FINANCIAL CONDUCT AUTHORITY

Data Bulletin

May 2017

In focus:

- The retail intermediary sector
- Latest trends in activities and revenues

Issue 9

Jo Hill
Director of Market Intelligence,
Data and Analysis

Introduction
from the editor

Welcome to our ninth edition of the FCA Data Bulletin.

This Data Bulletin focuses on new analysis of the intermediaries sector, based on 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.

This is the second time that we have published data from the RMAR - the first time was in issue 7 of the Data Bulletin (October 2016), providing analysis of the trends in 2015. Following positive feedback, this update looks at the latest trends in activities and revenue for 2016; and information on advice and charges, also for 2016. We will continue to publish this data annually.

This Bulletin provides a useful insight into the activities of retail intermediary firms. We have also recently published overviews of the financial services sectors regulated by the FCA (Sector Views), presenting key facts and figures along with our view on how each sector is performing. The Sector Views are published here: www.fca.org.uk/publications/corporate-documents/sector-views

If you have any feedback or suggestions about future data you are interested in, please let us know at: fcadataandanalysis@fca.org.uk

Jo Hill
Director of Market Intelligence, Data and Analysis

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The retail intermediary sector in 2016: analysis of data from the Retail Mediation Activities Return (RMAR)

Key statistics

The three activities reported in the RMAR continue to show increases in revenue earned:

	2015-2016 revenue growth
Mortgages	24%
Retail investments	8%
Non-investment insurance	5%

£20 billion

revenue earned by retail intermediary firms in 2016 from insurance, investment and mortgage mediation activities

53% **growth in revenue from mortgage mediation between 2013 and 2016**

This is particularly notable and we believe that this largely reflects an increase in the share of mortgage loans transacted via brokers as well as a general increase in the value of the mortgage market over the period

91%
of mortgage brokers

88%
of financial adviser firms

report earning some revenue from non-investment insurance mediation

Firms providing retail investment advice services reported that they provided

1.2 million
initial advice services and had over

2.6 million
clients paying for ongoing services

For retail investment business, commission continues to fall as a source of income post Retail Distribution Review (RDR)

26% in 2016
31% in 2015

Section 1:
Revenue earned from regulated intermediary activities
2013-2016

This section provides an overview of the aggregate reported revenue earned from each of the three specific regulated activities reported by firms. These are analysed by year and by the type of revenue. The data here reflect those firms that submit details of their revenue on RMAR section B (a population of just under 11,500 firms).

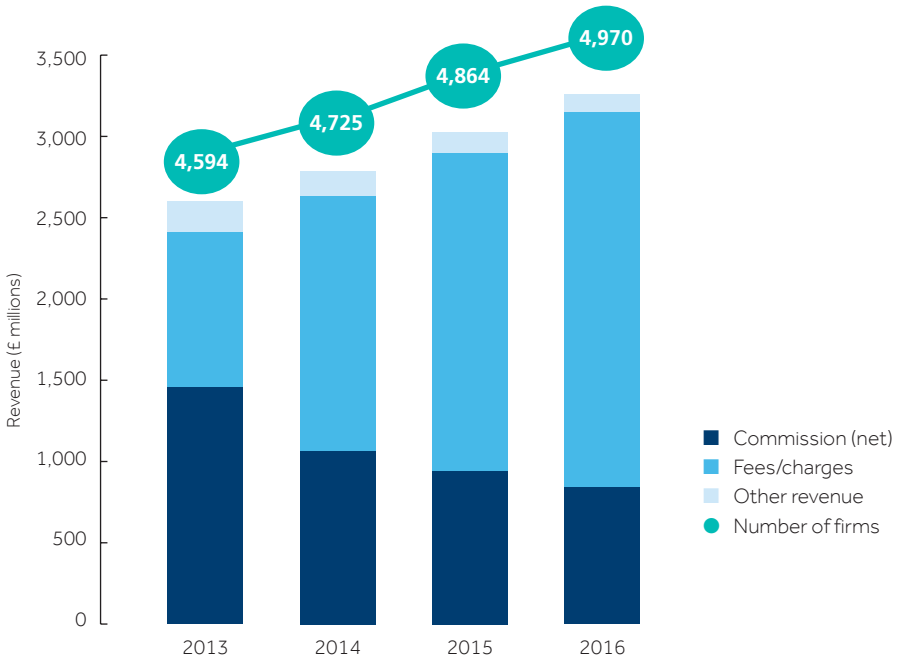
Retail investments activities

Revenue from retail investment activities has been growing steadily over the past few years. Total reported annual revenue increased by 8% between 2015 and 2016 and by 25% between 2013 and 2016 (from £2.6 billion to £3.25 billion). The number of firms reporting revenue from retail investment activities has also increased - there were over 370 more firms in 2016 than in 2013 (an increase of 8%).

In 2016, commission (net) accounted for 26% of revenue earned and fees/charges for 71%. This compares to 2015 when commission accounted for 31% and fees/charges for 64%. This reflects the continuing trend since the implementation of the Retail Distribution Review (RDR) at the end of 2012 on the way firms earn revenue from retail investment business. Under the rules introduced after RDR, firms are no longer permitted 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.

8% **increase in total annual reported revenue from retail investment activities between 2015 and 2016**

Figure 1 - Total revenue earned from retail investments business:



Home finance (mortgage) mediation

Revenue from mortgage mediation continued to grow in 2016. Total reported revenue earned from the mediation of regulated mortgages increased by 24% between 2015 and 2016 and by 53% between 2013 and 2016 (from £529 million to £807 million). This largely reflects the increase in regulated mortgage lending via brokers over the period. According to FCA Product Sales Data (PSD), total regulated mortgage transactions carried out via intermediaries were 47% higher in 2016 than in 2013, whereas loans made direct from the provider to consumer were down by 20% over the same comparison period.

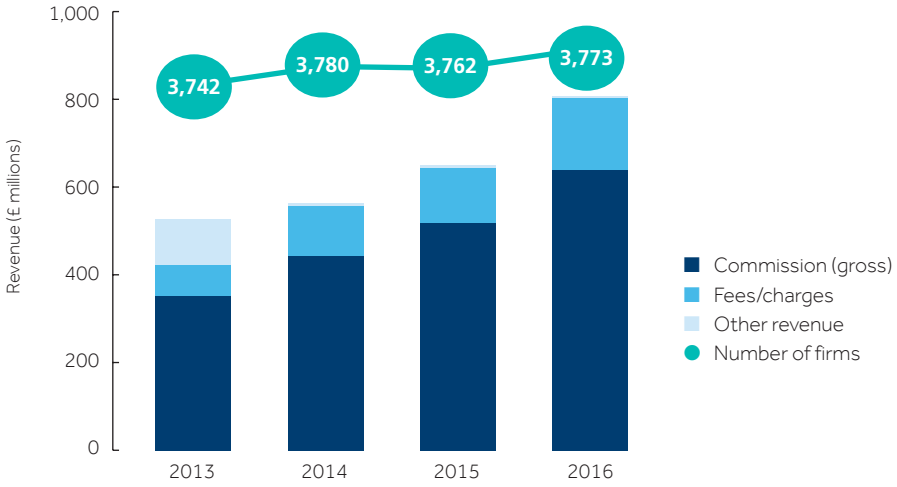
The number of firms reporting revenue from mortgage mediation has remained fairly static at just under 3,800. Many of these are firms whose primary business is retail investments who also earn some revenue from mortgage mediation business (see analysis of financial adviser firms in section 2). Commission continues to be the main source of revenue for this type of business, accounting for approximately 80% of revenue earned in 2016.

Non-investment insurance mediation

Overall reported revenue earned from insurance mediation was £15.9 billion in 2016. This represents an increase of 5% since 2015 and 10% since 2013, despite a small decrease in the number of firms earning revenue from this activity (just over 10,200 in 2016). Commission continues to be the main source of revenue earned from non-investment insurance mediation business, accounting for 83% in 2016.

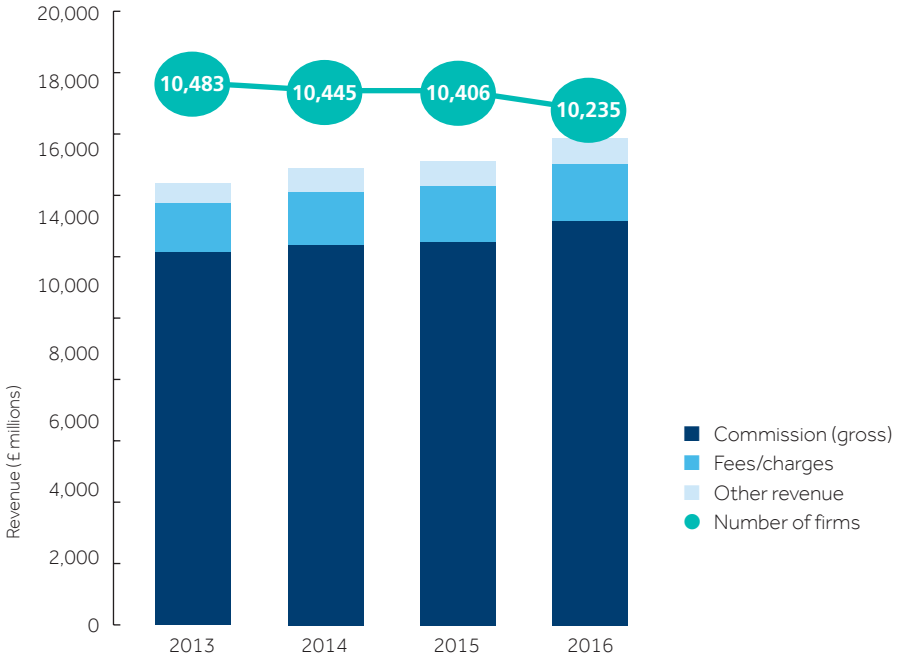
53% **growth in revenue from mortgage mediation between 2013 and 2016**

Figure 2 - Total revenue earned from regulated mortgage business:



Note: '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 business:



Source for Figures 1 to 3: RMAR Section B (Profit and Loss account) – all firms reporting a full year's revenue earned from the relevant activity.

Note: types of firms that report their revenue via a different regulatory return, such as banks and building societies, are not included in the data.

Section 2:
Analysis of revenue earned in 2016 by firm type

This section provides further information on revenue for 2016 split by type of firm. We allocate each firm a 'primary category' reflecting the main type of regulated business activity that a firm does. Please note that many firms carry out more than one type of business and may change their mix of business over time.

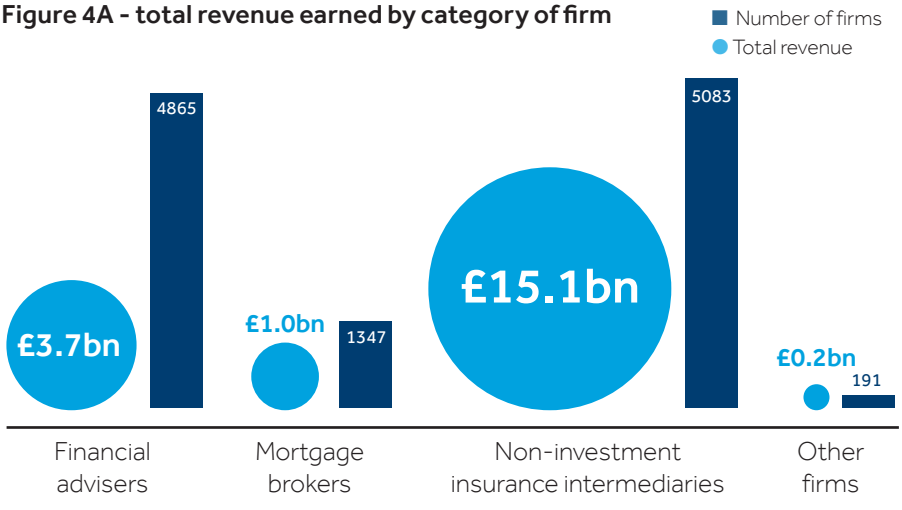
The following analysis breaks down the population of firms that report on the RMAR into financial advisers, mortgage brokers, non-investment insurance intermediaries and other firms.

Please note that this breakdown by firm type is different to the method used in Section 2 of Data Bulletin Issue 7 (data for 2015) so the data are not directly comparable. We intend to use the methodology below for future publications.

Revenue breakdown

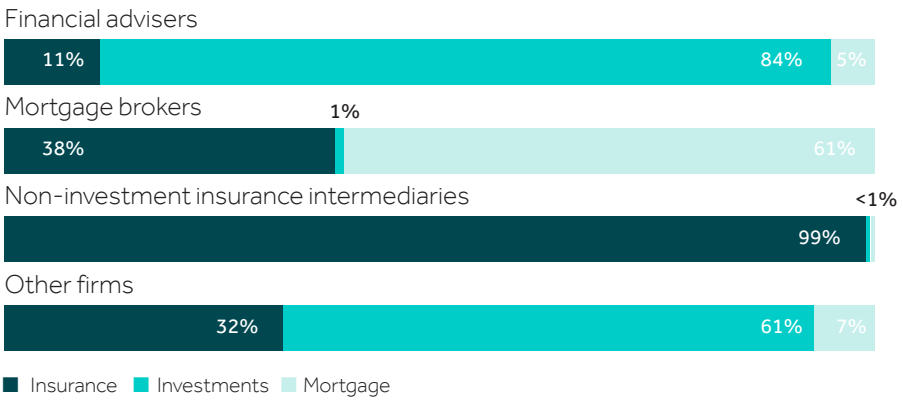
Revenue is broken down into the three types of regulated business – mediation of retail investments, mortgage and non-investment insurance. In addition to these activities, firms may generate income from other types of regulated business (such as consumer credit) and also from non-regulated business. In this section, references to regulated income in the analysis for each category below include only the three main sources of income.

Figure 4A - total revenue earned by category of firm



Note: 'Other firms' category comprises those firms submitting revenue data on the RMAR that are not allocated to any of the main three primary categories. Number of firms reflect those submitting RMAR section B and reporting revenue from the main regulated activities.

Figure 4B - type of revenue by category of firm (%)



Financial adviser firms

For those firms we have categorised as financial advisers, many earn revenue from activities other than their retail investment business – 88% also earn some revenue from insurance mediation and 45% from mortgage mediation, although these only account for a relatively small proportion of the overall revenue earned from the three activities (11% and 5% respectively).

There are large numbers of small firms – 91% of firms have five advisers or fewer - but the large firms account for a high proportion of all advice staff. The top 1% of firms (by adviser number) account for 45% of all advisers and 43% of revenue earned from retail investment activities. The large firms typically operate as networks with their advisers having the status of Appointed Representatives (AR).

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.

Figure 5 - financial adviser firms: sources of revenue

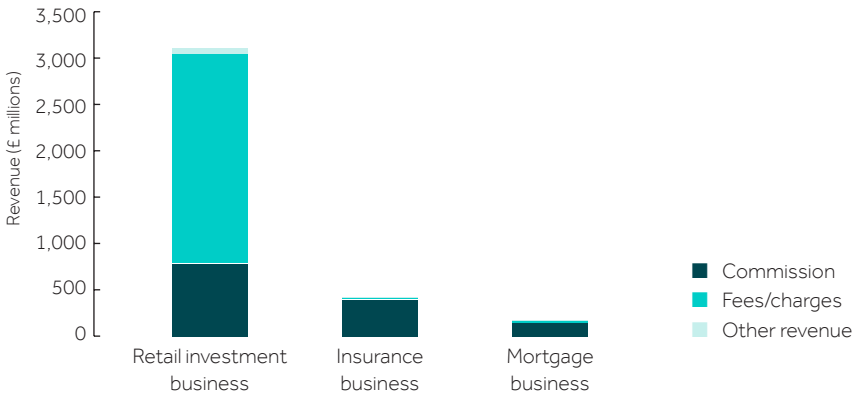


Figure 6 - Financial advisers: number of firms and staff who advise on retail investments

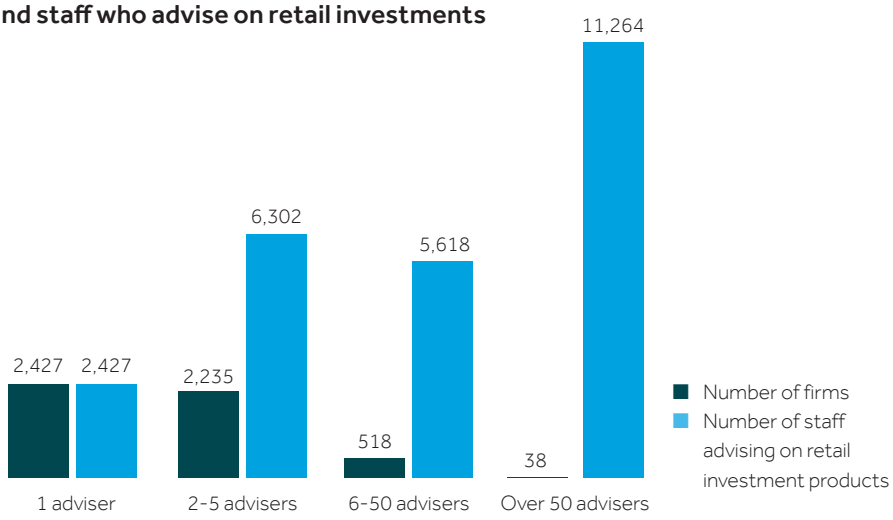


Table 1- Financial adviser firms: average revenue earned by firm/adviser

Adviser band	Number of firms	Number of staff advising on retail investment products	Average retail investment revenue per firm (£)	Average regulated revenue per firm (£)	Average retail investment revenue per adviser (£)
1 adviser	2,427	2,427	129,679	154,546	129,679
2-5 advisers	2,235	6,302	400,061	467,088	143,937
6-50 advisers	518	5,618	1,466,588	1,674,528	141,604
Over 50 advisers	38	11,264	50,648,953	62,367,829	140,003

Source: RMAR section G (number of staff that give advice) and RMAR section B (revenue earned). The number of firms and adviser staff reflect those firms that submit section G and report having at least one adviser. The average revenue per firm/adviser is based only on those firms that submit their revenue on section B, which is a slightly different population of firms.

Mortgage brokers

It is notable that most (91%) of these firms also earn revenue from insurance mediation – typically the selling of income protection products. Total revenue earned from the selling of insurance products by these firms is over 60% of that earned from their mortgage related business. In some cases, insurance accounts for the largest portion of their revenue. These firms are also likely to generate income from other regulated activities such as consumer credit business.

Of the firms categorised as mortgage brokers, a large number are small firms – 55% have only one member of advice staff and 88% have five or fewer advisers. There are a small number of very large firms who account for a significant part of the market – the top 2% of firms (by adviser number) account for over two-thirds of the advisers and mortgage revenue earned.

Figure 7 - Mortgage brokers: sources of revenue

Figure 8 - Mortgage brokers: number of firms and staff who advise on mortgages

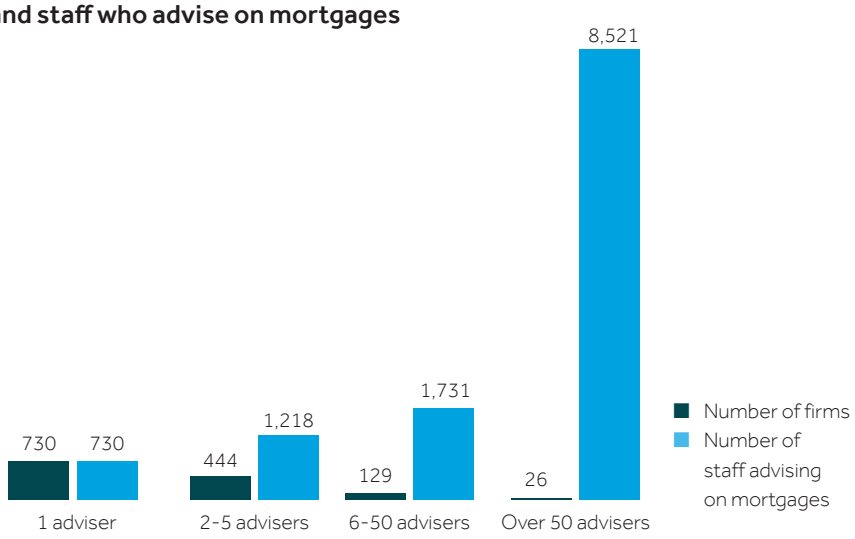


Table 2- Mortgage brokers: average revenue earned by firm/adviser

Adviser band	Number of firms	Number of staff advising on mortgage products	Average mortgage revenue per firm (£)	Average regulated revenue per firm (£)	Average mortgage revenue per adviser (£)
1 adviser	730	730	37,889	57,217	37,889
2-5 advisers	444	1,218	108,864	151,483	39,806
6-50 advisers	129	1,731	870,503	1,112,794	66,344
Over 50 advisers	26	8,521	15,646,487	27,752,659	47,742

Source: RMAR section G (number of staff who give advice) and RMAR section B (revenue earned). The number of firms and adviser staff are sourced from those firms that submit section G and have at least one adviser. The average revenue per firm/adviser is based only on those firms that submit their revenue on section B. The revenue and adviser numbers above reflect only those firms with a primary category of mortgage brokers - there are other firms that also carry out mortgage mediation and employ a significant number of mortgage advice staff.

Non-investment insurance intermediaries

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. However, they tend also to earn revenue from other regulated and non-regulated activities. This is likely to be because this population of firms includes a significant number of firms for whom regulated financial business is not their primary activity but who earn revenue from the selling of insurance cover and consumer credit finance arrangements (eg car dealers, and mobile phone retailers). Over 20% of firms in this category report earning more than half of their revenue from non-regulated activities.

The insurance intermediary category is diverse in terms of size of firm, ranging from small retail brokers to very large entities such as wholesale/ commercial brokers and price comparison sites.

Figure 9 - Insurance intermediaries: sources of revenue

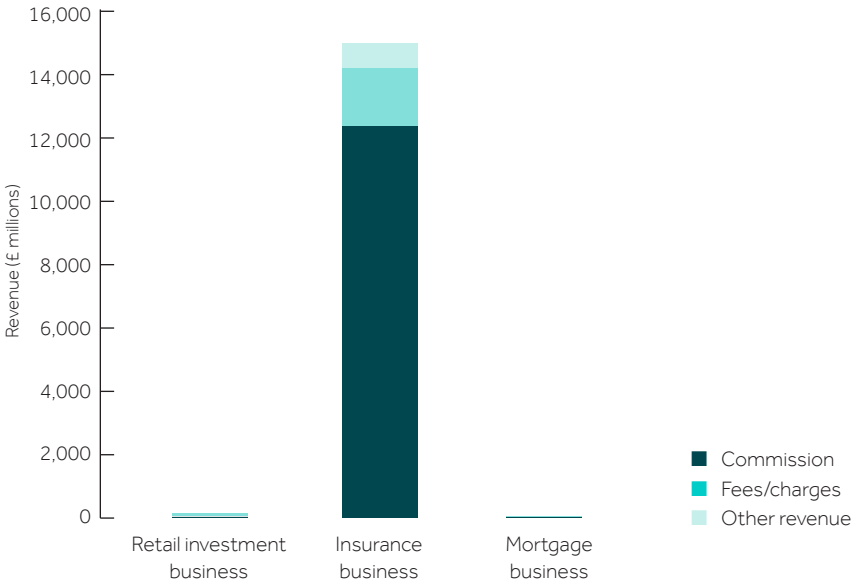


Table 3- Insurance intermediaries: average revenue earned per firm

Revenue band	Number of firms	Total insurance revenue (£)	Average insurance revenue per firm (£)
Up to £100k	1,524	56,878,779	37,322
£101 to £500k	1,548	390,853,197	252,489
£501 to £10m	1,486	3,203,393,903	2,155,716
Over £10m	192	11,363,595,501	59,185,393

Source: RMAR section B returns – full year of account ending in 2016. The number of firms reflect those reporting revenue from non investment insurance mediation.

Over 20%

of non-investment insurance intermediaries report earning more than half of their revenue from non-regulated activities

Section 3:
Retail investment advice and adviser charges

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.

To be considered as 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 it provides basic advice.

These data 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 along with this Bulletin contain the detailed data for this section, but also the equivalent data just for firms with the primary category of 'financial adviser'. All data in this section relate to returns submitted for reporting year 2016 unless stated otherwise.

Type of advice

The vast majority of firms (83%) report that they provide independent advice, with only 15% providing restricted advice and 2% both types. However, independent advice accounted for 61% of revenue from adviser charges - slightly down from the previous year (2015 - 62%). This reflects the fact that, although fewer in number, the restricted advice population includes some very large firms that account for a significant proportion of the total business conducted.

For firms with the primary category of financial adviser, there is a higher proportion of firms providing independent advice (87%), accounting for 67% of revenue from adviser charges.

Figure 10: type of advice provided by number of firms

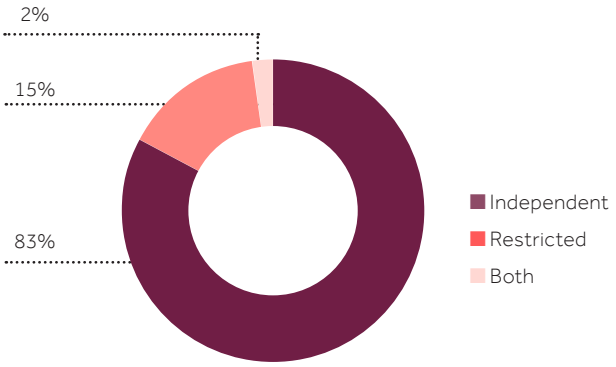
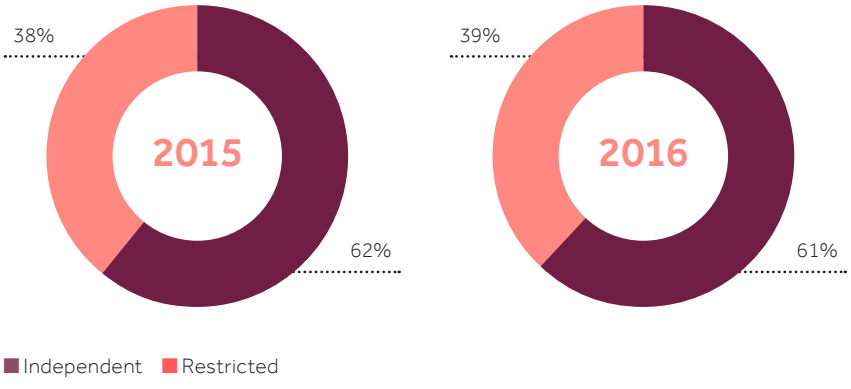


Figure 11: Type of advice provided by total value of adviser charges



Erratum – in Data Bulletin issue 7 (published in October 2016) the percentage splits between the value of independent and restricted advice for 2015 were inadvertently transposed. These are corrected in Figure 11 above and in the revised version of Data Bulletin issue 7 available on the FCA website.

Method of adviser payment

Facilitated payments[1] are the main form of adviser payment, accounting for 81% of initial charges and 78% of ongoing charges (by aggregate value of investment) with 19% and 22% respectively being paid direct to the adviser by the client.

Compared with 2015, the proportion of facilitated payments is unchanged for initial charges but has increased for ongoing charges from 74% to 78%. Within ongoing charges, there is a notable difference in the proportion of facilitated payments (by value) between different types of advice, with restricted advice being 66% and independent 83%.

Standard adviser charges

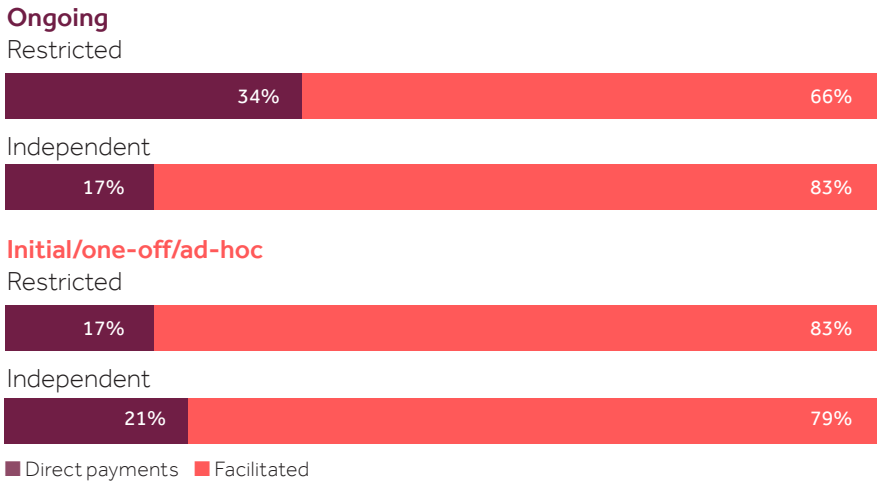
Firms report to us their minimum and maximum charges for each type of charging structure they use, split by type of advice provided (restricted or independent; initial or ongoing).

'Charge as a percentage of investment value' is the most typical charge method used, as shown in Table 4, 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 4 add up to more than the number of individual firms.

Charge as percentage of investment value: the average (median) charges for initial advice are 1% (min) and 3% (max). For ongoing charges the average rates are 0.5% (min) and 1% (max). These have not changed compared to the previous year.

Around
80%
of payments to advisers (by value) were facilitated by the provider or platform

Figure 12 -Method of adviser payment



1 This occurs where the product provider or platform service provider facilitates the payment of the adviser, such as by deducting the adviser charge from the value of the client's investment and paying it to the adviser.

Table 4 - Typical charging structures

	Number of firms	
Type of charge	Initial charge	Ongoing charge
Charge per hour	1,663	1,259
% of investment	4,130	4,362
Fixed fee	1,971	1,215
Combined structure	905	799

Table 5 - Standard % of investment charging rates (median value)

	Average % of investment rate	
Nature of advice service	Minimum	Maximum
Initial	1.0%	3.0%
Ongoing	0.5%	1.0%

Advice services provided and ongoing customers

Tables 6 and 7 show the number of initial 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 advice services and had 2.6 million clients paying for ongoing advice services. Of these, firms with a primary category of financial adviser firm accounted for 970,000 initial services (81% of the total) and had 2.2 million ongoing clients (85%).

Table 6 - Number of initial advice services provided in reporting year

	Independent	Restricted	Total
Number of initial advice services	528,874	673,565	1,202,439

Table 7 - 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	562,567	123,169	2,611,670

Source for Section 3: RMAR section K returns for 2016. Firms that provide advice on retail investment products and P2P agreements.

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 minimum 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 firms that have retail clients and have permission to carry on certain activities, such as advising on investments and arranging deals in investments, in relation to retail investment products (eg life policy, unit in a collective investment scheme, personal pension scheme)

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 business, which is not regulated (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 including 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 types 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 this 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 enables 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) 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 in relation to the provision of advice on retail investment products (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/publications/data/data-bulletin-issue-9

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 2016). For the Profit and Loss account we use data for the full financial year of account falling within the calendar year. Data for 2016 reflect firms that were on the FCA register as at 31 December 2016. 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

Get the facts

If you would like to subscribe/unsubscribe from the Data Bulletin please visit: fca.org.uk/firms/data-bulletin-subscription-form

Data Bulletin

Underlying data used in this bulletin. https://www.fca.org.uk/publications/data/data-bulletin-issue-9

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In case you missed them

Here are some other data sets we have published recently that you may find interesting:

Complaints statistics (July to December 2016)

Every six months we publish complaints data we collect from firms. The total number of complaints reported by firms in the second half of 2016 was 3.04 million. This number is higher than previous reporting periods because under the FCA's new rules all complaints are now captured in the data. For the latest analysis of complaints trends see https://www.fca.org.uk/firms/complaints-data

Mortgage lending statistics (2016 Q4)

We have been tracking mortgage lending trends since 2007. Our latest data shows that overall, £62.8 billion of new residential loans was advanced to individuals during 2016 Q4. At the end of 2016, the value of all outstanding residential loans was £1,337.8 billion, an increase of 0.5% compared with 2016 Q3. See all the latest findings at https://www.fca.org.uk/firms/mortgage-lending-statistics about/sector-overview

Sector views (2017)

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