The essential guide to UK fund distribution 2020

FUNDSCAPE

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Tintagel House
92 Albert Embankment
London
SE1 7TY
United Kingdom

www.fundscape.co.uk

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INTRODUCTION

This report was written and compiled just as the Covid19 epidemic was evolving into the pandemic that is spreading throughout the world with devastating consequences.

The introduction of lockdowns and quarantines to contain the spread of the virus have had a huge, negative impact on the global economy. We are yet to understand the long-term implications, but the outlook seems poor.

Stock markets have experienced huge falls, wiping out all of the gains of the previous three years while governments have put in place emergency packages and stimulus measures to keep their economies afloat. The aim is to prevent thousands of businesses from going under and millions of people from becoming unemployed.

But what does this mean for the future of financial services? Much depends on how quickly the economy bounces back. These three issues will shape the future:

- The speed at which a vaccine is developed and antibody testing kits are rolled out.
- The success of lockdowns and quarantines and whether there are second and third waves of contagion.
- The effectiveness of governments' emergency stimulus programmes.

We had included a range of five-year forecasts for the fund and platform industries as well as forecasts for the growth of the customer-facing distribution channels, but have removed them as it's impossible to make sensible predictions in the current climate.

We will issued revised forecasts once the pandemic has been contained and the economic outlook becomes clearer.

Chapter 1: EXECUTIVE SUMMARY

- Over the last 30 years, financial regulation has become increasingly strict in the UK, which has contributed to a dramatic re-shaping of the distribution landscape.
- Historically the UK has always had one of the lowest household savings rates among OECD countries. The British have generally privileged home ownership over savings as a way of saving for the future. In difficult times. the savings rate climbs significantly.
- The savings rate fell to 5.7% in 2018 and is estimated to be below 5% in 2019. Despite the falling savings rate, UK households have substantial financial assets of £6.7trn, an average of £242,000 per household[1].
- Despite the high average wealth, a decade of exceptionally low interest rates has dulled the precautionary motive to save and lulled the UK population into a false sense of security.
- At the end of 2019, the UK had assets of under management of £1.3trn, making it the largest domestic fund market in Europe. It accounts for 13% of European assets under management, which is why fund groups from around the world beat a path to its door. Gaining a foothold in this market is difficult because the UK landscape is complex, multi-layered and heavily influenced.
- Platform use in the UK has risen steadily in the last two decades. Assets have grown from £53bn in 2006 to £713bn at December 2019 (although that will have shrunk by now). RDR and pension freedom fuelled demand. As a result, the 10-year compound annual growth rate (CAGR) for platforms is 23% compared to the fund industry's more modest 9.7%.
- Platforms aggregate around 60-65% of wholesale retail fund business in the UK, significantly eroding the insurance channel's market share, while the advice channel accounts for approximately half of all industry sales. This channel has benefited from the uplift in pension business since pension freedom was introduced in 2015.
- Advisers control the value chain and are competing aggressively with other parts of the value chain by gaining discretionary permissions, launching their own funds, model portfolios and even their own platforms. From being reliant on fund managers and life companies pre-RDR, they are increasingly masters of their own ecosystems.

1 Office of National Statistics

- The advice channel is heavily influenced by three types of overlapping influence. The first is proprietary — in-house model portfolios account for roughly half of all distribution channel sales. The second is vertical integration which accounts for a third of all channel sales, and third is outsourced DFM business which accounts for another third[2].
- Direct wealth manager activity has been sluggish for more than three years no in reponse to the more challenging environment. Thankfully the channel has benefited from indirect business and managing at least 30% of the money flowing through the advice channel.
- This structural change in business is driving consolidation in what is already a highly concentrated wealth channel and acquisitions in the advice channel. Wealth managers are also under pressure from robo-advisers.
- Since RDR, the D2C channel has accounted for around 10% of industry flows, but Brexit and volatility have muted sales in the past year. These factors now pale into insignificance in relation to the pandemic and its potential impact.

1 For more information see the Advice chapter, pg 66..