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SAFETY IN NUMBERS

The demise of the independent financial adviser continues to cause speculation in the financial press which has been exacerbated by the withdrawal of face-to-face personal advice within the banking sector. However, the latest total FCA registrations would indicate that over the last six months there has been an actual rise in the number of registered individuals operating in the market.

One factor which is emerging is the future of old style IFA networks. These inherently have legacy advice issues and pressure continues to undermine the financial viability with the post-RDR commission ban and the FCA's paper on incentives published in January 2014. The response to these pressures is a move away from the historic focus on scale and concentration on providing good quality service to the individual IFA members separated from any financial arrangements with providers or fund groups. The old model was based on a world of commission clubs and aggregation being driven by the top line of their revenue.

The emergent network model looks more at the value of services for members with a move to become pure service and support providers where the registered individual is directly authorised with the regulator. There also seems to be an amount of segmentation in the adviser firms selected by these networks with a focus on understanding risk and the quality of advice provision. In addition to this there has been a shift towards restricted advice across the whole profession with a number of networks still showing an appetite to remain as an independent network.

The regulator's latest paper focusing on incentives and providing hospitality will mean a particular requirement to document and justify any such arrangements and be prepared to explain the rationale fully to the regulator. This is a most profound thing to happen raising the question of who will be profitable still, without these payments or support. Those businesses that have become reliant on these are faced with some stark choices for the future necessitating a look at their existing infrastructure to rationalise their cost base or increase the cost to advisers of the network services provided.

Those firms wishing to leave the market are faced with the dilemma that business valuations will stay somewhat lower than in the past forcing possibly the firm to join a larger group with a view to deferring the sale. The current multiples offered in the purchase of an advisory business are much lower than they once were and are unlikely to recover, especially with the threat of all trail commission even pre-RDR being stopped.

Potential acquirers are still in the market but are operating a much more selective acquisition strategy and will be less generous in what they pay. In the past a common multiple was three times the recurring revenue which is unlikely to happen now with commission no longer available post-RDR and the threat to trail commission on pre-RDR business and certainly where disturbance events occur within the advice process. One real issue is that both trail and adviser charging are vulnerable to stopping after an acquisition which may deter potential buyers further. There is of course no certainty in all this that clients will continue to pay their adviser charge year after year and clients can easily turn off this revenue stream.

Around two years ago, purchasers would be willing to pay four times annual revenue whereas today it is much more likely to be closer to 2½ times recurring income on EBITDAR, the common currency. It will be interesting to see how this evolves. A dramatic drop in adviser numbers continues to be predicted as it has done for the last 10 years, but currently there are no immediate signs of this.

Peter Smith, Head of Distribution Engagement