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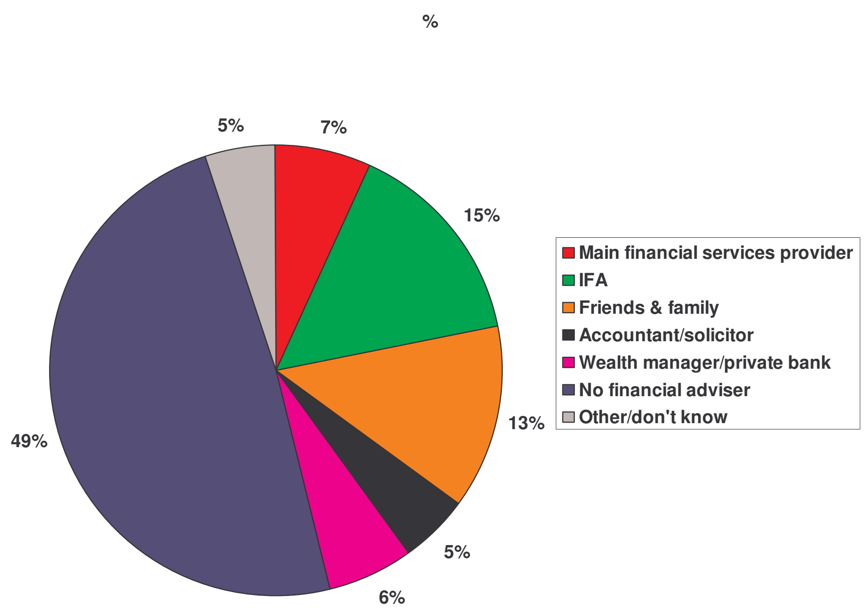
Fewer people take professional financial advice as social media extends influence into financial services

This year's third annual *Financial DIY* report produced by ComPeer Ltd, a wealth management consultancy, and JGFR a financial research specialist, finds more of the public having a main financial adviser, but an increasing number of these advisers being friends and family. Many of these will be social media friends as the impact of Facebook extends its influence into financial services.

As in the *2009/10 Financial DIY* report, the proportion of the adult population is split almost down the middle between people who have a financial adviser and those who do not. For the second successive year slightly more people have a financial adviser, up to an estimated 24.9 million from 24.1 million in 2009. Nearly 26 million have no financial adviser, up nearly 11 million compared with 2003*

Chart: Main financial services advisers, December 2010



Source: GfK NOP / JGFR / ComPeer

IFAs top professional main financial adviser market share

Fewer people are switching back from being non-advised to being professionally advised as a result of making poor self-directed financial decisions compared to a year ago. This year's growth in the financially advised is in greater numbers citing friends and family as their main financial adviser – up by around 1 million people.

As a result the proportion of advised people with a professional financial adviser has slipped from 71% to 68%. Of people with a professional main financial services adviser, 45% have an IFA, 34% a specialist professional manager (accountant, solicitor, private bank, wealth manager) and 21% use their main financial services provider (their main bank). Currently the market size for professional financial advice is some 17 million adults, around a third of the adult population.

Weaker consumer financial activity – 11% drop in most financially active segment

The report also examines the expected financial activity of consumers covering savings, investment and borrowing and found that the most financially active adults** are more likely to have a professional financial adviser (34% - some 6 million people) than the non-advised (19% -some 5 million people). Overall the size of the most financially active market is down 11% on 2009 reflecting weakening household finances as worries over public sector cuts gather pace.

Search first port of call for financial advice; one in ten consumers use social media in product purchase process

Consumers were also asked about their online activity – a quarter of adults use search as their first port of call for financial advice. Over a half of consumers go online in the financial product purchase process with a growing minority (particularly the young) going online through their mobile smartphone. One in ten consumers, rising to a fifth among the under 30s use social media in financial purchase activity.

Poor investment performance and high charges reduce demand for financial advice

Professional financial advisors face a big challenge in convincing people of the value of financial advice with the report showing a continuing suspicion of the quality of advice on offer surrounding investment performance, charges and poor communication.

As a result the advice industry continues to see large numbers of people either switching between being advised and not being advised and between different forms of advice. In the latest report around a quarter of adults had switched compared to a third in 2009 when the financial markets were more volatile.

The report found some two-fifths of people would recommend using professional financial advice suggesting there is goodwill towards financial advisers, although this goodwill is weakened by the new charging structure being introduced under the RDR.

Will restricted advice generate more professionally advised consumers?

In the Financial DIY report a suggested target for the industry should be to increase the proportion of people having a main professional financial adviser from the current third to nearer a half. Factors such as the uncertain state of financial markets and the move to a fee based system under RDR - 40% of professional advisers' clients expect to switch to a non-fee charging adviser if a fee-based charging system is introduced – may make this target unrealistic.

For the banks who have lost considerable market share as a main financial adviser in recent years as trust has fallen away, the RDR implementation presents new opportunities to assist the millions of people who do not want to pay explicit fees but who are happy with restricted advice. This may also appeal to product providers who re-examine the direct model.

Combining the numbers of the financially active non-advised with the growth in the non-professionally advised shown in the report suggests there will be an attractive customer segment set to benefit from execution-only services – one that relies greatly on researching and dealing online and in using social networks.

Commented John Gilbert, Chief Executive of JGFR:

"For the RDR to be regarded as a success the number of professionally advised consumers needs to increase to nearer 50% by 2013. With only the wealthy set to benefit from independent advice as they can afford the fees, much will depend on the take up of restricted

professional advice. In the next two years many people will migrate to non-professional advice and Financial DIY as the influence and power of social media grows. In the new advice vacuum new and existing providers as well as the most forward looking IFAs will enter the financial education space and develop a range of product apps that will help consumers manage their finances. This is where the path of Financial DIY is likely to move in a more inclusive manner "

Notes:

*GfK NOP undertook surveys in 2003, 2007,2008, 2009 and 2010 asking adults aged 16+ and representative of the UK population who they regard as their main financial services adviser.
** Most financially active are people defined as undertaking four or more of 18 categories of savings, investment and borrowing

Two surveys were commissioned from GfK NOP to provide primary research for the report.

- The first survey took place among 1,000 adults aged 16+, representative of the UK population between 5-14 November and asked consumers about their attitudes towards financial advice.
- The second survey took place among 995 adults between 3-12 December and asked consumers about their main financial services provider and the product purchase buying channels used

The *2010/11Financial DIY report* is available at a cost of £950+VAT. Enquiries please contact 0208 944 7510 / 07740 027968

To discuss the report please contact John Gilbert at JGFR +44 208 944 7510 / +44 7740 027968

About the report publishers:

ComPeer is a specialist in benchmarking, competitor analysis and research services whose products and services daily benefit financial services firms seeking to compete in the private client wealth management sector. Since 1992 ComPeer has been comparing business-critical performance criteria and operating practices for stockbrokers, wealth managers and private banks against their selected peers.

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JGFR is a specialist in consumer and investor sentiment and financial activity undertaking continuous tracking studies and ad hoc / bespoke research projects and reports. Since 2002 JGFR has produced the monthly Consumer Confidence Monitor and quarterly Financial Activity Barometer covering some 18 categories of savings, investment and borrowing activities. JGFR also undertakes research into consumer attitudes to the 2012 Olympics and into sport, charities and philanthropy.