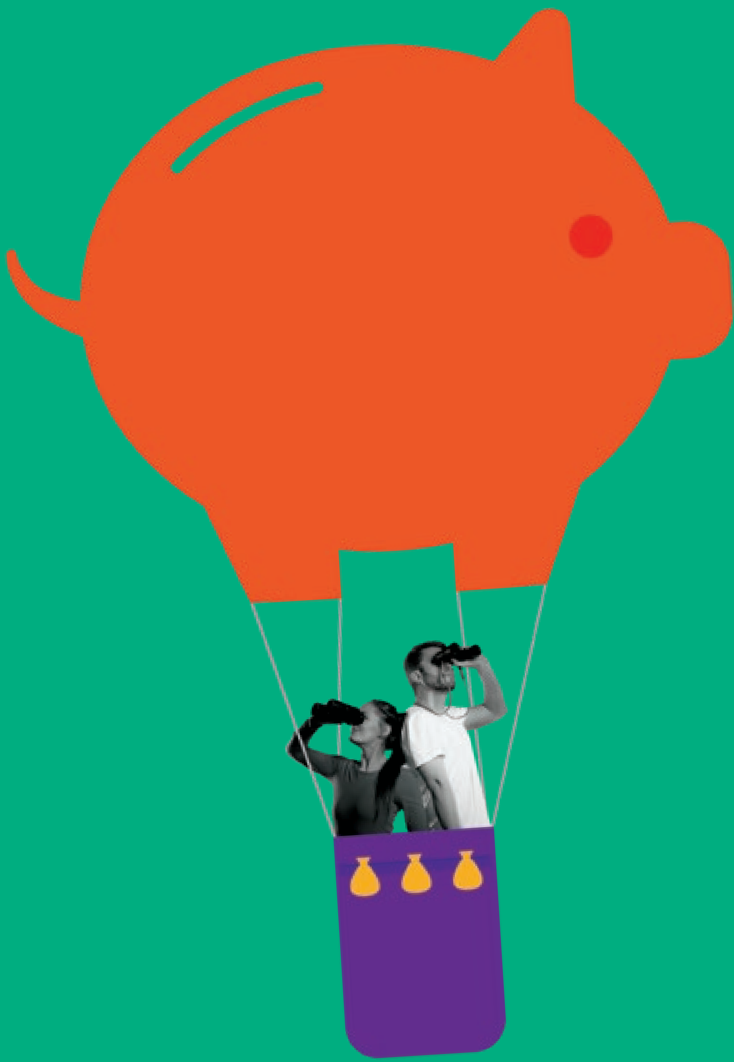


Wealth Transfer in the UK

The continuing story of the **inheritance economy**

Kings Court Trust

This is the second instalment of our inheritance economy research, which seeks to provide new insights into an area of growing importance to the UK economy – intergenerational wealth transfers.

– Research produced by Cebr

The first report, 'passing on the pounds', identified that £5.5 trillion will pass between generations within the next 30 years. This amount of inheritance is unprecedented and raises both opportunities and threats for the financial services industry.

– inheritanceeconomy.co.uk

Contents

Executive summary

An enormous amount of intergenerational wealth is transferred each year, yet the evidence shows the financial services community is not prepared to deal with the **inheritance economy** successfully.

Financial advisers have an incredible opportunity to boost their business by looking carefully at how they can help their clients pass millions of pounds in assets from one generation to another. The ageing population and growth in financial gifts creates challenges for policymakers, families and financial advisers. With the right approach, there is fantastic opportunity for advisers.

This report examines attitudes and perceived behaviour of wealthy individuals and their beneficiaries – providing additional insights into intergenerational transfers in the UK. That is, the rise of a gifting-and-inheritance-based economy.

The report draws upon insights taken from a business-to-business (B2B) survey – through polling company Opinium – of Independent Financial Advisers (IFAs) operating in the UK, with the majority claiming they regularly offer advice on estate management.

Highlights from research

74%
see probate as a legal service

Almost three quarters of IFAs consider probate to be a legal service, even though they can offer probate services directly. However, a significant proportion (42%) believe probate would increasingly be seen as a financial service.

75%
have no policy to recruit younger IFAs

Younger clients prefer to work with younger advisers. However, despite 59% of IFAs being over 50, 75% of practices have no active policy to hire younger advisers. In smaller practices with book values of under £10 million, this rises to 88%.

59%
of IFAs are over 50 years old

There is a correlation between older IFAs and older clients. Overall, 59% of IFAs are aged 50 or over. In practices with younger clients (where only 30% or less of the client base are 'baby boomers'), 5% of IFAs are under 30. This drops to less than 2% in practices where over half the clients are baby boomers.

54%
not offering probate services

Most practices (54%) do not offer probate services. 32% ruled out offering such a service in the future due to commercial viability. 11% are considering introducing a probate-related service.

34%
feel risk of losing funds under management is 'small'

IFAs did not generally consider their practice to be at risk from losing funds under management through intergenerational wealth transfer, with 34% considering the risk to their practice "small" or "very small". However, others consider there to be a high risk, with no clear consensus.

33%
of IFAs report £1 million in asset transfers

Wealth transfers between IFAs' deceased clients and their beneficiaries are substantial - £66.3 billion in 2016. One third of IFAs reported sums of over £1 million passing from deceased clients to their beneficiaries. Only 8% of IFAs reported no significant transfers.

30%
of IFAs offer 'direct' bereavement support

77% of practices offer some form of bereavement support after the death of a client. 30% offer "direct" support such as funeral planning, with 47% offering "indirect" support such as recommending a solicitor.

26%
of IFAs state clients desire greater control

26% of IFAs say that beneficiaries choose not to use their services due to a lack of an existing relationship, with 24% citing beneficiaries' desire for greater control over assets. Other factors include beneficiaries wanting to spend their inheritance immediately, and the location of the IFA practice. Only 2% felt the age of the IFAs in the practice was a factor.

18%
claim to have no business retention strategy

A significant number of practices have no active business retention strategy. 18% of practices have no such strategy, rising to 25% for the largest practices with book values in excess of £20 million.

15%
reported a 50% loss of intergenerational transfers

IFAs are losing a significant share of assets under management after a client dies. 15% of practices lost more than 50% of the value of assets under management through intergenerational transfers in the last financial year. 34% reported losing 20% or more.

Foreword

Simon Hancox, Chief Executive Officer at Kings Court Trust

This report, produced for us by The Centre for Economics and Business Research (Cebr), provides new insights into intergenerational wealth transfers in the UK, and assesses to what extent wealth managers and IFAs can work in tandem with estate administrators in the future.

Analysis in our first report – Passing on the pounds – shows that total wealth transfers in the UK were £59.3 billion in 2014 and are estimated to have increased to £66.3 billion in 2016. This has been driven by growing house prices and higher levels of disposable income. Looking further ahead, it is predicted that wealth transfers are set to grow to over £100 billion by 2025, rising to £355.2 billion in 2047.

As one of the UK's leading estate administration providers, we have seen these increases in the amount of wealth passed from one generation to the next. We know the "inheritance economy" will significantly impact the financial services industry, their clients and their clients' families, which is why we're committed to support the wealth management sector in the most effective way possible.

Recent analysis by Accenture[1] found that while 86% of advisers believe they understand the needs of clients' beneficiaries, only 32% were found to currently work with them. Compounding this is the low level of IFA replenishment – the gradual replacement of older advisers by younger counterparts – which is not matching the rapid growth of intergenerational wealth transfers.

This report examines these issues in greater detail; complementing our first report by examining the attitudes and perceived behaviour of IFAs, wealthy individuals and their beneficiaries.

This anticipated phenomenon of increasing wealth transfers should be an advantage for financial advisers. However, there is considerable evidence to suggest that IFAs are not currently well-placed to manage this huge transition.

Simon Hancox

[1] Accenture (2016). "Wealth Transfer: Is your firm's share walking out the door?"

Wealth transfer and client retention

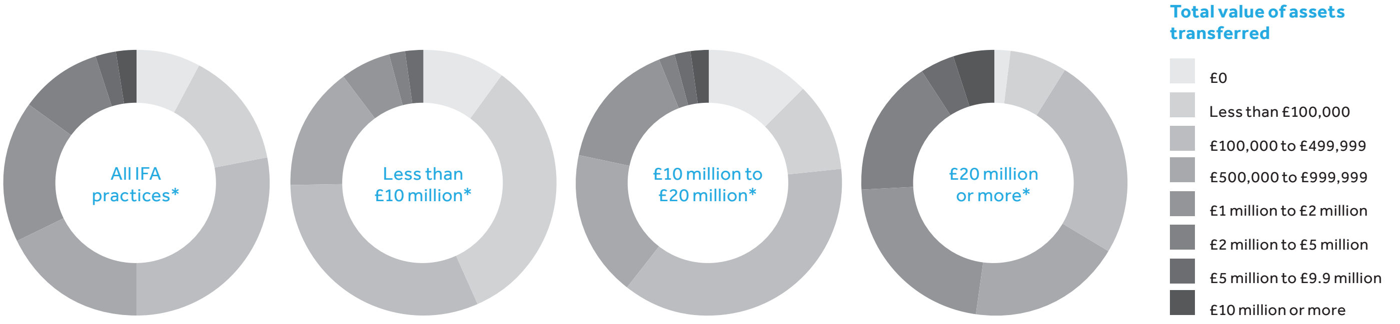
In this section we examine IFA attitudes to why younger clients, heirs and beneficiaries choose to stop using their services, why their practice in particular loses the business of such individuals, and the relationship between the age of IFAs and client retention.

Intergenerational wealth transfers and IFA wealth retention

As part of our survey, we asked IFAs "what was the total value of assets transferred by your firm's clients to beneficiaries, heirs or others in the last financial year?" Figure 4 below shows the breakdown of these intergenerational transfers by level of assets transferred.

The level of transfers to beneficiaries in the last financial year was substantial, particularly for the largest category of IFA practices by book value.

Figure 4: The total value of assets transferred by IFA clients to beneficiaries, heirs or others in the last financial year, by size of IFA practice*.



Source: Opinium, Cebr analysis.

Across all IFA practices, a third of IFAs reported that a total value of £1 million or more in assets were transferred to beneficiaries; only 8% reported no such transfers.

The share of IFA practices reporting transfers of asset value in excess of £1 million or more last year increases as the book value of practices increases. For example, 48% of IFAs working for practices with book values in excess of £20 million reported transfers to beneficiaries of £1 million or more. Only 2% of these IFAs reported no transfers at all in the last financial year.

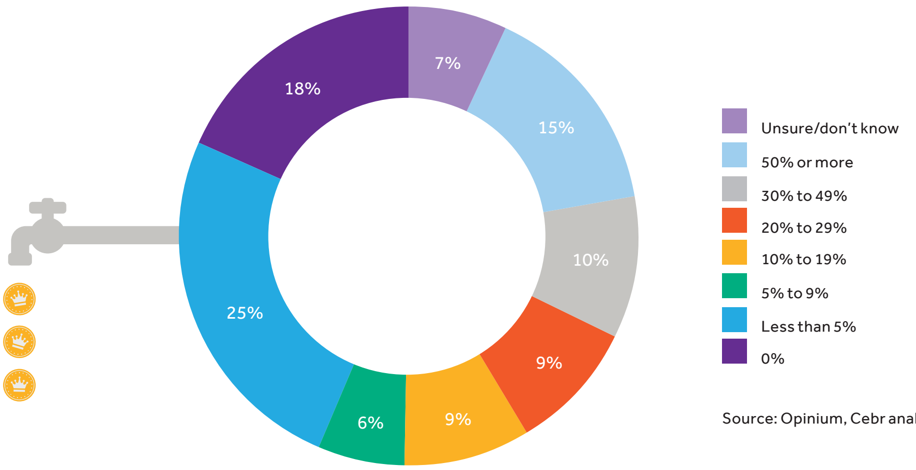
The transfer of asset value from an existing client to their beneficiaries would not pose a problem to IFAs if all beneficiaries were retained as clients with the full value of their inheritance or gift kept under continued management. However, in line with the existing evidence, the survey results provide strong evidence that IFAs and IFA practices are losing a significant share of the value of intergenerational transfers each year.

The IFA survey has also enabled us to identify how a significant share of IFA practices' book value is lost each year through clients' beneficiaries taking their business elsewhere. Figure 5 shows the breakdown of responses from IFAs on the proportion of assets that their practice lost through beneficiaries taking these elsewhere.

From the IFAs surveyed with the largest book value (in excess of £20m) only 2% reported no transfers at all in the last financial year.

On average, IFAs reported that about £1.5m in asset value was transferred by clients to beneficiaries in the last financial year, implying an average loss of assets of £288,000. With the average inheritance set to rise, this figure could increase dramatically.

Figure 5: Approximately what percentage of intergenerational transfers did your firm lose due to beneficiaries taking inherited or gifted assets elsewhere?



Source: Opinium, Cebr analysis.

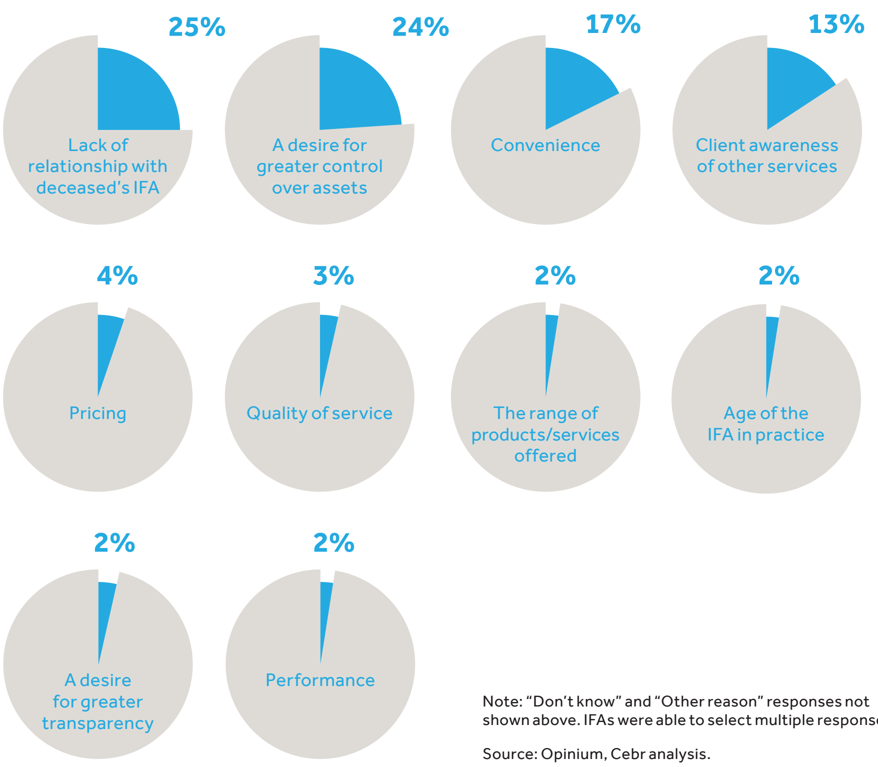
A key driver of this appears to be the desire of beneficiaries to have a greater control over their assets. In the survey, IFAs were asked whether they agreed with the statement, "When wealth has been passed on to the next generation, beneficiaries have typically wanted more control over their assets." Over half (54%) agreed with the statement while just 10% disagreed.

Wealth transfer and client retention...

Why some beneficiaries are moving away from an IFA

A lack of relationship with a deceased relative's IFA is the main reason why IFAs felt that some clients' beneficiaries chose not to use their services following inheritance. Figure 6 shows a more detailed analysis, in order of importance.

Figure 6: There are a number of reasons why IFAs felt that some clients' beneficiaries chose not to use their services following inheritance.



Note: "Don't know" and "Other reason" responses not shown above. IFAs were able to select multiple responses.

Source: Opinium, Cebr analysis.

The lack of a relationship with the deceased's IFA was cited by over 25% of IFA respondents as one of the reasons why beneficiaries stopped using their services, highlighting the importance of the client-IFA relationship in client retention.

24% cited the beneficiaries' desire for greater control over their inherited assets, while 17% cited convenience as another key factor behind departures.

In contrast, pricing (4%), service quality (3%), the desire for transparency (2%) and the age of IFAs (2%) were cited by far fewer. However, comparing these results with the existing evidence shows a mismatch between IFA views on adviser age as a contributory factor to loss of clients' beneficiaries, and the views of younger clients.

"We have beneficiaries as clients already; however in some cases money is passed to individuals we have had no contact with at all."

IFA comment during the Opinium survey

The majority of IFAs who stated "other reasons" (36%) cited beneficiaries' immediate intention to spend their inheritance or pay off existing debts. Other IFAs cited their practices' location as a factor - increasing the offering of digital services may be necessary to alleviate the recurrent problem of beneficiaries being based in another part of the country, or even abroad.

Around one in five IFAs (18%) have no idea why beneficiaries chose to invest their inheritance elsewhere.

IFAs believe there are a number of reasons why beneficiaries may choose to invest their inheritance elsewhere, as shown in Figure 7.

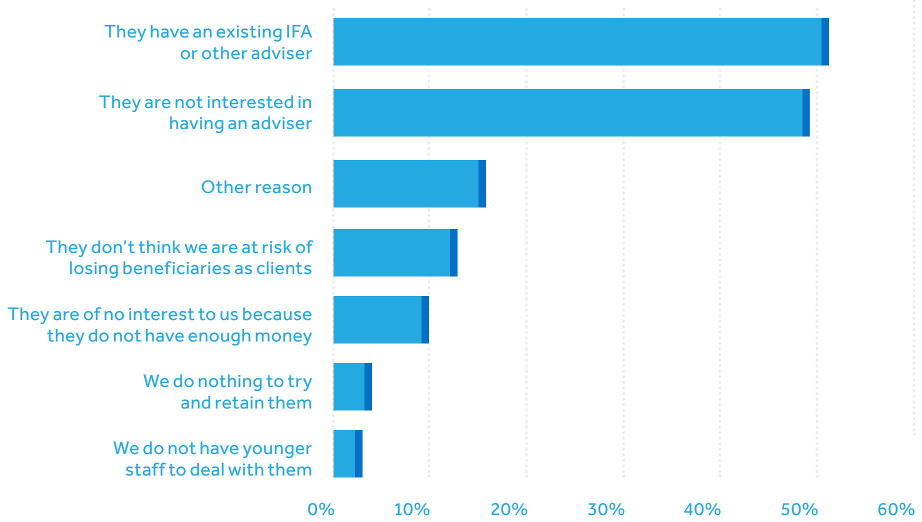
The most common reason given for beneficiaries not choosing to invest with the deceased's IFA is that they are already using the services of another adviser (52%). 50% of IFAs say the main reason is because the beneficiaries do not wish to instruct an adviser. Only 13% of IFAs surveyed felt that they were not at risk of losing beneficiaries as clients.

The age of IFAs again does not seem to be an important factor as perceived by IFAs; only 3% of respondents felt that beneficiaries looking elsewhere for advice was linked with not having younger IFAs to help these clients.

However, a significant share of IFAs (16%) cited other reasons why beneficiaries choose not to use their services after receiving their inheritance.

One IFA pointed out that "we have beneficiaries as clients already; however in some cases money is passed to individuals we have had no contact with at all" while another stated that "most spend/pay down debts. They are happy to be clients but are not profitable for us."

Figure 7: Reasons why IFAs feel that their practice may not gain beneficiaries as clients



Note: IFAs were able to select multiple responses.

Source: Opinium, Cebr analysis.

Around one in five IFAs (18%) have no idea why beneficiaries chose to invest their inheritance elsewhere.

Wealth transfer and client retention...

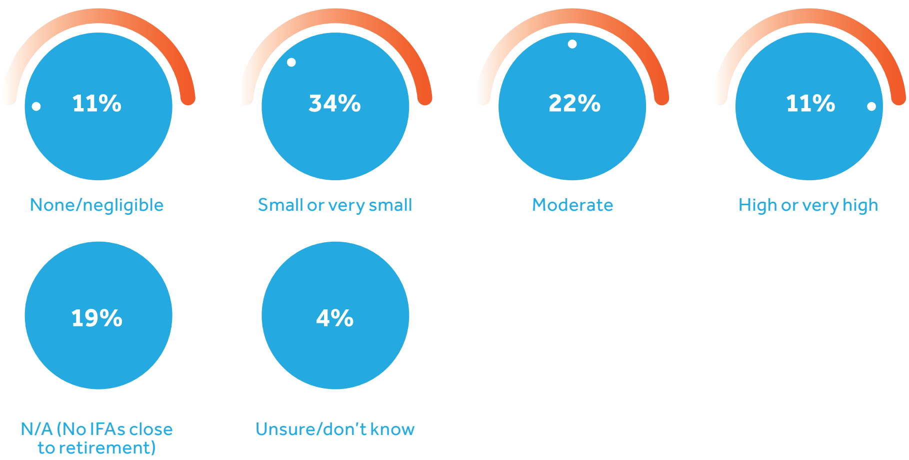
IFA age and client retention strategy

We have already established that IFAs do not appear to view the age of their advisers as a significant contributory factor to losing the business of clients' beneficiaries, despite other evidence suggesting that younger clients do value interaction with younger advisers.

At the same time IFAs stated that the lack of an existing adviser relationship is one of the strongest factors behind beneficiaries taking their inherited assets elsewhere. By extension, the retirement of IFAs should present a risk to practices.

Although there appears to be no clear consensus on the degree of client retention risk posed from IFA retirement, a greater proportion of IFAs view this retention risk to be either small or non-existent.

Figure 8: Perceptions of IFA retirement and the associated risk of losing clients and their beneficiaries



Source: Opinium, Cebr analysis.

Almost a fifth (19%) stated they had no advisers close to retirement, so therefore any risk was non-existent, despite the propensity for IFAs to be in the older age brackets across practices (figure 2).

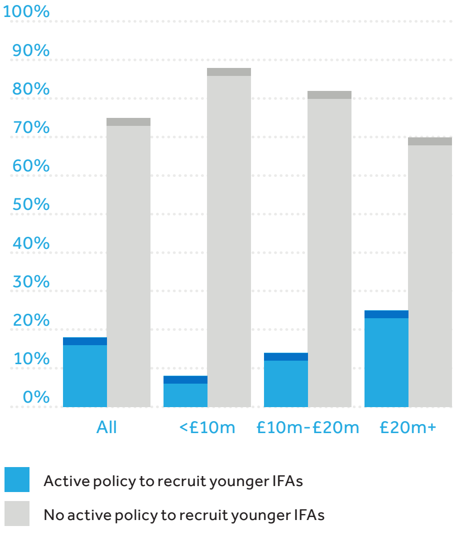
As part of the survey, IFAs were asked whether their practice has an active policy to recruit younger advisers to attract younger clients. Given the low degree of risk in losing beneficiaries and clients perceived by IFAs, most practices do not appear to have such a policy in place.

Across all IFA practices, we see that a clear majority of practices are not actively recruiting younger advisers to attract younger clients, despite the large intergenerational wealth transfers expected in coming years (figure 9).

There is a positive correlation between the size of IFA practices and active policies to recruit younger advisers. Only 8% of practices with a book value of under £10 million stated having an active policy to recruit younger advisers, with 88% having no such policy; for practices with a book value in excess of £20 million, these proportions are 25% and 70% respectively.

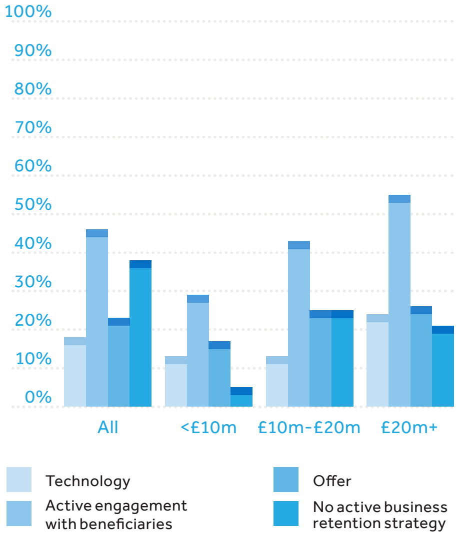
While most IFA practices do not appear to actively recruit younger advisers, Figure 10 shows that most IFAs believe their practices have retention policies in place to keep clients' beneficiaries. 46% of all IFAs stated their practice undertakes the strategy of active engagement with clients' beneficiaries, with 23% stating their practice either offered technology services (for example, providing digital methods so it is easier for clients to access their service). In contrast, only 2% of practices offer other services or employ some other retention strategy to retain the business of beneficiaries.

Figure 9: The prevalence of active policies to recruit younger IFAs, by size of IFA practice book value



Source: Opinium, Cebr analysis.

Figure 10: The prevalence and nature of active business retention policies among IFA practices



Source: Opinium, Cebr analysis.

Offering technology services and active engagement with beneficiaries appear to be more popular policies with larger IFA practices, with 55% and 24% of practices with book values in excess of £30 million applying these strategies. This is in contrast with only 13% and 29% respectively of practices with a book value of under £10 million; however, these smaller practices are much less likely to have no retention strategy whatsoever, with only 5% reporting this to be the case.

Over a third (38%) of IFAs stated their practice has no active business retention strategy for beneficiaries.

IFA attitudes to bereavement and probate

In this section, we examine the attitude and behaviour of IFAs in relation to probate and bereavement services. The objective of this analysis is to identify the extent to which IFAs are offering bereavement support to the families of clients, whether they typically offer probate services, and whether they believe that probate will increasingly become a financial, rather than legal, service.

IFAs and bereavement support

Some IFA practices will offer bereavement services as part of their service, with IFAs for instance handling family arrangements with insurers, banks and investment companies, inheritance tax planning, or simply reviewing finances of the deceased. As part of our survey, we asked IFAs to describe the bereavement services and support their practice offers, broken down into direct and indirect support for families.

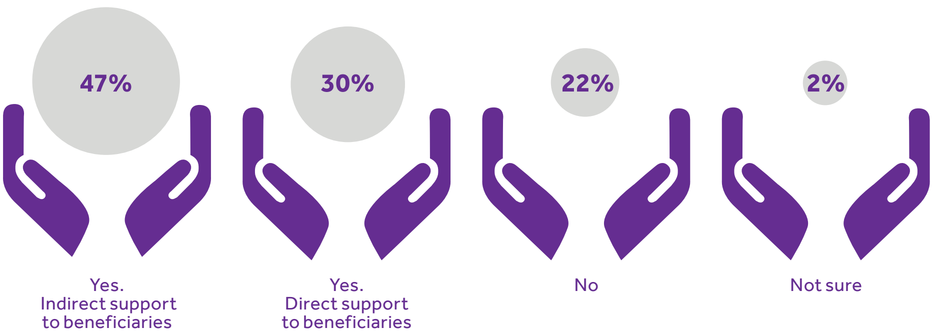
Here we define ‘direct’ support as the practice offering services which will directly support beneficiaries, such as funeral planning; ‘indirect’ support is instead defined as a practice passing on details to a recommended third-party such as a solicitor, but having little or no direct involvement with beneficiaries themselves. Figure 11 shows the breakdown of bereavement support offered by IFA practices.

Most IFA practices appear to offer indirect support (47%) to their clients, 30% offer direct support and just over one-in-five practices offer no support whatsoever.

Despite a clear majority of IFA practices across the UK offering some sort of support to bereaved families, only a tiny minority of IFA practices appear to be actively identifying which of their clients could benefit from bereavement support.

Less than 1% of the IFAs surveyed said their practice used modelling techniques or some other means to identify client families that would benefit from bereavement services.

Figure 11: IFAs and bereavement support
(Figures are subject to rounding)



Source: Opinium, Cebr analysis.

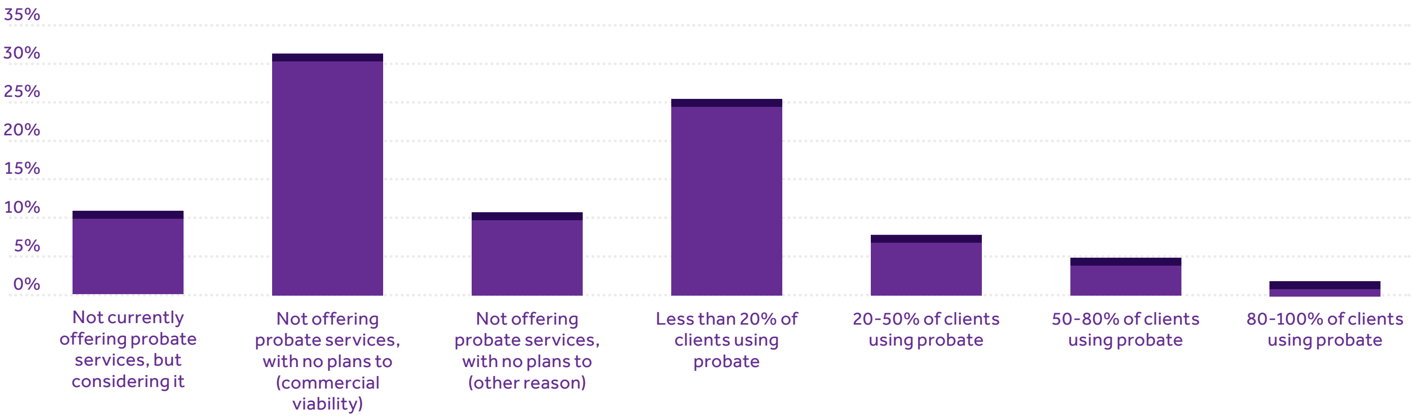
Probate: IFA services offered and attitudes to its future as a service

In this section we examine the extent to which IFAs currently offer probate services, and whether they see estate administration services being increasingly offered by financial service providers (such as themselves) over traditional legal service providers such as solicitors.

Figure 12 shows the breakdown of IFAs reporting whether their practice currently offers probate services or not. IFAs reporting that their practices do not currently offer this service are broken down into practices who are considering whether or not to offer such services in the future. Practices that do offer probate services are broken down by the percentage of their clients using those services.

Since estate administration – commonly referred to as probate – stopped being a legal service, it is no longer necessary for a solicitor to deal with an estate, yet there is still the misconception among individuals and families that you need to use traditional legal service providers.

Figure 12: IFA perceptions of clients' attitudes to probate, and IFA perceptions of probate's future as a financial service



Note: "Don't know" responses amounted to 1% of responses and are not shown here.

Source: Opinium, Cebr analysis.

IFA attitudes to bereavement and probate...

From the 54% of IFAs reporting that their practice does not currently offer probate services, 11% indicated their practice is considering doing so in future. However, 43% stated that their practice has no plans to offer probate services - commercial viability was the main reason given for this.

By contrast, 42% of IFAs reported their practice does currently offer probate services, with the majority saying that 20% or under of their clients used this service. Only 2% of IFAs reported their practice offers probate services with between 80% and 100% of clients using these services.

These results suggest that the offering and client take-up of probate services is not yet commonplace among IFAs, despite their ability to offer these services.

As part of the survey, we posed various statements to the IFAs to elicit whether their clients still view probate as a legal service. Figure 13 breaks down IFA attitudes in response to these statements:

IFAs across all regions agreed that their clients still view probate as a legal, rather than financial service, with 74% agreeing with the first statement and 6% disagreeing (the remainder of IFAs were ambivalent or were not sure).

However, a majority of IFAs either strongly or somewhat agreed (42%) with the second statement, suggesting that IFAs believe probate will increasingly be offered and administrated by themselves and their peers, rather than solicitors and other legal service providers. However, it should be noted that a significant proportion of IFAs across the country neither agreed nor disagreed (28%), and either somewhat or strongly disagreed (24%) with this second statement suggesting a degree of uncertainty over the future of probate as a service.

The clear perception amongst IFAs that probate is still broadly viewed by clients as a legal service shows that advisers may need to do more to dispel this perception in order for their firms to be able to provide these services.

Figure 13: IFA perceptions of clients' attitudes to probate, and IFA perceptions of probate's future as a financial service

Source: Opinium, Cebr analysis.

Clients, IFAs and wealth

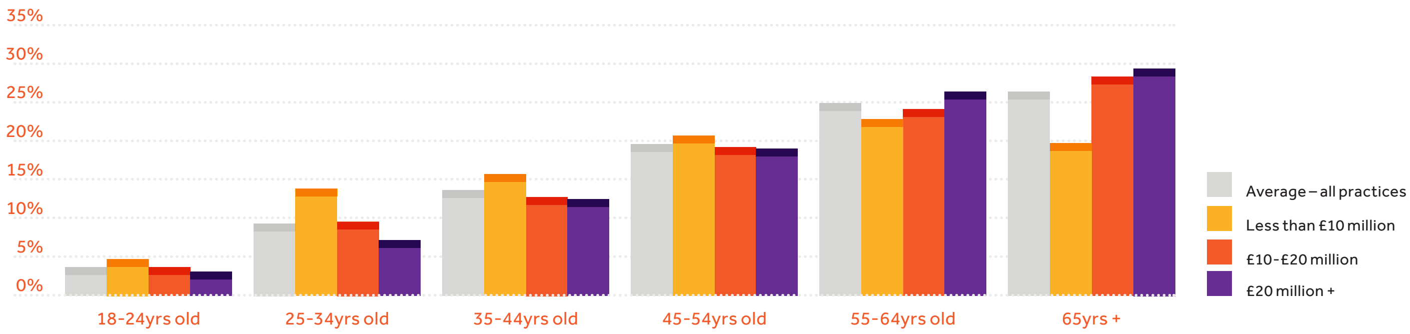
In this section we start by examining the profile of IFA practices firstly by the age of their clients and their IFAs, and then the breakdown of their clients by wealth.

The age and wealth profile of clients

Figure 1 shows the average share of clients across different age groups, broken down by IFA practices of different book size.

Those aged 55 or over make up the largest group of clients across IFA practices of different size; an expected result given the fact that wealth is concentrated in older age groups.

Figure 1: The age profile of clients, broken down by size of practice by book value



Source: Opinium, Cebr analysis.

Clients, IFAs and wealth…

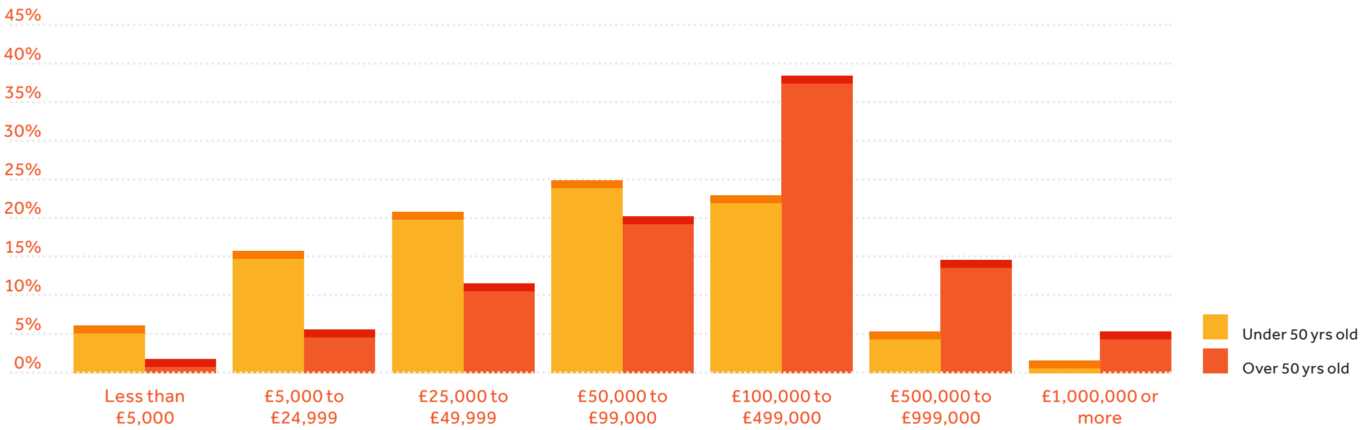
Just under 60% of those aged 50 years or over have wealth in the £100,000 to £1,000,000 plus range; this compares to 31% of those aged under 50.

Those aged 55 or over make up the largest group of clients across IFA practices of different sizes, an expected result given that wealth is concentrated in older age groups. Taking an average across all IFA practices, those aged between 55 and 64 years constitute 26% of all clients, with those aged 65 years or over constituting 27% of clients. In contrast, clients aged 34 or under make up only 13% of clients on average. This age breakdown is broadly consistent across IFA practices of different book size, suggesting there is no clear correlation between business size and client age.

After accumulating wealth over a lifetime of increasing housing, investment and other forms of assets, it is expected to be concentrated amongst the older age groups. This expected distribution is confirmed by the results shown in Figure 2, which breaks down the average level of wealth held by those aged under 50 years old, and those aged 50 or over.

Just under 60% of those aged 50 years or over have wealth in the £100,000 to £1,000,000 plus range; this compares to 31% of those aged under 50. Conversely, a much higher proportion of those aged under 50 (44%) hold wealth of less than £50,000, against only 20% for those aged 50 or over.

Figure 2: Client age group and level of wealth
(Property has been excluded from "wealth" in this instance)



Source: Opinium, Cebr analysis.

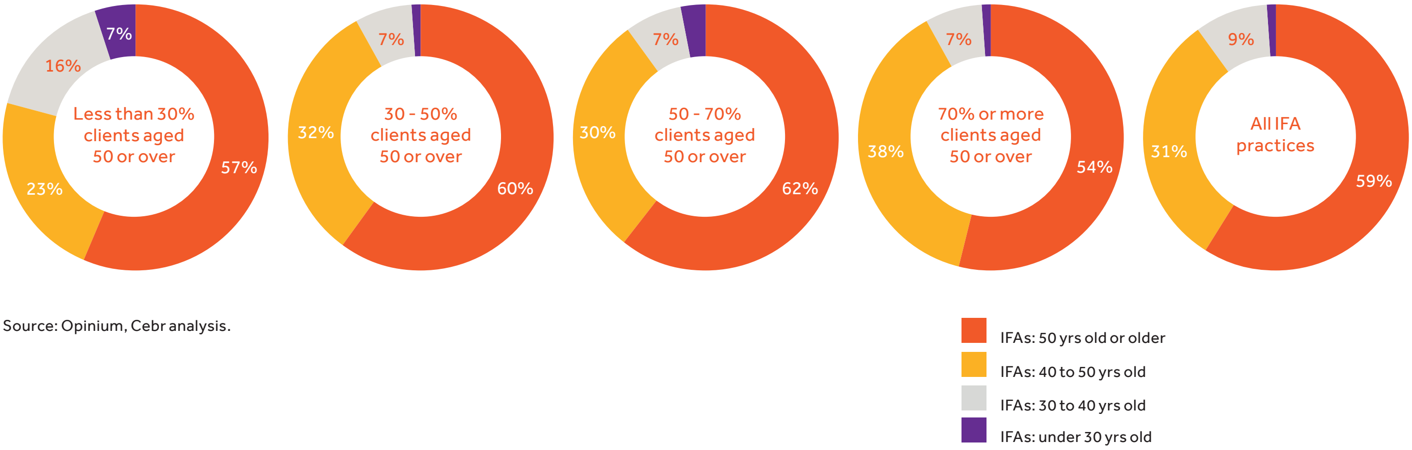
The age profile of clients and their IFAs

While it is not possible to directly determine the age breakdown of clients assigned to an individual IFA, the age breakdown of IFAs across practices can be linked to the proportion of clients which are baby boomers (figure 3). For example, for practices where those aged 55 or over constitute between 50% and 70% of clients, on average 62% of IFAs are aged 50 or over.

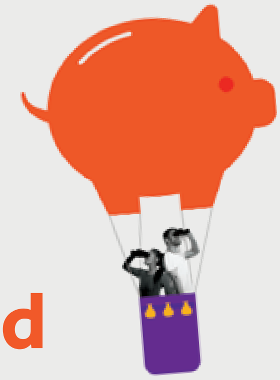
Across all IFA practices, 59% of IFAs are aged 50 years old or over, with 31% aged between 40 and 50 and 11% aged under 40. For those practices where baby boomers constitute less than 30% of clients, 5% of IFAs are aged under 30; in contrast, this share falls to only 1-2% when baby boomers constitute 50% or more of clients. Regardless of the proportion of clients which are the post-war generation, the percentage of IFAs aged 50 or over is broadly consistent; on average between 55% and 62% of all IFAs across practices.

Given that evidence suggests younger clients generally prefer to work with younger advisers, practices may need to significantly boost the proportion of younger IFAs to attract and retain younger clients.

Figure 3: IFA practices by baby boomer clients and age breakdown of their IFAs



Source: Opinium, Cebr analysis.



Conclusions and recommendations for IFAs

The UK's older generation has seen a substantial increase in wealth in recent decades. More individuals than ever before are able to leave behind a sizeable estate to assist their partners, children, grandchildren and other family members in life.

Business retention and younger advisers

Almost two fifths of IFAs surveyed have no active business retention strategy for clients' beneficiaries and 75% of practices have no active policy to recruit younger advisers. With ageing clients, the huge volume of intergenerational transfers set to take place and a clear preference from younger clients for younger advisers, this could prove a costly mistake.

Retention of clients

The challenge for the financial adviser community is therefore how to retain wealth as it is dispersed from one generation to another over time. This retention is not a given - our research shows that in the last financial year close to a fifth of IFA assets transferred between clients and their beneficiaries were lost.

Departing beneficiaries

The main reason cited by IFAs as to why they were losing their clients' beneficiaries include the loss of existing relationships, the desire by beneficiaries to spend the proceeds of their inheritance, and the problems of geography. However, improving access to and usage of technology could help alleviate this problem.

Overcoming challenges

To respond to different demands from beneficiaries, IFAs should seek to actively promote the recruitment of younger advisers and improve the services they offer through better technology. Apps and web tools can allow IFAs to reach out and engage with beneficiaries dispersed across the country and overseas. In addition, greater active engagement with beneficiaries can help, as can diversifying IFA offerings to clients through services such as probate.

At Kings Court Trust, we know that the growing number of intergenerational wealth transfers set to take place over the coming years will create new challenges for families. More individuals could have relatively complex financial circumstances, creating additional need for estate planning and estate administration advice. That's why we're committed to working with financial advisory firms to help build high levels of trust between the advisers and beneficiaries, even before they become clients.

Greater engagement with beneficiaries before they receive their inheritance could be one way to capitalise on the opportunity that the inheritance economy creates.

Contact us

If you would like to speak to Kings Court Trust about this report, or how our market-leading estate administration service could help support you and your clients, please contact us on **0300 303 9000** or **partners@kctrust.co.uk**

About Kings Court Trust

Kings Court Trust only does one thing: estate administration.

We set out to disrupt, challenge and change our industry for the better, by putting the family first.

As a result, we create value for our business partners, both commercially and by providing the best possible service for the family at a difficult time.

Our business partners share our philosophy; they put the client at the heart of everything they do.

Over the past 15 years we've helped thousands of families pass wealth from one generation to the next, and we're proud to say we do it really well.

Follow the conversation **#inheritanceeconomy**

Visit **inheritanceeconomy.co.uk**

Data methodology

For further information about the methodology and research data included in this report please contact the Centre for Economics and Business Research (Cebr).

Cebr is an independent economics and business research consultancy established in 1992. Cebr delivers economic analysis and forecasts to a wide array of retained private and public sector clients, and provides bespoke economic impact analysis of different policies and regulations at whole economy, sector and individual company levels.

Disclaimer

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Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The views expressed herein are those of the authors only and are based upon independent research by them.

The report does not necessarily reflect the views of Kings Court Trust.

London, February 2017.

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