FINANCIAL CONDUCT AUTHORITY

Data Bulletin

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In focus:

- The retail intermediary sector
- Key trends and statistics

Issue 13

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Introduction
from the editor

Welcome to the latest edition of the Data Bulletin.

This edition focuses on analysis of the intermediaries sector, based on data from our Retail Mediation Activities Return (RMAR). The RMAR is submitted by approximately 12,000 FCA-regulated intermediary firms that each year help millions of consumers to access key financial products – mortgages, insurance policies and retail investment products.

We have published these data annually since 2016 and, in response to feedback from users of the data, we have added some new analysis sections this time. This edition provides an update of revenue trends to 2017 and analysis of activities and information on advice and charges for the last full financial year. Our new analysis includes a focus on capital resource requirements and professional indemnity insurance (PII) premiums.

We will continue to publish these data annually and hope that readers find them a useful source of insight into the retail intermediary sector. If you have any feedback or suggestions about future data, please let us know at: **fcadataandanalysis@fca.org.uk**

Jo Hill
Director of Market Intelligence, Data and Analysis

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Executive summary

This Bulletin analyses trends in the intermediary sector, focusing on the 3 main types of business activity reported in the RMAR– retail investments, home finance (mortgage) and non-investment insurance.

Each firm reports their data in line with their own reporting cycle. We focus on data reported by firms with an end date that falls in calendar year 2017.

Intermediary activities have shown healthy revenue growth in 2017

Total reported earnings from the 3 business activities was £22.1 billion in 2017 (£20 billion in 2016). All 3 types have shown healthy growth in revenue in 2017. This continues the trend seen over the past 5 years with growth significantly in excess of inflation over the period. Revenue earned from retail investment and home finance activities showed particular strength, up by 21% and 26% respectively from 2016 to 2017. Growth in revenue from non-investment insurance mediation has been more modest – up 8% on 2016.

Revenue generated across these 3 business activities has grown at a faster rate than the increase in the number of firms. The average revenue earned per firm has therefore increased. The proportion of retail investment revenue earned from commission continued to fall, from 26% in 2016 to 20% in 2017. This continues the trend of a reduced proportion of revenue from commission since the Retail Distribution Review. Earnings from mortgage and insurance mediation continue to be largely commission driven (76% and 84% respectively).

Financial adviser firms showed strong growth in aggregate profits in 2017

Total reported earnings by **financial advisers** increased by 22% to £4.5 billion in 2017 and aggregate pre-tax profits by 23% to £698 million. The growth in profits has been driven by the growth in headline revenue. Small firms have the highest pre-tax profit margin at 43% of total revenue.

Total reported earnings by **mortgage brokers** increased by 23% compared to 2016 to £1.2 billion in 2017. These firms continue to earn a significant share of their regulated revenue from non-investment insurance business, particularly the larger firms.

Total reported earnings by **insurance intermediaries** increased by 7% compared to 2016 to £16.2 billion in 2017. Most of this was accounted for by the largest firms in the sector. This sector includes a significant number of firms that mediate insurance products but whose main business is non-financial.

Over two thirds of firms were required to hold capital of £20,000 or less

We require intermediary firms to hold a minimum amount of capital so that they have sufficient resources to absorb routine losses or redress claims against them. Our analysis shows that in total over two thirds of firms were required to hold capital of £20,000 or less. 99% of firms held a capital surplus with mortgage brokers generally having a lower requirement and holding a smaller surplus than the other types of firms.

Firms paid over £300 million in Professional Indemnity Insurance (PII) premiums in 2017

Our analysis shows that firms reported paying over £300 million in PII premiums in 2017. The average premium paid as a proportion of revenue earned from these 3 business activities was: 1% for mortgage brokers; 1.5% for insurance intermediaries; and 1.9% for financial advisers. Smaller firms paid a higher proportion of their revenue as premium than larger firms.

Firms providing retail investment advice had 2.8 million ongoing clients and provided 1.2 million initial/one-off advice services in 2017.

The sector saw a significant increase in reported revenue earned from ongoing customers in 2017 compared to 2016 (up 28%) which may be a reflection of strong performance of underlying investments. Revenue from initial charges also increased in 2017 – up by 24% on 2016. Firms reported having 2.8 million ongoing clients and 1.2 million initial/one-off advice services in 2017.

The share of revenue from adviser charges accounted for by restricted advice services (as opposed to fully independent advice) was 40% in 2017 up slightly from 39% in 2016. The larger firms in the retail investment sector are more likely to provide restricted advice services.

The retail intermediary sector in 2017
Key statistics

Revenue generated by intermediary firms continued to increase in 2017 when compared with 2015 and 2016

	2016 (revenue increase from previous year)	2017 (revenue increase from previous year)
Mortgage (exc second charge)	£807m (▲ 24%)	£1.02bn (▲ 26%)
Retail investments	£3.26bn (▲ 8%)	£3.95bn (▲ 21%)
Non-investment insurance	£15.86bn (▲ 5%)	£17.11bn (▲ 8%)

Revenue from commission, as a proportion of total revenue for retail investment businesses, continues to fall.

Commission accounted for:

20% in 2017, compared to

56% in 2013

of the total revenue

Over

£300 million

was paid by firms in Professional Indemnity Insurance (PII) premiums in 2017

96%

of financial adviser firms reported a pre-tax profit

£698 million

Total pre-tax profits for 2017

▲ up 23% on 2016

Firms providing retail investment advice services reported that they provided

1.2 million

initial advice services[1] and had over

2.8 million

clients paying for ongoing services

▲ **36%**

since 2016

1 An initial advice service is a distinct one-off advice service, which includes ad hoc services

Section 1
Revenue earned from regulated intermediary activities 2013 to 2017

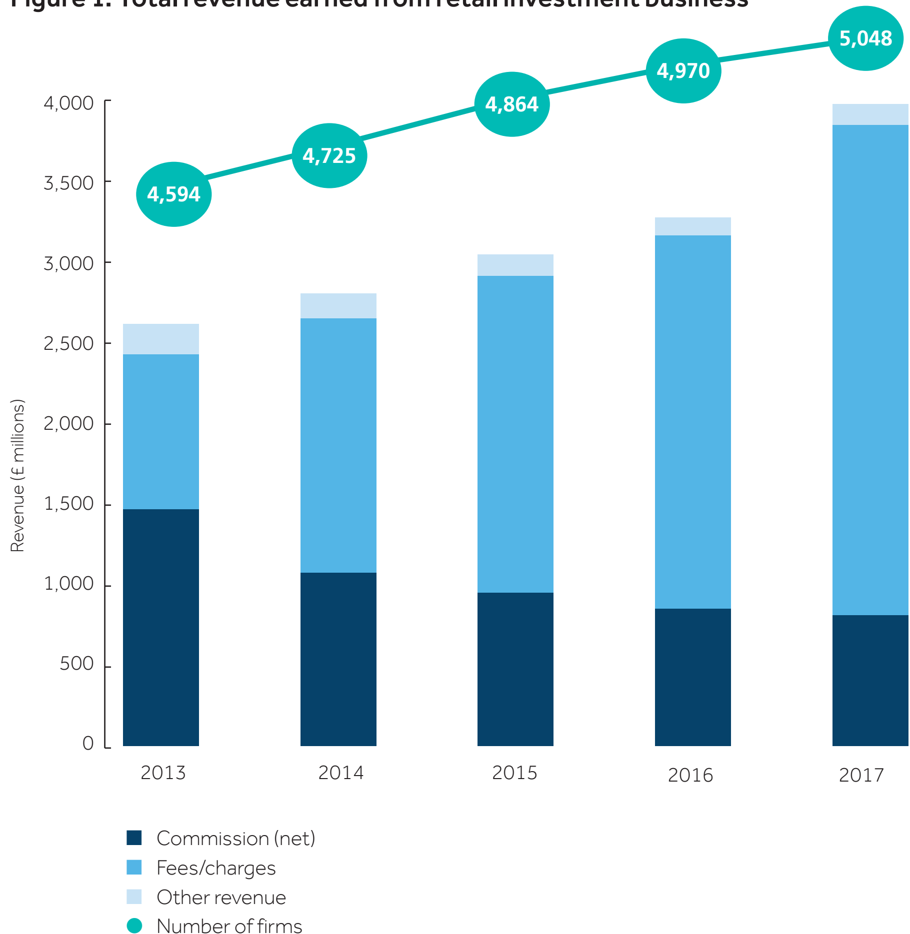
This section provides an overview of the aggregate reported revenue earned from each of the 3 specific regulated activities reported by firms in RMAR Section B (Profit and Loss account). These are analysed by year and by the type of revenue. The data here reflect only those firms that submit their revenue details on RMAR Section B (a population of around 11,650 firms for 2017).

Retail investments

Figure 1 opposite shows that the total reported annual revenue from retail investment business increased by 21% between 2016 and 2017 (from £3.25 billion to £3.95 billion) and by 52% between 2013 and 2017 (from £2.6 billion). The number of intermediary firms that reported earning revenue from retail investment business increased by 10% between 2013 and 2017 from 4,594 to 5,048 which is likely to partly account for the increased total revenue.

In 2017, **Figure 1** also shows that commission (net) accounted for 20% of revenue earned and fees/charges for 76%, compared to 2016 when commission accounted for 26% and fees/charges for 70%. While there was strong growth in revenue earned from fees/charges in 2017 (up 31%), revenue earned from commission fell by 5%. This reflects a continuation of the trend, seen since the implementation of the Retail Distribution Review (RDR), for firms' revenue from retail investment business to be based on fees/charges. Under the rules introduced after RDR, firms are no longer allowed to earn commission from new advised business, but they can still receive commission from legacy (pre-RDR) business subject to certain conditions, and from non-advised business.

Figure 1: Total revenue earned from retail investment business



Home finance (mortgage) mediation

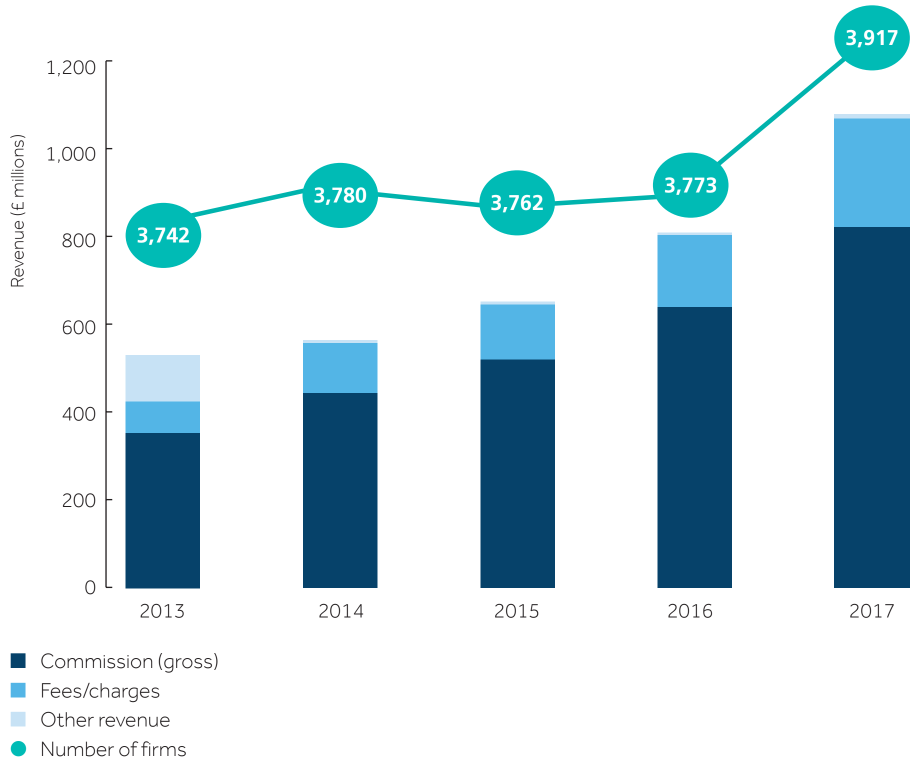
Figure 2 shows that the total reported revenue earned from the mediation of regulated mortgages was £1,076 million for 2017. This includes £61 million (6%) earned from second (or subsequent) charge mortgage business which features in the data for the first time since it became a regulated activity at the end of March 2016. Stripping this out, mortgage mediation revenue still showed a significant increase of 26% between 2016 and 2017 (from £807 million to £1,015 million). This continued the upward trend witnessed over the past 5 years – like for like revenue has nearly doubled between 2013 and 2017. This is likely to be as a result of a number of factors over the period including general growth in the mortgage market and an increase in business being transacted via brokers.

Figure 2 also shows that the number of firms that reported earning revenue from mortgage mediation increased by 4% to 3,917. Many of these are firms whose primary business is retail investments who also earn some revenue from mortgage mediation business (see analysis of financial adviser firms in section 2). Commission continues to be the main source of revenue for this type of business, accounting for 76% of revenue earned in 2017 although this is down from 79% in 2016. Conversely, the share accounted for by fees/charges has increased from 20% to 23%.

Non-investment insurance mediation

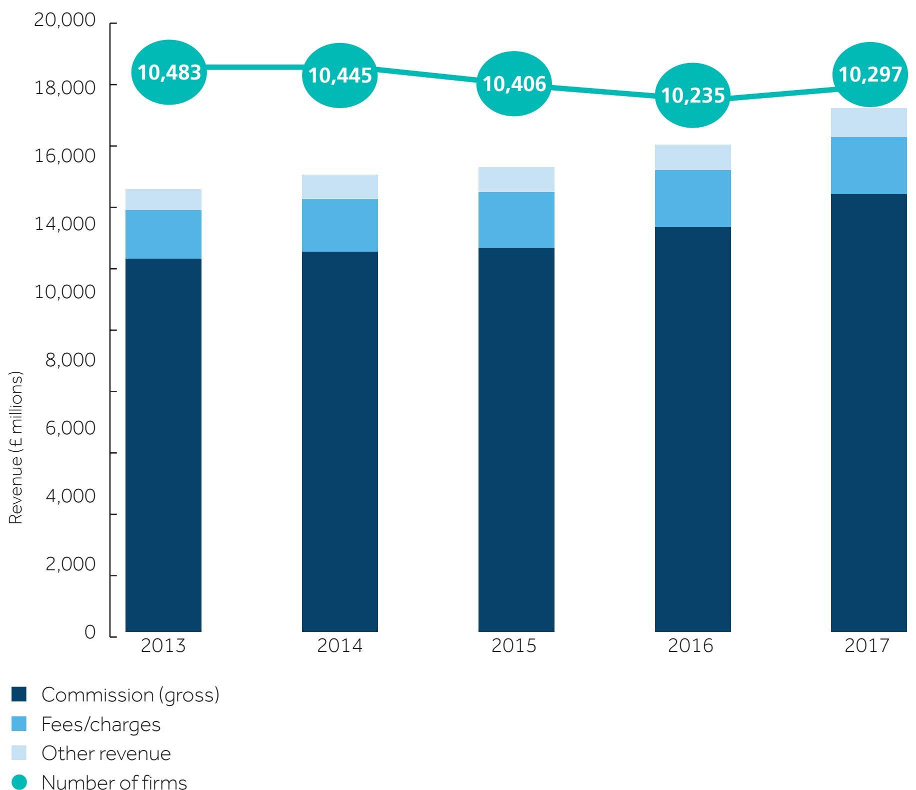
Figure 3 shows that overall reported revenue earned from insurance mediation was £17.1 billion in 2017. This represents an increase of 8% over 2016 and 19% over 2013. There has been a small increase in the number of firms earning revenue from this activity to just under 10,300 in 2017. Commission continues to be the main source of revenue earned from non-investment insurance mediation business, accounting for 84%.

Figure 2: Total revenue earned from regulated mortgage business



Notes: 2017 data include revenue earned from second charge mortgage business. 'Other revenue' fell significantly from 2013 to 2014 due to a firm changing reporting status no longer submitting the RMAR in 2014.

Figure 3: Total revenue earned from non-investment insurance mediation



Source: RMAR Section B (Profit and Loss account) – all firms reporting revenue earned from the relevant activity.
Note: some types of firms that report their revenue via a different regulatory return such as banks, building societies and investment firms are not included in the data.

Section 2
Analysis of revenue earned in 2017 by type of firm

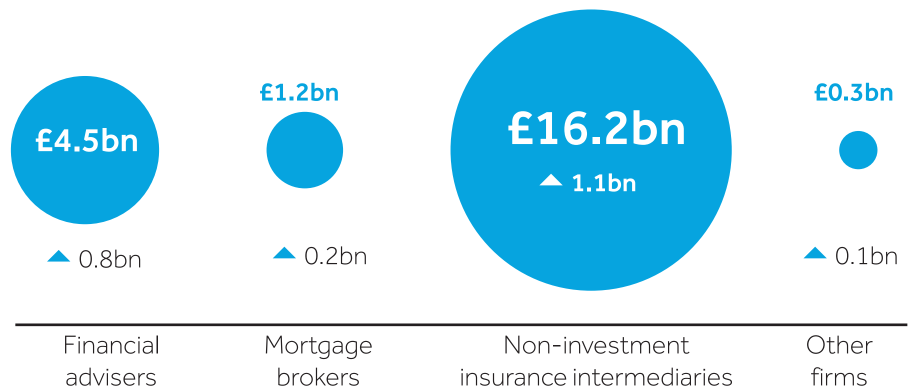
This section provides further information on revenue for 2017 split by type of firm. We give each firm a 'primary category' reflecting our understanding of the firm's main type of regulated business activity. Many firms, however, carry out more than one type of business. The following analysis breaks down the population of firms that report on the RMAR into financial advisers, mortgage brokers, non-investment insurance intermediaries and other firms.

Revenue breakdown

Revenue is broken down into the 3 types of regulated business – mediation of retail investments, mortgage and non-investment insurance. In addition to these activities, firms may generate income from other types of regulated business (such as consumer credit). Firms are not required to report this in any detail on the RMAR so references to regulated income in the analysis below include only the 3 main named sources.

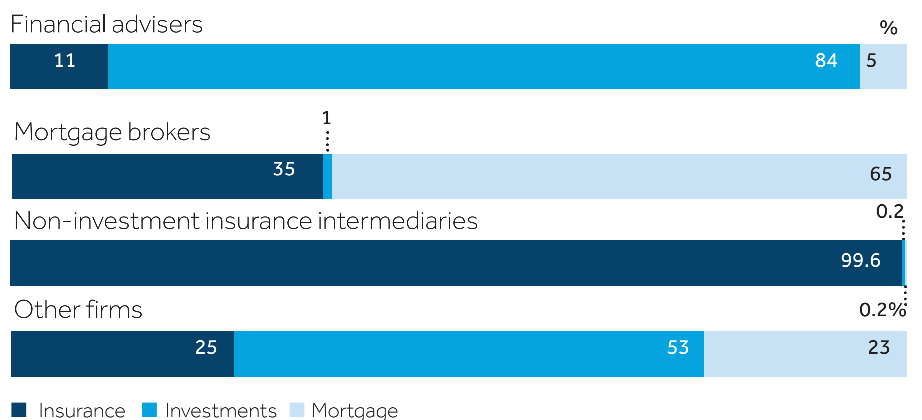
Firms also report earnings from non-regulated business in the RMAR. The reporting population includes firms for whom regulated financial business is not their primary activity (such as retail businesses that also offer insurance cover or estate agents that broker mortgages products). For this reason, the analysis below only includes profit related data for financial adviser firms as the profit figures for the other 2 firm types are distorted by non-regulated revenue.

Figure 4A: Total revenue earned by category of firm



Note: 'Other firms' category comprises those firms that submit their revenue data on the RMAR but are not allocated to any of the main 3 primary categories (295 firms). Of these, 60% are classified as consumer credit firms. We have not analysed these firms in detail as they account for only 1% of revenue from the 3 featured regulated activities.

Figure 4B: Type of revenue earned by category of firm (%)



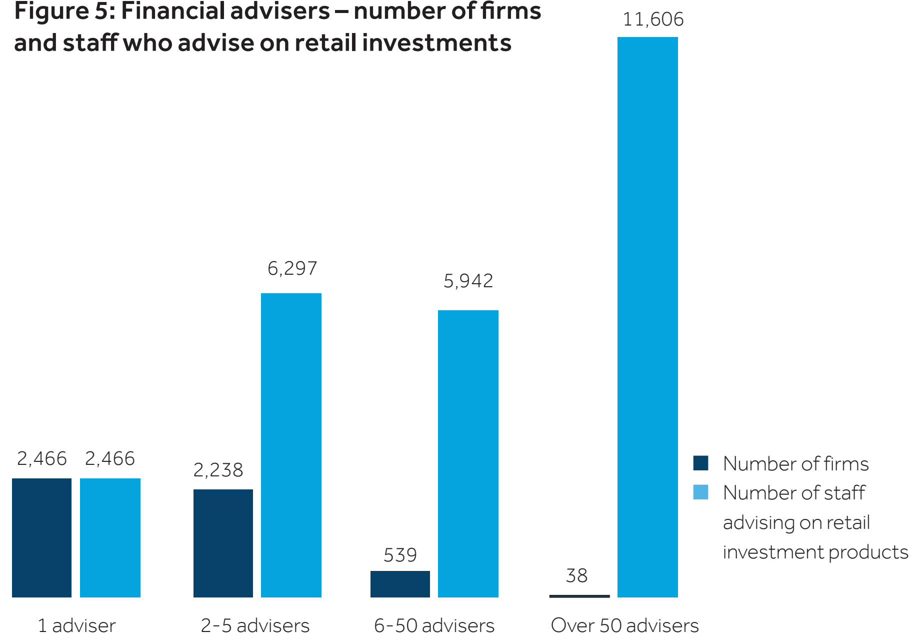
Financial adviser firms

Regulated revenue
In **Figure 4A** we see that financial adviser firms reported total earnings from the 3 regulated activities of £4.5 billion, up 22% from £3.7 billion in 2016. Many earn some revenue from activities other than their retail investment business – 88% also earn some revenue from insurance mediation and 45% from mortgage mediation business (unchanged on 2016). **Figure 4B** demonstrates that these only account for a relatively small proportion of the overall revenue earned from the 3 activities – 11% and 5% respectively (unchanged on 2016).

Adviser staff
Figure 5 indicates that there are large numbers of small firms – 89% of firms have 5 advisers or fewer – but the large firms account for a high proportion of all advice staff. Firms with over 50 adviser staff (less than 1% of the total number of firms) account for 44% of all advisers. The large firms typically operate as networks, and may have a large number of small firms operating as Appointed Representatives (AR) under the umbrella of the network. There are around 8,000 ARs registered to financial adviser firms (as at 31 December 2017).

The reported number of adviser staff at financial adviser firms is 26,311 which represents an increase of 700 (3%) on 2016. Most of the increase has been accounted for by larger firms, while the number working at smaller firms (those with up to 5 advisers) has remained about the same. There are also staff employed at other types of firms who advise on retail investment business, such as investment firms and banks. The underlying data that accompany this bulletin include additional information on the number of staff advising on retail investments who work at other types of firms (see **Table 11** in underlying tables).

Figure 5: Financial advisers – number of firms and staff who advise on retail investments



Source: RMAR section G (number of staff who give advice on retail investment products). The number of firms and adviser staff reflect those firms categorised as financial advisers that submit section G and report having at least 1 adviser. There are other firms that carry out retail investment business and employ adviser staff.

89%

of firms have five advisers or fewer

Table 1: Financial adviser firms – average revenue and profits in 2017

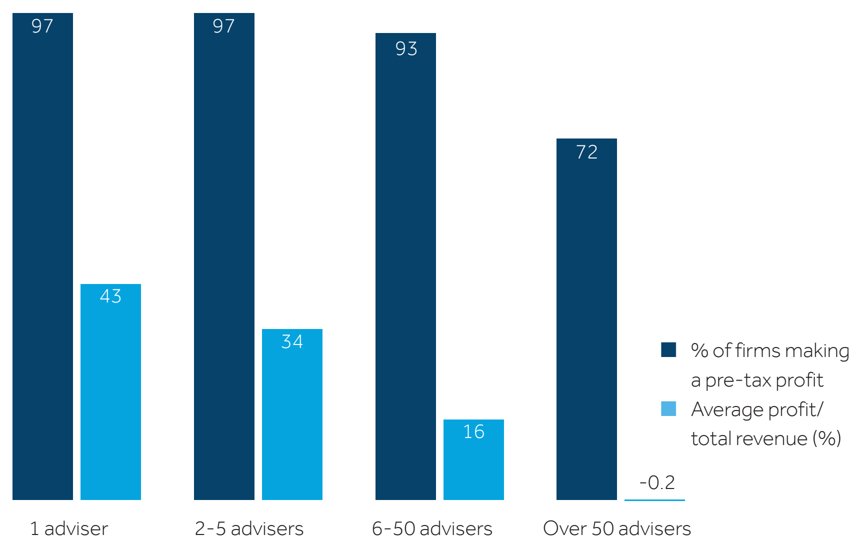
Adviser band	Average retail investment revenue per firm (£)	Average retail investment revenue per adviser (£)	Average total revenue per firm (£)	Average pre-tax profit per firm (£)	Average retained profit per firm (£)
1 adviser	148,105	148,105	188,823	80,349	29,124
2-5 advisers	464,568	167,411	568,683	192,328	70,649
6-50 advisers	1,822,334	171,284	2,203,848	358,454	145,708
Over 50 advisers	57,080,139	160,540	72,834,633	(162,446)	(241,534)

Average revenue and profits

Table 1 shows the average (mean) retail investment revenue per firm and per adviser. This shows a fairly consistent picture in terms of revenue earned per adviser irrespective of the size of the firm, although firms with a single adviser earn slightly less per adviser on average than larger firms. Revenue per firm and revenue per adviser for 2017 were up on 2016 for firms of all sizes with firms in the 6-50 adviser band showing the biggest year on year increases (21% and 24% respectively).

Overall, 96% of financial adviser firms made a profit on ordinary activities before tax for 2017. Total pre-tax profits were up 23% from £569 million in 2016 to £698 million in 2017 and retained profits up by 125% from £102 million to £230 million. **Figure 6** shows that small firms were proportionally more profitable than larger ones. Firms with 1 adviser showed the highest profit margin with an average pre-tax profit of 43%, although this may reflect the likelihood that sole traders pay themselves out of profits rather than as salary. Average retained profit (after tax and dividends) was 15% of revenue for the smallest firms. The largest firms (greater than 50 advisers) showed an average loss per firm, although this has been skewed by a few firms with large losses – 72% of these firms were profitable.

Figure 6: Financial adviser firms – pre-tax profits (%)



Source: RMAR section G (number of staff who give advice) and RMAR section B (revenue and profits). The average revenue/profits per firm/adviser data are based only on those firms that submit their revenue on section B, which is a smaller population of firms than that used for Figure 6 (see underlying data tables for details). Total revenue includes other regulated revenue and non-regulated revenue.

Mortgage brokers

£767 million

earned from mortgage broking

▲ 23% from 2016

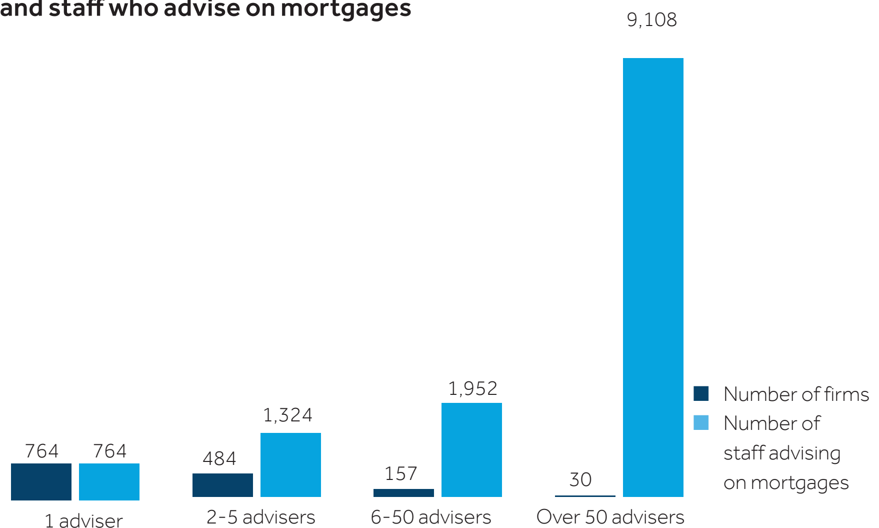
Regulated revenue

Mortgage brokers reported total earnings of £1.2 billion from the 3 regulated activities **(Figure 4A)**. Of this, £767 million was earned from mortgage broking (up 23% from 2016 on a like-for-like basis) and £410 million from insurance products (up 8%). The majority (84%) of these firms earn some of their revenue from insurance mediation (typically the selling of life insurance and income protection products) although this is down from 91% in 2016. Mortgage brokers earned £29 million from second charge mortgage activity in 2017, which was largely concentrated in a small number of firms. Most of the remaining £32 million revenue from second charge mortgages was accounted for by firms we classify as consumer credit firms (included under 'Other firms' in **Figure 4B**).

Adviser staff

Of the firms categorised as mortgage brokers, 53% are small firms with only 1 member of advice staff and 87% have 5 or fewer advisers. **Figure 7** shows that there are a small number of very large firms who account for a large proportion of the advisers – the firms with over 50 advisers each account for nearly 70% of advisers. The total number of staff was 13,148, up by 950 on 2016 figures. There are also large numbers of staff employed at other types of firms who advise on mortgage business, in particular financial adviser firms, banks and building societies. The underlying data that accompany this bulletin include additional information on the number of staff advising on mortgages who work at other types of firms (see **Table 12** in underlying tables).

Figure 7: Mortgage brokers – number of firms and staff who advise on mortgages



Source: RMAR section G (number of staff who give advice on mortgages). The number of firms and adviser staff reflect those firms that submit section G and report having at least 1 adviser. Adviser numbers reflect only those firms categorised as mortgage brokers – there are other firms that carry out mortgage mediation and employ a significant number of mortgage advice staff.

Table 2: Mortgage brokers – average revenue earned per firm/adviser in 2017

Adviser band	Average mortgage revenue per firm (£)	Average regulated revenue per firm (£)	Average mortgage revenue per adviser (£)	Average regulated revenue per adviser (£)
1 adviser	37,446	53,273	37,446	53,273
2-5 advisers	117,594	165,630	42,915	60,445
6-50 advisers	1,025,000	1,268,815	85,277	105,562
Over 50 advisers	17,267,558	28,795,944	56,876	94,848

Source: RMAR section G (number of staff who give advice) and RMAR section B (revenue earned). The average revenue per firm/adviser is based only on those firms that submit their revenue on section B. Revenue numbers include earnings from second charge mortgage activity.

Average revenue per firm and adviser
Table 2 shows that average revenue from mortgage broking per firm and per adviser increased between 2016 and 2017 for all firm sizes except for firms with 1 adviser where it fell by 1% to £37,500. Firms in the 6-50 adviser band showed the largest percentage increases – with average revenue per firm up 18% to just over £1 million (from £870,000 in 2016) and average revenue per adviser up 29% to £85,300 (from £66,300). Firms in this band show higher revenue per adviser than the other size firms. The largest firms (over 50 advisers each) earn the lowest proportion of their revenue from mortgage broking (60%) with the rest coming largely from insurance mediation. A small part of this increase may be accounted for by the inclusion revenue from second charge mortgages which has not been stripped out of the figures in **Table 2.**

Non-investment insurance intermediaries

Regulated revenue
Insurance intermediary firms reported total earnings of £16.2 billion from the 3 regulated activities, an increase of £1.1 billion (7%) on 2016, **(Figure 4A on page 7)**. These firms are less diverse in their generation of revenue than the other types of intermediaries, with little generated from retail investments or mortgage mediation. They tend also to earn revenue from other regulated and non-regulated activities. Over 20% of firms in this category report earning more than half of their revenue from non-regulated activities.

Revenue per firm
Table 3 shows the average revenue earned for insurance intermediaries in 2017. The number of insurance brokers reporting earnings on the RMAR fell by around 120 firms from 2016 to 2017. The majority of the fall was accounted for by the smallest firms (revenue up to £100,000 per annum). The majority of the increase in aggregate revenue was accounted for by the largest firms (earning over £10 million revenue). There was a 6% increase in the number of firms in this category and the average revenue per firm increased by 3% to £61.1 million.

Table 3: Insurance intermediaries, average revenue earned

Revenue band	Number of firms	Total insurance revenue (£)	Average insurance revenue per firm (£)
Up to £100,000	1,427	53,323,571	37,368
£101,000 to £500,000	1,498	376,455,702	251,306
£501,000 to £10 million	1,493	3,258,981,644	2,182,841
Over £10 million	204	12,455,436,665	61,056,062

Source: RMAR section B returns – full year of account ending in 2017. The number of firms reflects those reporting revenue from non-investment insurance activities. A further 377 firms submitted RMA-B but did not report any earnings from insurance activities.

Section 3
Capital resource requirements

We require intermediary firms to hold a minimum amount of capital. This is to make sure they have sufficient resources to absorb routine losses or redress claims against them and can make appropriate arrangements for an orderly wind-down if they leave the market. The exact requirement for each firm depends on the nature and size of its business. There are separate requirements for home finance/non-investment insurance mediation activities and for retail investment activities. In each case, the core requirement is calculated as the higher of a minimum base requirement and a percentage of relevant annual income. Additional requirements may also apply. The minimum base capital required to be held for home finance/insurance activities is £5,000 for firms not holding client money and £10,000 for firms holding client money (and operating a statutory trust). The minimum capital to be held for retail investment activities carried on by a personal investment firm is £20,000[2]. Having less than the required funds is a breach of FCA rules and we require firms to take immediate steps to rectify any shortfall.

Capital requirements
Table 4 shows that in 2017, 68% of mortgage brokers (993 firms) needed to hold only the minimum £5,000 base capital. Insurance intermediaries are more likely to hold client money and while 24% needed to hold only the £5,000 absolute minimum, 36% were required to hold between £5,000 and £20,000. Of these, the £10,000 client money base requirement applied to 16% (802 firms). Two-thirds of financial adviser firms (3,348 firms) were required to hold the £20,000 minimum.

Table 4 also shows that overall, 68% of firms had a requirement of £20,000 or less. At the other end of the scale, 8% of all firms had a requirement over £100,000, two-thirds of which were insurance intermediaries with an average capital requirement of £1.2 million. Within financial advisers, 5% of firms fell in this bracket with an average requirement of £603,000.

2 The minimum capital requirement for retail investment activities carried on by a personal investment firm increased to £20,000 on 30 June 2017 following a 12 month transitional period when it was £15,000.

68%

of mortgage brokers (993 firms) needed to hold only the minimum £5,000 base capital

Table 4: Number of firms by size of capital requirement[2]

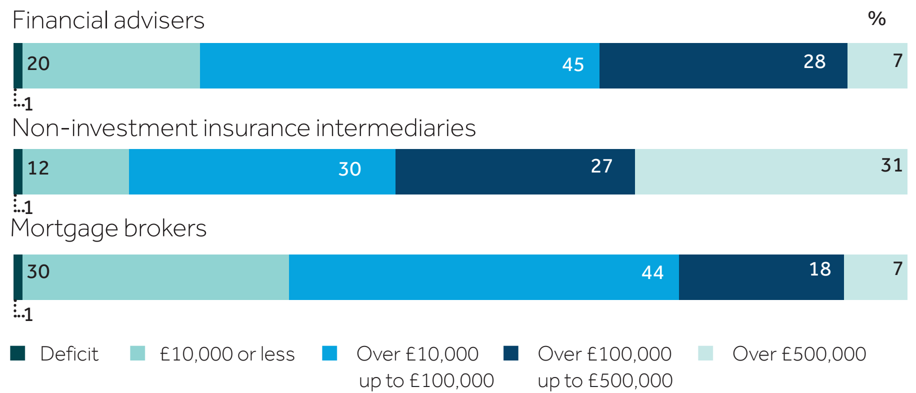
	Number of firms		
Capital requirement	Mortgage Broker	Insurance Intermediary	Financial Adviser
£5,000	993	1220	13
Between £5,000 and £20,000	311	1810	19
£20,000	35	81	3348
Between £20,000 and £100,000	88	1281	1374
£100,000 and over	36	665	264

Source: RMAR section D – latest returns for 2017.

Capital surpluses

Overall, 99% of firms held allowable capital equal to or greater than the amount they were required to hold. **Figure 8** shows that on average, mortgage brokers held the lowest capital surplus with 30% holding £10,000 or less and nearly 75% holding £100,000 or less. Within financial adviser firms, 45% had a surplus between £10,000 and £100,000. Insurance intermediaries generally held a higher level of surplus with 58% holding over £100,000 compared to 25% of mortgage brokers and 35% of financial advisers. This is likely to reflect the fact that this population includes some very large firms including those whose primary business is non-financial.

Figure 8: firms by size of capital surplus[3] (%)



Source: RMAR section D – latest returns for 2017.

3 For the purposes of these data, where a firm has a capital requirement both for mortgage/insurance activities and for retail investment activities, the firm is only counted once and the highest requirement and lowest surplus is taken as being applicable for the firm.

Section 4
Professional indemnity insurance

Professional indemnity insurance (PII) is liability insurance that covers firms when a third party claims to have suffered a loss, usually due to professional negligence. We require certain firms to hold PII cover to make sure that they have the means to pay negligence and other claims and to help prevent insolvencies leading to excessive claims on the Financial Services Compensation Scheme (FSCS), which is funded by trading firms. Relevant intermediary firms that are not exempt or do not hold a comparable guarantee are required to provide details of their PII cover on Section E of the RMAR following each renewal of cover. **Tables 5-7** show average premiums reported as paid in 2017 by firms for the 3 main categories of intermediary firm split by size of firm.

PII premiums paid in 2017

Intermediary firms reported paying in excess of £300 million on PII premiums in 2017. When looking at average PII premiums paid as a proportion of regulated revenue small firms generally paid a higher percentage than larger firms. For example, we can see in **Table 5**, financial advisers with revenue under £100,000 paid an average premium of £2,400 which represents around 4% of their average revenue. This compares to just over 1% of revenue for the large firms with revenue over £10 million.

Table 6 shows that mortgage brokers paid a lower proportion of income (average 1%) than financial advisers, as shown in **Table 5**, and insurance intermediaries, as shown in **Table 7** , (1.9 % and 1.5% respectively). This was true across firms of all sizes.

Table 5 – PII premiums paid by financial adviser firms

Revenue band	Total annualised PII premium (£)	Average PII premium per firm (£)	Average regulated revenue per firm (£)	PII premium as % of regulated revenue
Up to £100,000 revenue	2,556,728	2,412	57,754	4.2%
£101,000 to £500,000 revenue	11,390,716	4,889	251,761	1.9%
£501,000 to £10 million revenue	43,107,840	34,680	1,267,927	2.7%
Over £10 million revenue	24,697,149	882,041	72,422,117	1.2%
All firms	81,752,433	17,540	912,181	1.9%

Table 6 – PII premiums paid by mortgage broker firms

Revenue band	Total annualised PII premium (£)	Average PII premium per firm (£)	Average regulated revenue per firm (£)	PII premium as % of regulated revenue
Up to £100,000 revenue	668,002	872	39,306	2.2%
£101,000 to £500,000 revenue	1,140,293	3,049	210,516	1.4%
£501,000 to £10 million revenue	3,629,967	27,293	1,893,487	1.4%
Over £10 million revenue	5,893,651	346,685	46,133,608	0.8%
All firms	11,331,913	8,784	887,555	1.0%

£2,400

average premium paid by financial advisers with revenue under £100,000

Table 7 – PII premiums paid by insurance intermediary firms

Revenue band	Total annualised PII premium (£)	Average PII premium per firm (£)	Average regulated revenue per firm (£)	PII premium as % of regulated revenue
Up to £100,000 revenue	2,677,809	2,135	42,214	5.1%
£101,000 to £500,000 revenue	8,317,117	5,673	252,736	2.2%
£501,000 to £10 million revenue	117,307,929	80,735	2,176,985	3.7%
Over £10 million revenue	93,116,447	492,680	59,109,205	0.8%
All firms	221,419,302	50,761	3,383,367	1.5%

Source: RMAR section E (annualised PII premiums) and RMAR section B (revenue earned from retail investment, home finance and non-investment insurance mediation activities).

Section 5
Retail investment advice and adviser charges in 2017

This section provides information on investment advice and related charges where a firm provides a personal recommendation to a retail client on a retail investment product.

Firms can provide advice either on an independent or restricted basis. To be considered independent, a firm's recommendations to clients must be based on a comprehensive and fair analysis of the market, and be unbiased and unrestricted. A firm provides restricted advice if it makes recommendations which do not constitute independent advice or if it provides basic advice only.

The data in this section reflect all firms that complete Section K of the RMAR, whether or not the provision of advice on retail investment products is their main activity. The underlying data tables published alongside this bulletin contain the detailed data for this section, and the equivalent data just for firms with the primary category of 'financial adviser'.

All data in this section relate to Section K returns submitted for reporting year 2017 unless stated otherwise.

Type of advice

Figure 9 shows that the vast majority of firms carrying out retail investment business (84%) report that they provide independent advice, with only 14% providing restricted advice and 2% of firms providing both types. This is almost unchanged from last year when 83% reported providing independent advice, 15% reported providing restricted advice and 2% reported providing both types.

Figure 9: Type of advice provided by number of firms

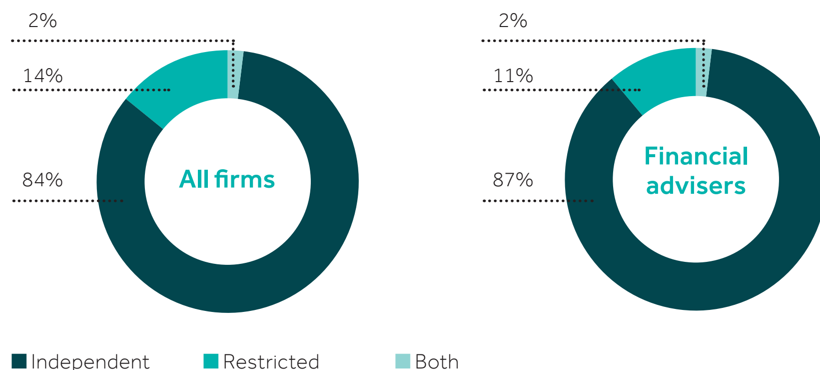
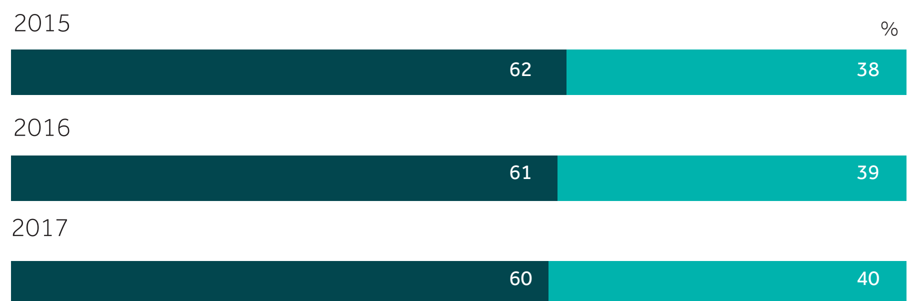
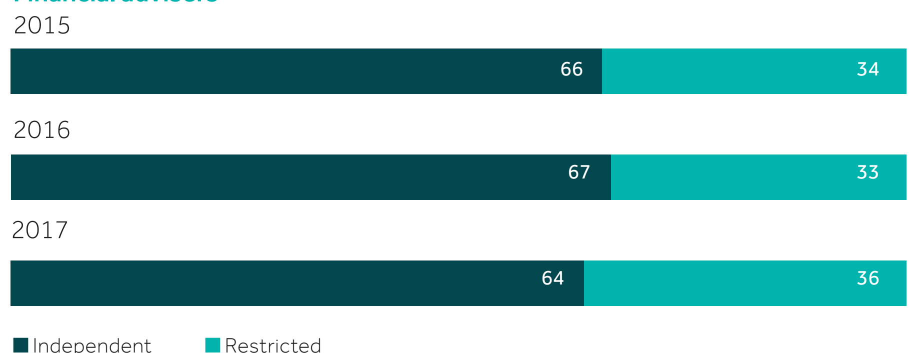


Figure 10: Type of advice provided by total value of adviser charges (%)

All firms



Financial advisers



For firms with the primary category of financial adviser, there is a higher proportion of firms providing independent advice (87%), unchanged from last year.

Although restricted advice firms make up a smaller proportion of the adviser market, they account for a disproportionate amount of revenues from adviser charges. This is because, although fewer in number, there are some very large restricted advice firms that account for a significant proportion of the total business carried out.

Figure 10 shows that the proportion of revenues from restricted advice charges increased to 40% in 2017, up from 39% the previous year. The proportion of revenue from restricted advice also increased for firms with the category of financial adviser, from 33% in 2016 to 36% in 2017.

Revenue from adviser charges

Figure 11 shows that the total revenue from adviser charges increased by 27% (£975 million), from £3.68 billion in 2016 to £4.65 billion in 2017. Most of the increase was from ongoing charges, which grew by 28% (£0.62 billion) from £2.20 billion in 2016 to £2.82 billion in 2017. Revenue from initial charges grew by 24% (£0.35 billion) over the same period from £1.48 billion in 2016 to £1.83 billion in 2017.

An initial charge is where a customer pays for distinct advice services (including initial, one off or ad hoc). An ongoing charge is where a customer has a continuing relationship with an adviser and pays for ongoing investment advice.

The significant increases in ongoing and initial adviser charge revenues are not fully explained by the increase in the number of ongoing and initial customers reported by firms. These increased by 8% and 1% respectively over the same period (tables 8 and 9). Since adviser charges are often linked to the value of investments, the revenue earned by advisers may increase if clients are investing larger sums or, in the case of ongoing charges, the value of investments goes up as a result of stock market performance.

Figure 11: Total adviser charge revenue by type of investment

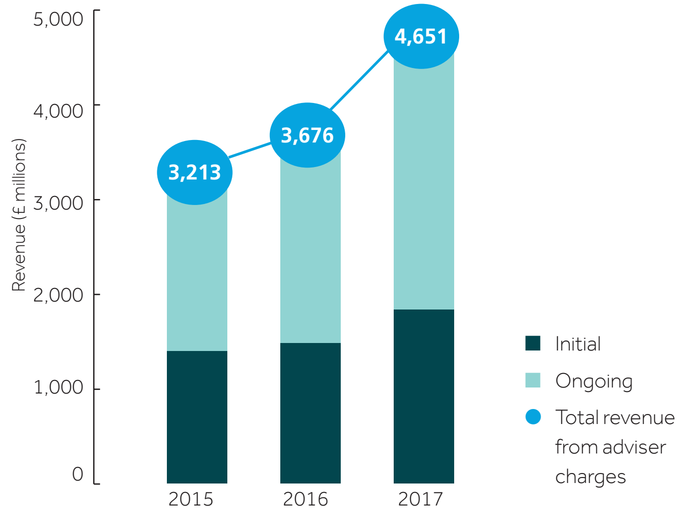


Figure 12: Total adviser charge revenue by method of adviser payment

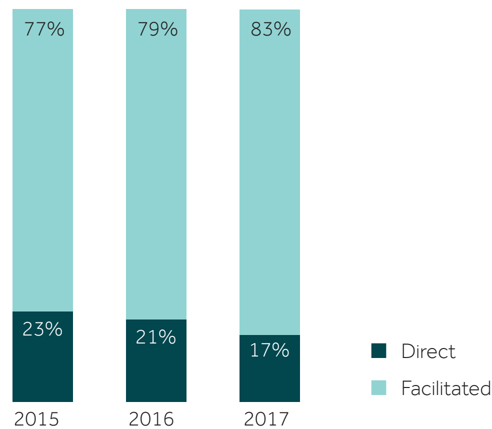


Figure 12 shows that facilitated payments are the main form of adviser payment, accounting for an increasing proportion (83%) of adviser charge revenues, up from 79% last year. This occurs where the product provider or platform service provider facilitates the payment of fees to the adviser. For example, by deducting the adviser charge from the value of the client's investment and paying it to the adviser. Only 17% of adviser charge revenues were paid direct to the adviser by the client, down from 21% last year

For firms with a primary category of financial advisers, 93% of their revenue from adviser charges were facilitated, up from 91% in the previous year.

Advice services provided and ongoing customers

Tables 8 and 9 show the number of initial advice services (including distinct initial, one off or ad hoc advice services) reported by firms and the number of clients paying for ongoing services.

Firms reported that they provided 1.2 million initial services. There were also 2.8 million clients paying for ongoing advice services in the period. Of these, 18% were either new to the firm or new to an ongoing charge model, down from 22% last year. 5% of ongoing customers stopped paying for financial advice, unchanged from last year.

Firms with a primary category of financial adviser firm accounted for just over 1.0 million initial services and had 2.4 million ongoing clients (86% of the total number of customers in these markets).

Standard adviser charges

Firms report to us their minimum and maximum charges for each type of charging structure they use, split by type of advice provided (restricted or independent; initial or ongoing).

'Charge as a percentage of investment value' is the most typical charge method used, as shown in **Table 10**, with 'fee per hour' and 'fixed fees' being the other main types. Firms may use more than one method of charging so the numbers in **Table 10** add up to more than the number of individual firms (5,907 firms).

Average (median) charges as percentage of investment value for initial advice reported by firms are 1% (min) and 3% (max). For ongoing charges, the average rates are 0.5% (min) and 1% (max) (See **Table 23** in underlying tables). These have remained unchanged from previous years.

Table 8: Number of initial advice services provided in reporting year

	Independent	Restricted	Total
Number of one-off advice services	479,936	735,729	1,215,665

Table 9: Number of retail clients paying for ongoing services in reporting year

	New in year	Ceased in year	Total at year end
Number of ongoing clients	506,950	130,729	2,821,336

Table 10: Typical charging structures

	Number of firms	
Type of charge	Initial charge	Ongoing charge
Charge per hour (£)	1,518	1,138
% of investment	4,067	4,283
Fixed fee (£)	1,931	1,144
Combined structure	856	743

Source: RMAR section K returns for 2017

Annex
About the RMAR

What is the RMAR?

The Retail Mediation Activities Return (RMAR) was originally introduced in April 2005 (by the FSA) and is the core regulatory return submitted by firms who provide intermediary services arranging and/or advising on the following retail products – mortgages, non-investment insurance or investment products. Firms are required to report at least twice yearly for most sections of the return, based on their Accounting Reference Date (ARD), with 30 working days in which to submit the return.

Who completes the RMAR?

We require the following firms to complete the sections of the RMAR relevant to the activities they undertake:

- firms with permission to carry out insurance mediation activity in relation to non-investment insurance contracts (eg general insurance broker)
- firms with permission to carry out home finance mediation activity (eg mortgage broker)
- personal investment firms and other investment firms that have retail customers and carry out certain activities in relation to them, such as advising on investments (eg financial adviser or wealth manager)

Many firms carry out business falling into more than one of the above categories. Some firms carry out regulated business as a secondary activity to their core non regulated business (for example, a retailer who also sells insurance cover for the product they sell).

Typically, up to around 12,000 firms complete at least one element of the RMAR, ranging from sole traders up to large broker companies and adviser networks.

What type of data does the RMAR contain?

The RMAR has 11 sections, covering different aspects of a firm's business. This includes financials (Balance sheet, Profit and Loss account, Client Money and Capital resources) as well as other information such as threshold conditions, conduct of business, training and competence and retail investment adviser charges.

Not all firms complete all sections of the return as this will depend on the type of business that they do. For example, banks, building societies and investment firms may complete sections on conduct of business, but do not complete the financial sections as they have their own financial returns. Therefore the total population of firms reporting varies from section to section.

How does the FCA use these data?

Monitoring and analysing the data we collect via the RMAR helps us to supervise the activities of intermediary firms and to understand the nature and scale of their business. Since many of the firms that submit the RMAR are small and are not subject to individual supervision, the RMAR is a particularly important data source for our alerts-based monitoring system. This allows us to spot trends and to monitor firms' compliance with various regulatory requirements such as capital adequacy, professional indemnity insurance cover, client money handling, and staff training and competence. Further information on how we use data from the RMAR can be found at:

https://www.fca.org.uk/publication/systems-information/why-we-collect-rma-data.pdf

Source of data

In this Bulletin, we have included data from selected sections of the RMAR – Section B (Profit and Loss account), Section D (regulatory capital), Section E (professional indemnity insurance) and Section G (conduct of business) – to provide information on the nature of the business undertaken by and the financial performance of firms who submit the RMAR. We have also included data from Section K, which provides specific information about retail investment business (eg adviser charges).

The underlying data for the tables and graphics in this bulletin are provided in Excel tables here:

https://www.fca.org.uk/publication/data/underlying-data-bulletin-issue-13.xlsx

In some cases there are additional data in the tables not shown in the Bulletin itself.

Basis of data included in the Bulletin

The majority of data reflect the latest return submitted by the firm in the relevant calendar year (ie 2017). For the Profit and Loss account, we use data for the full financial year of account ending within the calendar year for firms that were on the FCA register as at 31 December 2017. This analysis is based on RMAR data as submitted by firms and has not been subject to systematic cleansing.

Next steps

In future issues we want to make sure we give you the information that you would find most useful, so if you have any comments or suggestions for future content please contact us at: **fcadataandanalysis@fca.org.uk**

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In case you missed them

Here are some other publications of ours that you may find interesting:

Complaints statistics (July to December 2017)

Every six months we publish complaints data we collect from firms. In total, 3.76 million complaints were reported by firms in 2017 H2. This is a 13% increase from the first half of the year, when 3.34 million complaints were received. Complaints about PPI rose by 40% to 1.55 million, the highest level of complaints about PPI for more than four years. For the latest analysis of complaints trends see **https://www.fca.org.uk/firms/complaints-data**

Data Bulletin Issue 12

The previous issue of the Data Bulletin focuses on how the pensions and retirement income market is evolving. The Bulletin draws together trends from our regular market data collected through our Retirement Income Data Request (RIDR) and consumer experience data from our Financial Lives Survey published in October 2017. For further information see **https://www.fca.org.uk/publications/data/data-bulletin-issue-12**

Sector Views 2018

We need a view of how the financial system works as a whole, as well as within its individual sectors and markets. To develop this view, we divide the system into sectors and monitor them continuously. Our Sector Views bring our collective intelligence together and give an overall FCA view of how each sector is performing. The latest Sector Views are published here: **https://www.fca.org.uk/publications/corporate-documents/sector-views-2018**

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