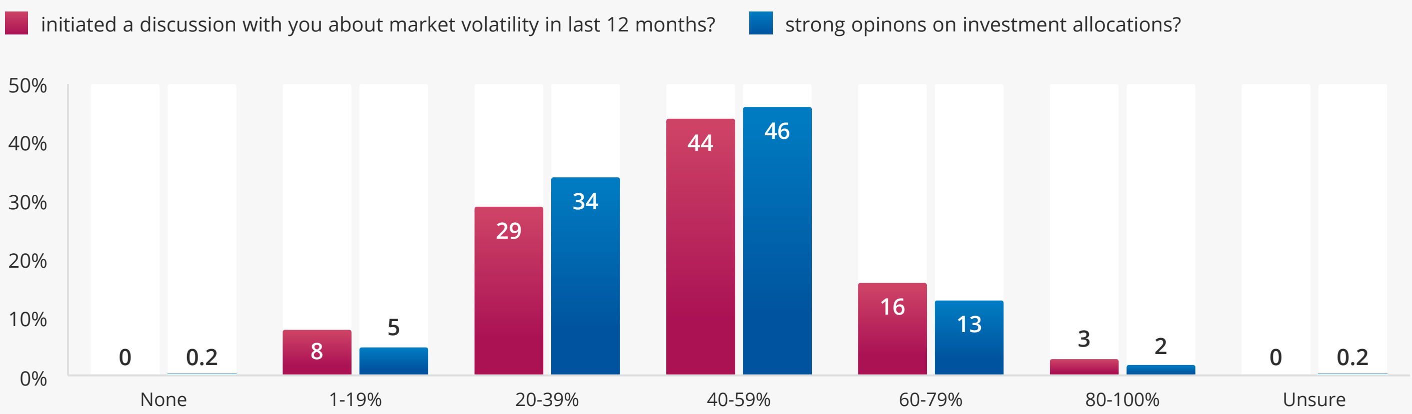
Investors get worried in volatile markets and emotions can lead to mistakes

Our latest survey reveals many investors are contacting their adviser due to worries about short-term market moves. Advisers told us that, on average, 44% of their client base have initiated contact with them to discuss market volatility in the last 12 months, while 61% of advised clients reported they had discussed volatility with their adviser over the same timeframe. These are surprisingly high numbers given the long-term nature of investing.

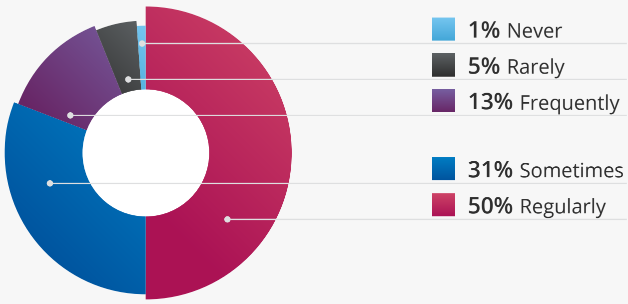
But they may be understandable given that many pension funds hit high watermarks in recent years, which can act as psychologically important levels. When investors experience a decline in their accounts, behavioural finance theory suggests the pain from the loss is felt twice as much as the pleasure from a gain.

The emotional pain of market corrections can be a problem for wealth accumulation if it leads some investors to make snap decisions, like selling when markets are down. Our survey suggests this is a significant risk advisers must ▶▶

WHAT PERCENTAGE OF YOUR CLIENTS HAVE:



HOW OFTEN, IF AT ALL, ARE YOU SURPRISED BY THE DECISIONS OR PROPOSALS YOUR CLIENTS MAKE ABOUT INVESTMENTS?



manage with their clients, since the average adviser in our survey reports that 45% of their clients also have strong opinions on asset allocations.

More worrying is the fact that a 63% majority of advisers are ‘frequently’ or ‘regularly’ surprised by the proposals or decisions their clients make about investments (31% are ‘sometimes’ surprised; only 6% were rarely or never surprised). And, when asked about the investing mistakes clients do make, advisers believe that the biggest one is being too influenced by current news events when making decisions. The second biggest mistake was taking too little risk.

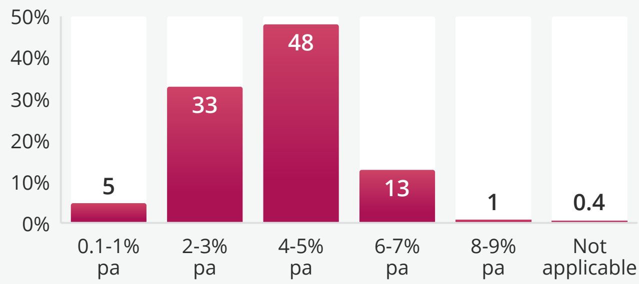
There is a cost attached to emotional decisions if they mean taking too little risk due to short-term gloomy news coverage. When we asked advisers to put numbers on it, the results were particularly revealing. A sizeable 48% of advisers believe emotional decisions cost their average active client 4-5% per annum in foregone returns. 33% of advisers believe their average active client gives up 2-3% pa. Incredibly, a net 95% majority of advisers think emotional decisions cost their average active client at least 2% pa.

Advisers show their value by protecting investors from themselves

We now have a picture of market volatility and gloomy news driving increased adviser contact and caution among certain investors, which may be costing them dearly in foregone returns. A key part of the adviser’s role is to build emotional resilience and staying power with the client throughout their investment journey. The fact that older, more experienced advised clients were less likely to contact their adviser bears this out. 71% of advised clients in the 35-44 age group contacted their adviser to discuss volatility in the last year, but only 54% of 55-64 year olds. Evidence perhaps that the first correction investors experience is always the worst.

It was investing guru, Benjamin Graham, who said “the investor’s worst enemy is likely to be himself” in the Intelligent Investor, published in 1949. These findings show that remains as true today. Indeed, the ability to check investment accounts daily on a smartphone may have made the problem more pronounced. Encouragingly, advised investors show a greater awareness of emotional pitfalls than non-advised investors. The fact that 64% of advised consumers agree that their adviser helps them avoid emotional decision-making reaffirms not only the value of advice but the benefit of outsourcing investment decisions to mitigate the problem of emotional bias. ■

HOW MUCH DO YOU THINK EMOTIONAL DECISIONS HAVE COST YOUR AVERAGE ACTIVE CLIENT IN FOREGONE RETURNS VERSUS STAYING INVESTED?

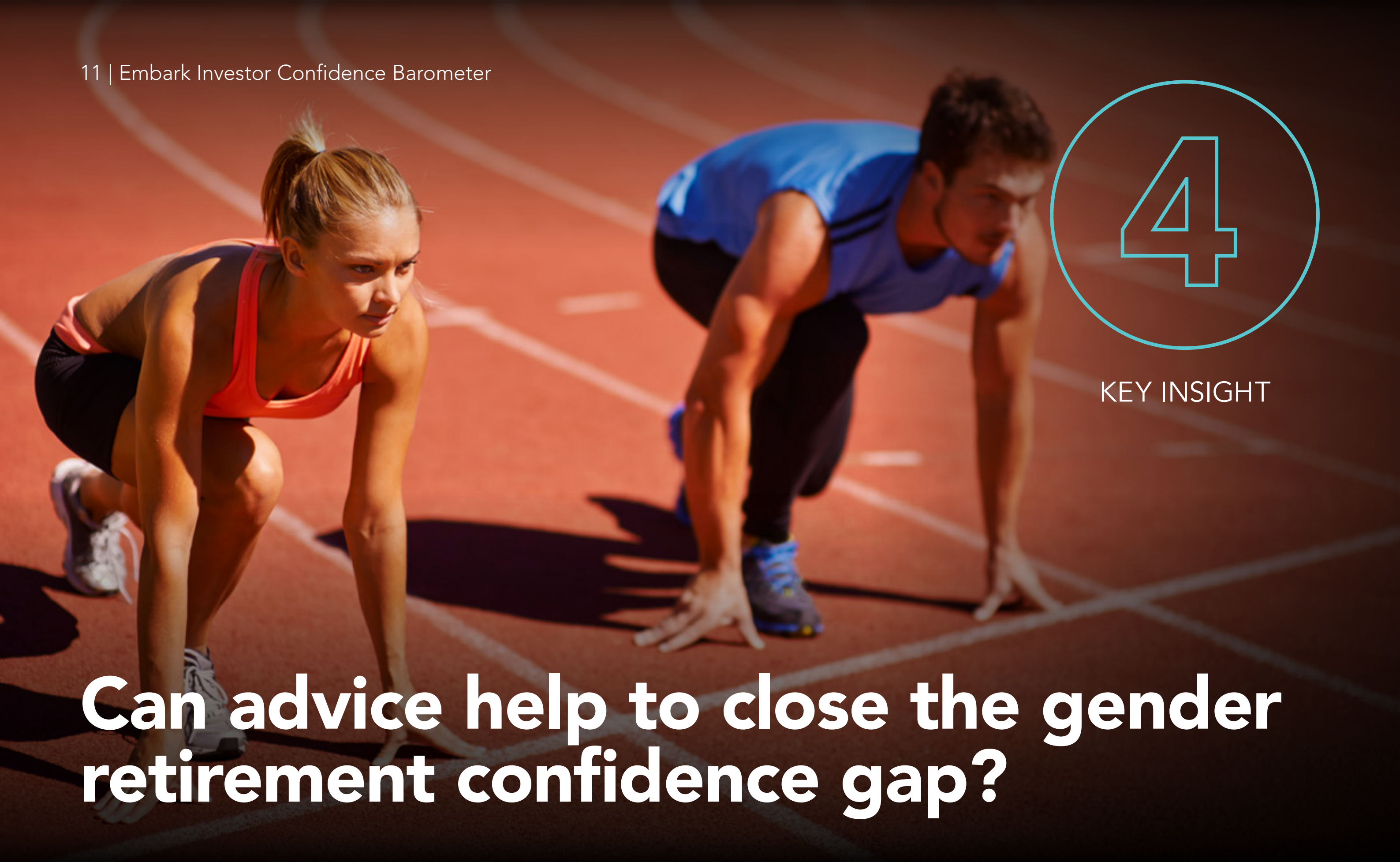


ANALYSIS

…the critical role advisers play in providing ‘after sales’ guidance…

These survey results reveal the critical role that advisers play in providing ‘after sales’ guidance to investment recommendations so that clients don’t get blown off course by market dips. The fact find is just the start of the adviser-client investment journey – one where advisers can begin to prepare clients by showing the impact of previous corrections when discussing capacity for loss. Once an investment course has been set however, a critical and ongoing part of the adviser’s role is mentoring the client through volatile times to build deeper resilience to corrections and regularly re-focusing them on the long-term outcome and not the path of short-term returns.

Barry MacLennan
Chief Executive Officer, Embark Investments



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KEY INSIGHT

Can advice help to close the gender retirement confidence gap?

- Women are less confident than men about their ability to retire due to structural factors
- However, when women seek advice, the gender confidence gap closes significantly
- Women are still more risk averse than men and advisers can help in this respect

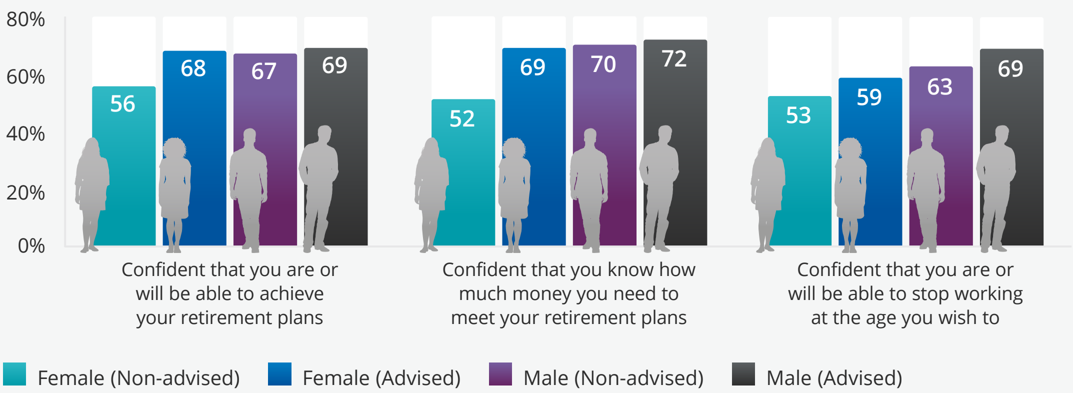
The gender confidence gap

Our survey sheds new light on the gender confidence gap when it comes to retirement planning. Men remain more certain of their retirement plans than women but advice helps to close the gap.

69% of advised and 63% of non-advised men said they were confident that they would be able to retire when they wanted. But only 59% of advised and 53% of non-advised women believe they will be able to retire at the age they want – a significant gap of 10 percentage points (pp) in both cases.

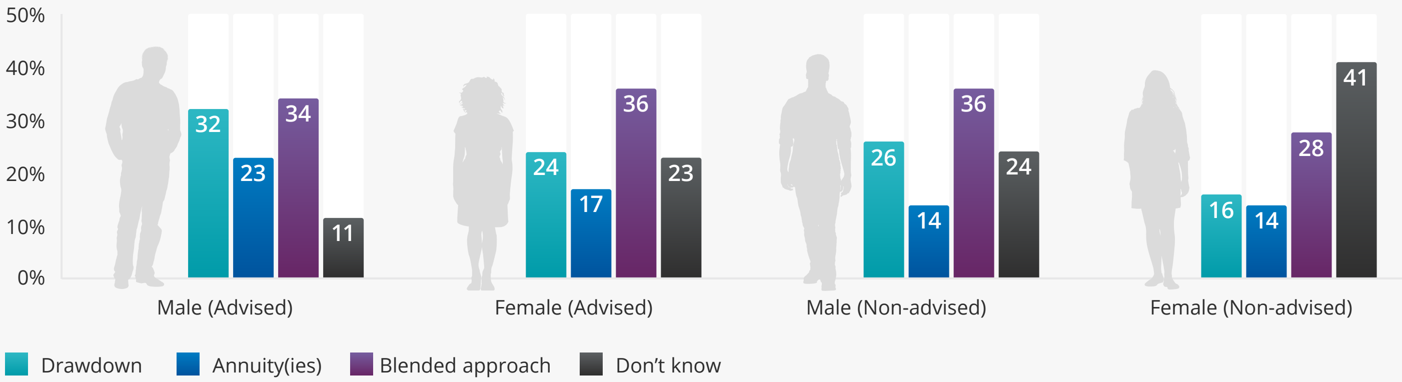
This difference is rooted in a range of structural factors, as outlined in the Scottish Widows Women & Retirement Report*. The income gender gap means men still earn more than women and save more as a share of income. That income gap is particularly stark at higher wage levels – there are 2.5 times as many men earning over 50K ▶▶

MALE AND FEMALE RETIREMENT CONFIDENCE



* Scottish Widows 2022 Women & Retirement Report: scottishwidowsretirementreport.co.uk

TO PROVIDE RETIREMENT INCOME, DO YOU USE OR ANTICIPATE USING DRAWDOWN, ANNUITIES OR A BLENDED APPROACH?



than women. Maternity leave, career breaks and a lack of affordable childcare are also contributing factors. While the statistics show that men hold greater pension wealth at every stage in life, the good news is this gap is narrowing for younger generations.

Advice and the gender gap

While many academic and industry studies have indicated a financial confidence disparity between men and women, our barometer shows that a financial adviser helps to close this gap. A 67% majority of non-advised males said they were confident that they would be able to achieve their retirement plans, compared to only 56% of non-advised females – a gap of 11pp. Advised men and women, however, were both more confident, at 69% and 68% respectively, separated by a mere one percentage point, suggesting that advice helps to close the gender retirement confidence gap.

Similarly, 70% of non-advised men are confident they know how much money they need to retire compared to only 52% of non-advised women, a difference of 18pp. Advised clients, however, showed only a 3pp difference, with 72% of men and 69% of women being confident that they know how much money they need to retire. More evidence that advice helps to bring women up to equal levels as men.

In all surveyed circumstances, non-advised women report they would be more open to seeking advice than non-advised men. They are more likely to seek advice due to a significant life event (64% women versus 55% men), ahead of retirement (59% versus 54%) and due to the higher cost of living (37% versus 21%). Non-advised females (52%) were also notably less confident than men (65%) that they can meet their goals without the help of a financial adviser.

The gender confidence gap is also notable at the point of deciding on a retirement income route. 11% of advised and 24% of non-advised men were unsure of whether to take their pension income through drawdown, annuity, or a blended approach. This compares to significantly higher levels for women – 23% of advised women and a very high 41% of non-advised women. While women are undeniably at a disadvantage to men in their ability to plan and execute their retirement strategy, our findings suggest having an adviser to help guide the journey goes a long way to closing the gap.

ANALYSIS

…the benefits of advice are particularly pronounced for women…

Women's lower retirement confidence is rooted in lower pension wealth, and in turn, lower average incomes. There is still work to be done to close the gender income gap – especially when it comes to seeing more female representation in higher-paying roles. Fortunately, the benefits of financial advice are particularly pronounced when it comes to women, so it is great to see that women are also more prepared to seek it. While higher wages for women are out of advisers' control, one area where they can help women build the greatest potential pension wealth is by encouraging them to take on the appropriate level of long-term market risk, since they are typically a little more risk averse than men.

Jackie Leiper
CEO, Embark Group

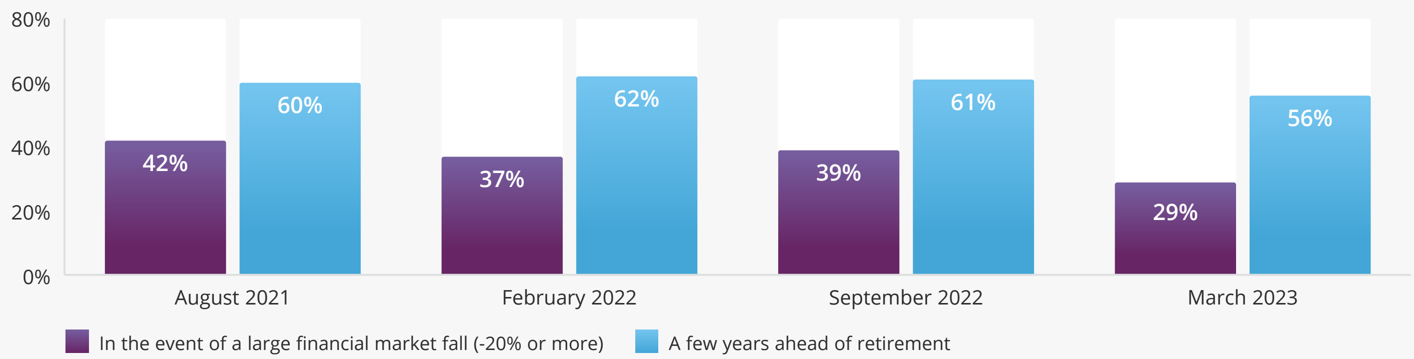
Focus on... trends

This is the fifth Confidence Barometer which gives us the opportunity to look at some interesting trends by comparing the current findings to those in previous editions.

What would encourage non-advised investors to seek advice?

Non-advised investors have reported consistently high interest in seeking advice ahead of retirement (staying with a 5-percentage point range), which provides a good opportunity for advisers. On the other hand, they have become slightly less likely to seek advice in the event of a market correction.

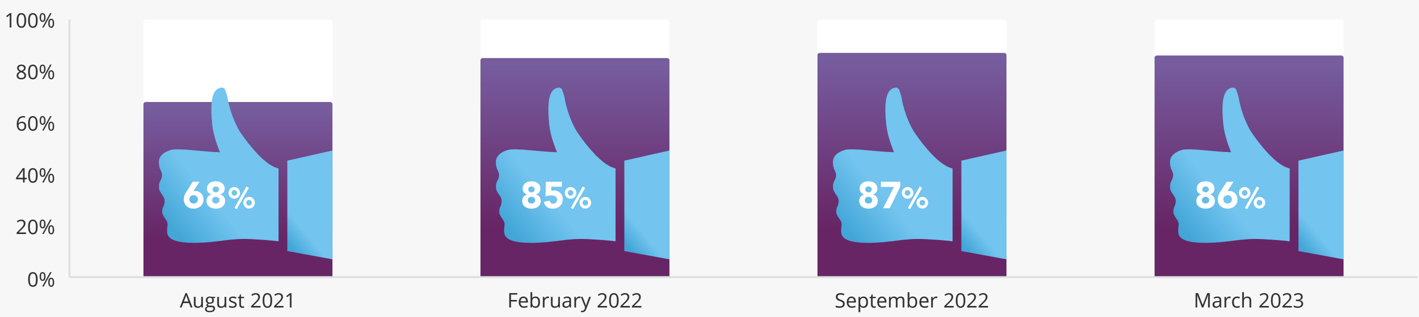
HOW LIKELY WOULD YOU BE TO SEEK PROFESSIONAL FINANCIAL ADVICE IN THE FOLLOWING CIRCUMSTANCES?



How happy are advised clients with their adviser?

Advised clients have reported high satisfaction ratings for advisers since our survey began. Ratings increased from 2021 into early 2022 along with equity markets, but they have remained above 80% since then.

CLIENTS SATISFIED WITH FINANCIAL ADVISER SERVICE OVER THE PREVIOUS 12 MONTHS



How often do you check your portfolio value?

Investors may be contacting their adviser in high numbers due to market volatility, but interestingly they are checking their portfolios less regularly than they were last year, perhaps a reflection of the fact that markets, while still volatile, entered into a wide consolidation phase. In some ways, this is a good thing as account over-vigilance can lead to emotionally-driven investing decisions.

AVERAGE NUMBER OF TIMES PER MONTH: ADVISED INVESTORS

5.6	4.9
September 2022	March 2023

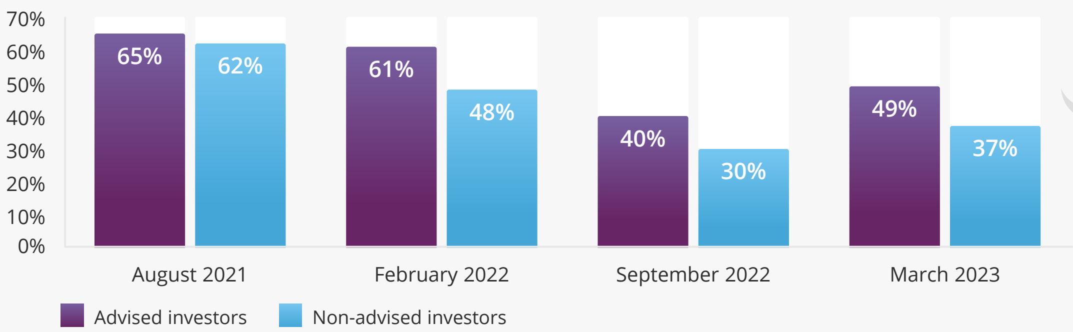
AVERAGE NUMBER OF TIMES PER MONTH: NON-ADVISED INVESTORS

4.6	4.2
September 2022	March 2023

How bullish are you on stock markets?

Investor bullishness on equity markets took a big hit in 2022 as markets fell back, but it has recovered somewhat from the low levels in our last survey.

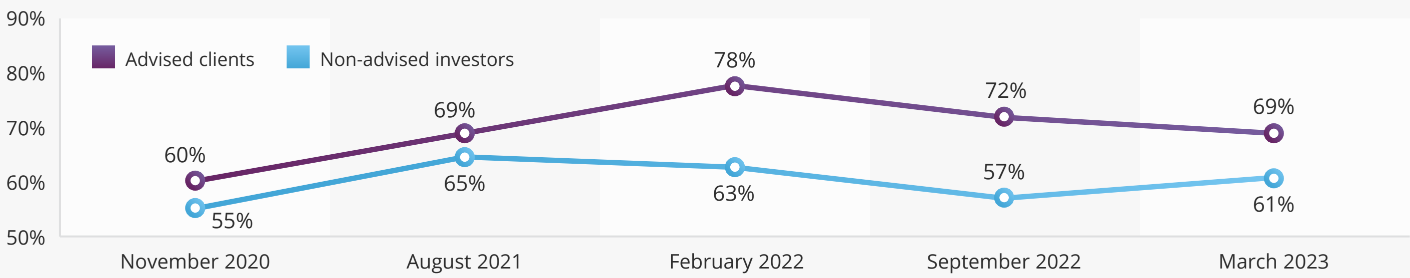
PERCENTAGE OF INVESTORS WHO THINK EQUITIES WILL RISE IN THE NEXT 12 MONTHS



How confident are you that you will be to achieve your retirement plans?

Advised clients have – and have always had – greater confidence that they can achieve their retirement plans. The degree of confidence has generally been correlated with stock market levels and account values, peaking in early 2022 and slipping back since then.

HOW CONFIDENT ARE YOU THAT YOU WILL BE ABLE TO ACHIEVE YOUR RETIREMENT PLANS?



BAROMETER SURVEY DETAILS

The Embark Investor Confidence Barometer surveyed the following groups:

- 501 advised consumers (those that have a financial adviser) with a minimum of £100k investable assets, who have a pension and are aged 35-70
- 504 non-advised consumers (those that do not have a financial adviser), with a minimum of £100k investable assets, who have a pension and are aged 35-70
- 503 financial advisers (18+) who have clients, whose company/firm has assets of less than £500 million

The survey was conducted by Censuswide. Censuswide employs members of the Market Research Society and abides by the ESOMAR principles.

censuswide.com

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