



Professional Connections:

creating opportunities between IFAs
and other advisory professionals

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J.P.Morgan
Asset Management

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Foreword

Financial, legal and tax advice have generally been discrete practices in the UK. Each is conducted by professionals adhering to their own standards and qualifications, and answering to their own professional bodies, regulators and codes of conduct.

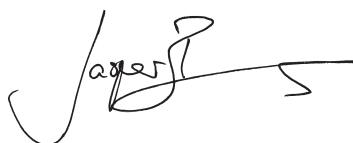
But like other market sectors, these advice professions are facing growing pressures to build greater commercial resilience – to diversify and expand their business proposition, to create greater choice and compete on cost with larger, commodified suppliers. Legislation such as the Legal Services Act (LSA) and the forthcoming Retail Distribution Review (RDR) are aiming to improve competitiveness, introduce more client-centric business models and – in the case of the RDR – heighten levels of professionalism.

All these factors have sparked discussion about the potential for solicitors, accountants and independent financial advisers (IFAs) to work together more closely, to leverage each others' client relationships and potentially provide consumers with an integrated source of advice. Given the overlap between many areas of tax, legal and financial advice, this may seem intuitive. But what real appetite is there to forge professional connections in this way?

This paper aims to be a practical resource primarily for IFAs who wish to explore the potential of the professional connections market. Surveying the views of more than 200 legal and accountancy firms across the UK, we aim to assess both current levels of engagement and potential interest among solicitors and accountants in working more closely with IFAs.

To assist IFAs, we have asked solicitors and accountants about the attributes they look for in the advisers they work with. We assess their preferred business and remuneration models and the areas of financial advice that are most relevant to their clients. Throughout the report, we include direct testimonials from accountants and solicitors about their experiences and preferences when working with the IFA sector – and profile various professionals who have successfully formed joint ventures.

The result is a fair and constructive picture of the potential for professional connections between IFAs and the other professions. We thank all the professionals who contributed to this research. We hope IFAs – and solicitors and accountants – find these insights to be of value.



Jasper Berens
Head of UK Retail
J.P. Morgan Asset Management

Executive summary

This report assesses the views of over 200 chartered accountants and practising solicitors - both through survey and one-to-one interview - to assess the level of interest in forming 'professional connections' with independent financial advisers (IFAs). Through the report, we assess what these professionals look for in an IFA and the basis on which they prefer a relationship to be formed.

Assessing the opportunity

Currently, numbers of solicitors and accountants in the UK outnumber IFAs by approximately five to one, suggesting that financial advisers should be at an advantage in the professional connections market. Seventy percent of solicitors and 83% of accountants already refer clients to an IFA with approximately half making referrals at least once a month. Both professions believe there is potential to increase this level of referral.

A number of drivers may encourage growth in the professional connections market. In late-2011, the **Legal Services Act (LSA)** is set to liberalise the legal sector in England and Wales by enabling law firms to be owned by non-law firms and to raise capital from external investors. This could impact the potential professional connections market in two ways: first it will enable solicitors to work in the same firm as IFAs and/or accountants as multi-disciplinary practices. Second, greater competition may force solicitor firms to look for new ways to expand their client proposition - such as offering integrated financial-planning.

In 2012/13, the **Retail Distribution Review (RDR)** is set to introduce higher minimum standards in the financial advisory market. This may encourage more solicitors and accountants to forge alliances with independent financial advisers as professional standards become more aligned with their own. IFAs have been given additional support by the **Solicitors Regulation Authority (SRA)** which has recommended in its Code of Conduct that investment advice should only be given by independent intermediaries. However low awareness of the RDR among solicitors and accountants suggests that IFAs still need to do significant work to raise awareness of their growing professionalism.

Making connections

The vast majority of solicitors and accountants source IFAs through personal or professional recommendation and favour firms with a strong local profile and reputation. When evaluating advisers, these professions place very strong emphasis on qualifications, looking for firms with certified or chartered status. Years of experience are important but secondary. A good cultural and personal fit with the professional's own firm and clients is also highly sought-after. Solicitors are more interested than accountants in IFAs that can offer good-quality client referrals.

Smaller firms that are focused on wealth management for a small number of clients are marginally favoured over larger firms - although many professionals don't express a preference in terms of size of firm. Rather, the concern is that an adviser looks to offer advice rather than maximise product sales. Fee-based IFAs are actively sought-out by around 40% of professionals, leaving a surprising majority who are happy for IFAs to work on a commission basis. While many professionals believe fees are more likely to ensure impartiality, some believe there is an affordability issue for some clients.

Working together

The majority of the solicitors and accountants want to retain clear separation between their activities and those of an IFA. Just under half of accountants are happy simply to refer clients to external IFAs. Two-thirds of solicitors are keen to look for more opportunities to work more closely with financial advisers. However 5% or less of professionals are interested either in setting up an internal IFA operation or a separate joint venture to offer financial-planning to clients. Likewise, both prefer to keep client billing completely separate.

Most areas of financial advice are of some or great interest to these professionals' client-base but there are important differences between the two professions. Key areas for accountants are pensions and retirement planning, tax-efficient planning and investment management. Solicitors are most interested in tax-efficient planning, trusts and estate-planning, old-age funding and equity release and investment management. A number of professionals say they look for IFAs with a clear area of expertise and may be deterred by advisory firms whose advice proposition is unclear.

The majority of professionals are confident that a relationship with a suitable IFA can help reinforce client relationships and generate business from an existing client base. But apart from using IFAs to advise clients, solicitors and accountants are not yet comfortable with the idea of leveraging IFA expertise in other ways. For example, only a minority are interested in learning about IFA practices such as fact finds or client profiling and segmentation although they generally believe their own firms to be weak in these areas.

Conclusion

The professional connections market between IFAs and the other advice professions is thriving on a highly informal basis. But even with the advent of legislation such as the Legal Services Act, firms appear to have reservations about forging more formal alliances.

This might be a result of the current economic downturn – with many firms choosing instead to focus on their core business and avoid additional business risks. But faced with growing competition, many professional firms – solicitors especially – will need to look to activities such as financial-planning to diversify their business and build in resilience.

IFAs wishing to take advantage of this scenario need to be very closely aligned with solicitors and accountants and reflect their professional standards. IFAs that are highly qualified, with a strong local reputation, a clear area of expertise and who are focused on giving clients the very best advice should do very well. Advisers who have an unclear proposition, minimal qualifications and are focused on maximising sales will not.

Most of all, the onus is probably on the IFA sector to take the lead in showing solicitors and accountants what opportunities now exist. Of the three professions, financial advisers have arguably had to weather the toughest regulatory and commercial pressures to date. Now that solicitors in particular face dramatic commercial change, the survival skills of IFAs may well be of interest.

About the research

The following report cites findings from research conducted exclusively for J.P. Morgan Asset Management with chartered accountants and solicitors across the UK.

Chartered accountants:

Online surveys were completed by 143 chartered accountants that are members of the ICAEW and work in accountancy firms. Surveys were completed in October/November 2009 in collaboration with ICAEW. Respondents were screened to ensure they did not have an IFA operation within their own firm, a current IFA joint venture and were not IFAs themselves. The Big 4 firms and those who provide FSA regulated advice were also excluded from the research.

Fifteen one-to-one telephone interviews with chartered accountants that are members of the ICAEW were also conducted in collaboration with the ICAEW, with the same parameters used to select the sample as outlined above for the online survey.

The majority (64%) of respondent firms declared total annual gross fee income in excess of £100,000 – see Diagram 1 below.

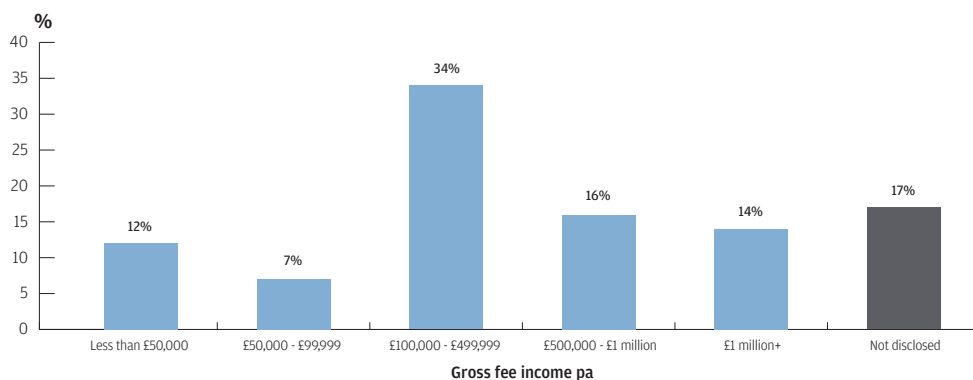
Solicitors

Online surveys were completed by representatives of 55 solicitor firms from across the UK in December 2009/January 2010 via marketing analysts the Orchestra Group. Sixty-four percent of respondent firms declared total annual gross annual fee income of more than £100,000, with 33% third declaring £1 million a year or more – see Diagram 1 below.

Fifteen one-to-one interviews were also conducted with solicitors who all currently refer clients to IFAs for advice. The interviews were conducted by Marketing-hub.co.uk.

Diagram 1: Respondent firms by gross annual income

i. Accountants



ii. Solicitors



Part One

Assessing the opportunity

What is the current state of relationships between IFAs and the two other advice professions and how could this trend in the future? In this section, we assess the current level of IFA referrals among accountants and solicitors and outline the drivers that could potentially open up the market further.

1.1 Current levels of professional connection

Compared to solicitors and accountants, IFAs are the minority profession. Across the UK, there are approximately 128,000 practising solicitors and 119,000 chartered accountants¹. In comparison there are estimated to be around 22,000 individuals registered with the Financial Services Authority who offer whole-of-market financial advice.

While there will be a level of overlap between these figures (especially between accountants and IFAs), it is safe to assume that the two other advice professions outnumber IFAs at least four to one – a fact which should put IFAs at an advantage in the professional connections market.

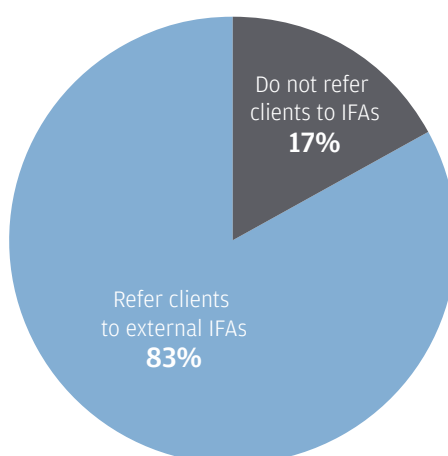
IFA referral is already established practice

Referring clients to an external IFA is already established practice among solicitors and accountants. Of our survey respondents, 83% of accountants and 70% of solicitors said they currently refer clients to a third-party IFA firm – see Diagram 2.

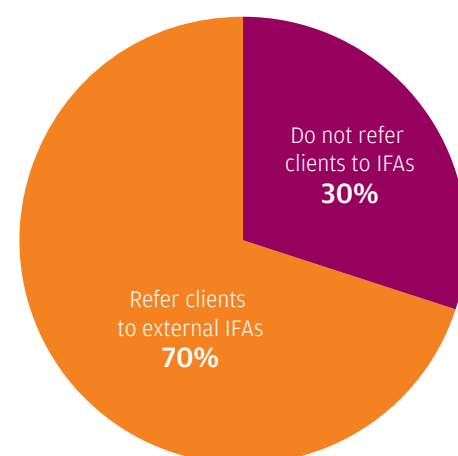
Of the minority of respondents that have no IFA relationships, the key reason is lack of demand from clients – cited by 62% of accountants and 70% of solicitors in this group. Reputational risk was the second-most cited reason. Thirty percent of accountants and 18% of solicitors who don't provide IFA referrals say they are concerned about the quality of advice that might be provided

Diagram 2: Current level of IFA referral among accountants and solicitors

i. Accountants



ii. Solicitors

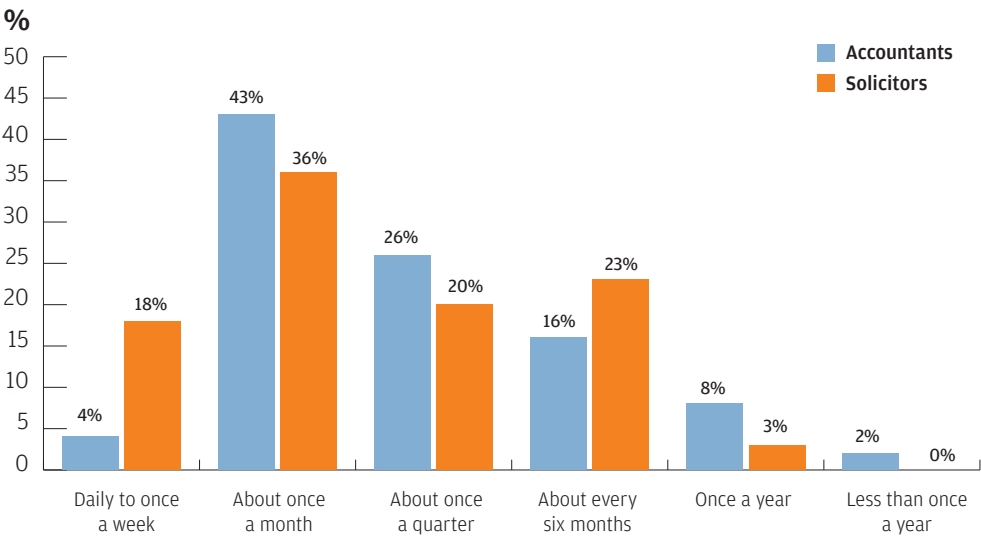


¹These estimates taken from most recent figures as at March 2010 available from professional bodies based on members with current practicing certificates operating in England and Wales, Scotland and Northern Ireland

Diagram 3: Frequency of IFA referral

Question: *Approximately how often do you refer clients to external IFAs?*

Frequency of referral to IFAs



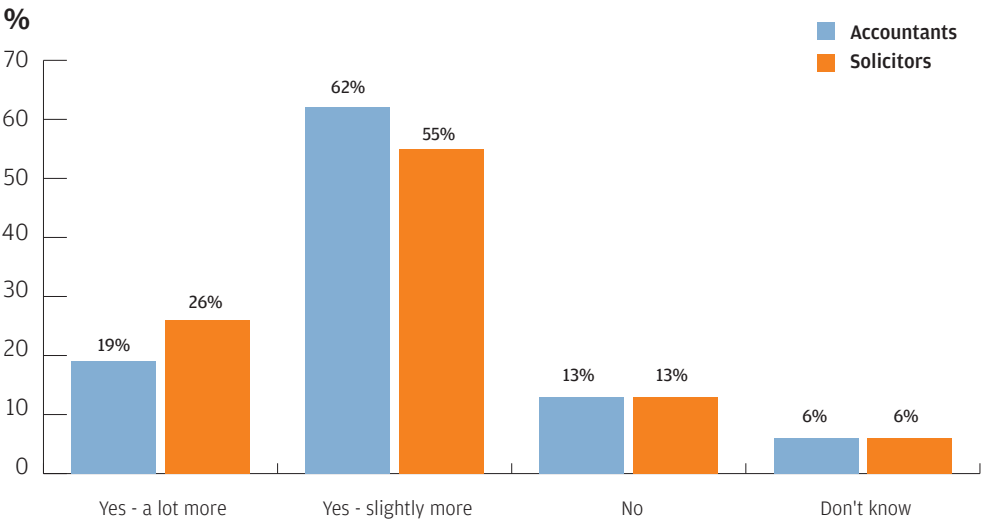
Interaction with IFAs also seems to be reasonably frequent. Of those that do refer, 47% of accountants and 54% of solicitors are referring clients to an IFA at least once a month – see Diagram 3. Around one in six solicitors are referring clients every week. The most frequent IFA referrals tend to come from larger firms. For example, 92% of accountancy firms that make IFA referrals have a gross fee income in excess of £100,000 a year.

Strong potential to increase levels of IFA referral

Over 80% of accountants and solicitors who currently refer client to IFAs believe there is potential to increase their level of referrals. More than one in four solicitors and around one in five accountants believe there is a lot more potential to increase IFA referral levels – see Diagram 4 below.

Diagram 4: Potential to increase level of IFA referral

Question: *Are there opportunities to increase the proportion of clients you refer to IFAs?*



First-hand: Future potential

The accountants and solicitors we interviewed on a one-to-one basis were evenly split over whether or not the demand to work with IFAs will increase. Those that see the market remaining at current levels of demand may already be making frequent referrals and don't see this growing in future. Those that see the market expanding believe that growth will stem from increased complexities in the financial marketplace and a need to provide clients with a deeper array of services.

One accountant is very optimistic for growth in the professional connections market: *"I like to think (the market in accountants and IFAs working together) will grow and I think it is up to us as professionals to get the message across. I think those firms that do work more closely with IFAs will actually do better for their clients and that message will get out."*

Others see IFA referrals as a valuable but simple value-add for their business:

"It must grow because it is quite clear that (accountancy) firms need to be value added services. Firms can do this by having their own IFAs but at the smaller end of the market, which is where I operate, it is hard enough to have the expertise in our core skills, never mind get diverted into activities which are non-core like IFA work. So there is clearly potential to have a relationship with a third-party IFA, so that you both prosper as a result of the relationship. It is an easy way of adding value to my service."

Some solicitors also firmly recognise that regulatory change in their industry will mean they have to consider a closer working relationship with other advisory disciplines at some point in the future:

"I accept there is a potential synergy between what we do, especially in areas such as probate. When the gloves come off in a couple of years' time, a multi-disciplinary partnership is something we would have to consider."

1.2 Drivers opening up the market

A number of factors are potentially paving the way for advice professionals to seek stronger relationships with financial advisory firms, and independent financial advisers in particular:

- i) The Legal Services Act
- ii) Guidance from the Solicitors Regulation Authority
- iii) The Retail Distribution Review

i The Legal Services Act – time for solicitors to diversify?

Dubbed the Big Bang for the legal profession, the highly-contentious Legal Services Act 2007 aims to liberalise the £20 billion UK legal services market, increasing competition and providing more consumer choice.

Currently, solicitor firms can only be wholly owned and managed by other solicitors (conversely accountancy firms can have partners who are non-accountants). Under the reforms, alternative business structures (ABSS) can be set up allowing partnerships with non-law firms.² Law firms in England and Wales will be able to be majority-owned by external investors and to raise outside capital, including via stock market flotation and private equity.

This opens the way for law firms to become part of commercial organisations and for major non-legal firms such as banks, insurance companies and supermarkets to offer their own legal services if they want to. It also paves the way for 'multi-disciplinary partnerships' where solicitors, financial advisers, wealth managers and other professionals operate within the same firm.

The first ABSS in England and Wales will be able to apply for licences in mid-2011 with the Act coming into force on 6 October 2011.³ The LSA presents a lot of opportunities for the professional connection market. At the same time, the impact of major retail entrants that can cross-sell to a huge existing customer-base is expected to be significant on solicitors' bread-and-butter legal work such as conveyancing (which has already been hard hit by the property downturn). It is widely quoted that more than a third of local law firms could go out of business.

² NB Since March 2009, law firms have been able to operate in partnership with non-lawyers through the slightly more restrictive Legal Disciplinary Practice (LDP) model, which requires 75% of partners/members to be lawyers.

³ At the time of writing, Scotland was still consulting on alternative business structures as part of the Legal Services (Scotland) Bill. In Northern Ireland, there are no plans as yet to consider ABSS.

Solicitors are already contending with major retail entrants:

- The Co-operative established its Legal Services division in 2006, offering advice on will-writing, probate and estate administration, conveyancing, employment and personal injury claims using both in-house professionals and a panel of legal firms. The service is available by telephone and is also being promoted through its 2,000 food stores, which serve 17 million weekly shoppers.⁴
- The Halifax launched its online pay-as-you-go Legal Express service in mid-2009. This uses a nationwide law firm panel to help provide legal services which are tiered from self-service document creation to one-to-one consultation.

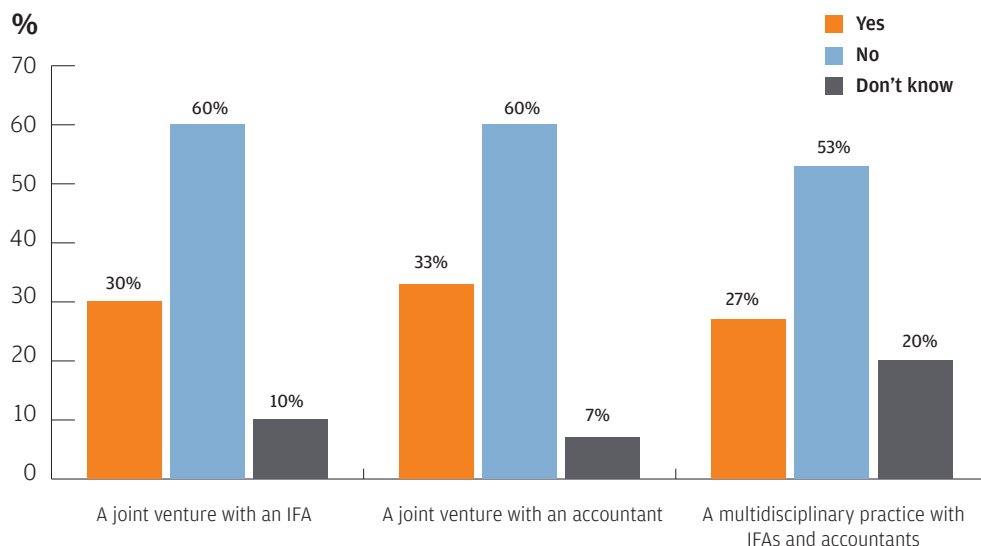
The use of panel firms by both the Halifax and the Co-operative may counter charges that their entrance threatens existing small firms. Nonetheless solicitors are aware that they will need to strengthen and diversify their range of services in order to survive.

Impact of the LSA on the professional connections market

Among our survey respondents, 79% of solicitor firms that already make referrals to external IFAs were aware of the Legal Services Act. Of these, 30% said the Act had made them more interested in exploring the potential of a joint venture with an IFA. A similar proportion – 33% – were interested in a joint venture with an accountant while a just over a quarter (27%) wanted to explore the potential of a multidisciplinary practice including both IFAs and accountants – see Diagram 5 below.

Diagram 5: Perceived potential of the Legal Services Act*

Question: *Has the Legal Services Act made you more likely to investigate the potential for any of the following?* *Only includes responses from solicitors who have heard of the Legal Services Act and currently make IFA referrals



⁴ Co-operative figures

First-hand: Alternative Business Structures

Asked one-to-one about the potential of setting up alternative business structures (ABSs) with IFAs under the Legal Services Act, solicitors are generally positive. *“There is a natural synergy between certain areas of our businesses and so the two areas can work well together,”* one solicitor says.

“There are lots of possibilities in terms of business models that are truly in harmony – which enjoy synergies, feed off each other and offer properly combined, all-in-one services,” agrees another.

But there are reservations. One solicitor favours the concept but believes that investment in ABSs will require a far more accommodating economic environment:

“I think there will be support for the idea at some point – after all clients do like the idea of a one-stop shop – but, at the moment, most law firms are trying to keep their heads down and anything involving risk is being frowned upon.”

One solicitor is sceptical about the potential merger process and regulation of ABSs. Another is concerned that a multi-disciplinary ABS may actually reduce choice for the client by making in-house expertise the default option for all client issues.

But overall solicitors appear to believe they need to consider new business models in order to survive the changes brought about by the Legal Services Act. As one puts it:

“A high-street solicitor service is all very well but it is naturally restricted. We need to offer more if we are going to compete with the newcomers in the field...So, for example, a conveyancing practice that has a solicitor, a surveyor and an IFA to do the mortgage work all in one place would give them a fighting chance against those who will enter the market in 2011 claiming to be a one-stop shop...”

...Time will tell what sorts of multi-disciplinary model work best...(But) if we don't adapt solicitors are going to have a very hard time surviving.”

Comment

The Legal Services Act means that the incentives for solicitors and accountants to seek out professional connections are very different. There is far greater urgency for solicitors to widen their range of services and build resilient client relationships. The pressure on accountants is far less and, as such, they may be significantly less proactive or receptive to seeking out IFAs to partner with.

IFAs should bear these differing pressures in mind when approaching either profession.

ii SRA rules out multi-ties by defining independent advice

Independent financial advisers were given significant backing by the Solicitors Regulation Authority (SRA) in July 2009 when it gave guidance to members regarding client referrals for investment advice.

The Solicitors' Code of Conduct has stated for some time that firms must only refer clients to 'independent intermediaries' for investment advice. But now the SRA has defined exactly what that means so it is fully aligned with the Financial Services Authority's definition of an independent financial adviser. Specifically, the SRA guidance says that an independent intermediary must:

- be able to advise on products from across the whole market
- and offer the consumer the option of paying fees.

The SRA has ruled out the use of both tied and multi-tied advisers, which has been a significant blow for certain investment firms with a large tied sales force. Moreover it has directed that clients who ask to be referred to multi-tied advisers or tied advisers for investment advice should be informed that solicitors must refer them to independent intermediaries authorised to give investment advice.

This guidance relates only to investment advice relating to investment-related products. Solicitors can still refer clients to multi-tied or tied advisers in respect of non-investment products such as general insurance, pure protection and regulated mortgage contracts.

iii The Retail Distribution Review – IFAs finally join 'the professions'?

A third key driver in building the professional connections market could be the Retail Distribution Review (RDR).

Launched by the Financial Services Authority in June 2006, the RDR aims to improve and modernise how investments are distributed to retail consumers in the UK. Among its objectives, the RDR aims to establish standards of professionalism that inspire consumer confidence and build trust. In particular it aims to establish extremely stringent criteria for any adviser wishing to be classified as independent. Proposals include:⁵

- widening the range of products (beyond packaged products) to which the independence standard will apply by creating a newly-defined wider category of 'retail investment products';
- requiring independent advisers to make recommendations based on a 'comprehensive and fair' analysis of the relevant market;
- the introduction of 'adviser charging' where the cost of advice is agreed between the adviser and the client and kept completely separate from the product provider – in effect, the abolition of product-based commission;
- raising the level of benchmark qualifications for investment advisers to QCF Level 4
- including details of an adviser's qualifications and their professional body on their FSA Register entry and requiring them to possess a practising certificate;
- a stronger role and formal recognition by the FSA for professional bodies whose membership requirements meet certain criteria, including a clear code of ethics.

These proposals are intended to build consumer confidence. They could also assist in building the confidence of other advisory professionals in IFAs as standards and professional practices become more closely aligned to their own. It is anticipated that the RDR will initially see a decline in the number of IFAs. This could make IFAs a scarcer and potentially more valuable commodity among solicitors and accountants wishing to provide financial-planning to their clients.

At a very practical level, as solicitors are restricted from commission-based activities, the proposed Adviser Charging regime could widen the range of opportunities to work with IFAs.

⁵ These comments are based on proposals outlined in FSA Consultation Papers CP09/18: Distribution of Retail Investments (June 2009) and CP09/31 Retail Distribution Review: Professionalism (December 2009), which are both subject to further amendment.

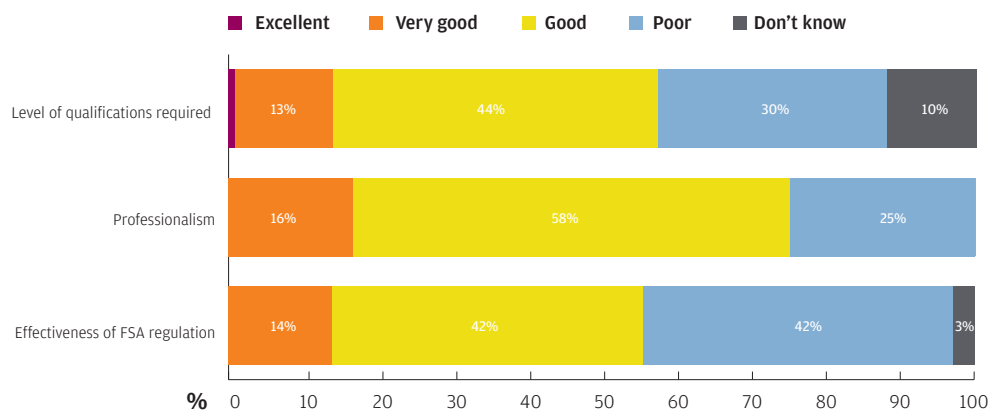
1.3 Perceptions of IFAs among solicitors and accountants

The Retail Distribution Review's aim to raise levels of professionalism among IFAs is to be timely as current perceptions of their expertise do not appear particularly strong. While the majority of accountants and solicitors ranked IFAs as good in terms of qualifications, professionalism and regulation, very few perceived them to be very good or excellent in any of these areas – see Diagram 6. Perception is marginally more positive among solicitors than accountants.

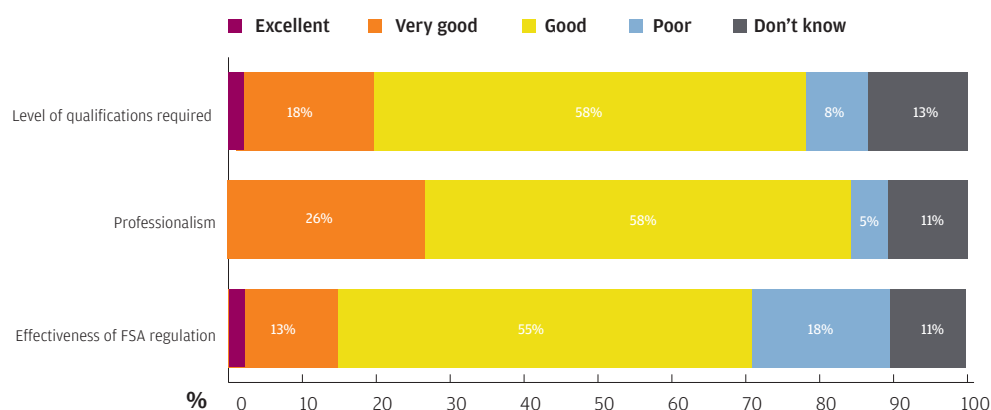
Diagram 6: Perceptions of IFAs

Question: Overall what is your perception of the IFA industry with regard each of the following?

i. Perceptions of IFAs among accountants



ii. Perceptions of IFAs among solicitors



Awareness of the Retail Distribution Review among solicitors and accountants is currently extremely low. Only 14% of accountants and 16% of solicitors in our survey said they were familiar with the RDR proposals. Only two accountants and no solicitors said the RDR had specifically encouraged them to explore the potential of working more closely with IFAs.

Comment

Low awareness of the Retail Distribution Review among solicitors and accounts is understandable given that the review is still at the consultation stage and its proposals won't be fully implemented until 2012/2013.

Nonetheless the potential positive implications of the RDR need to be properly communicated to other advice professionals if IFAs, as a sector, are to reap the full benefits of the uplift in their own professional standards.

Moreover it is worth pointing out that the financial services industry's approach to regulation has won fans within the legal sector. The Solicitors Regulation Authority's proposals to overhaul the Solicitors' Code of Conduct strongly mirror the FSA's own recently-adopted approach with a focus on outcome-based rather than 'tick-box' regulation.

The SRA says its proposals are designed to:

"...give flexibility by avoiding unnecessary prescriptive rules on process, while giving clear guidance on what it is that firms must achieve for their clients" (Solicitors Regulation Authority: Achieving the right outcomes January 2010).

This language will be very familiar to IFAs in their dealings with the FSA. As such, IFAs may be in an invaluable position to show solicitors how the transition from rules-based to outcome-based compliance can be achieved – and, just as importantly, how its implementation within a firm can be demonstrated to the regulator.

First-hand: Perceptions of IFAs

Although the Retail Distribution Review isn't widely known about, there is a widespread perception among solicitors and accountants that levels of professionalism among IFAs have improved. One accountant says:

"I do see [IFAs] as professionals because they offer a professional service. They are qualified, they are not people just walking off the street and saying, 'I am an IFA', they must have quite rigorous training to call themselves this."

Another adds: *"I think IFAs are regarded as professionals now or are getting that way...I think since the last Pension Act an IFA has had to be really on top of things. I think they will become to be regarded as more professional as the market has become so complicated that incompetents wouldn't survive."*

But there is a minority view that IFAs will struggle to be regarded as professionals due to the sales-based nature of their activities and the reputational issues of the past. One accountant says:

"Anyone of a (certain) age knows they used to just flog insurance policies...I do think that they may become more likely to be regarded as professionals in the future...(but) you can't turn flogging into a professional activity overnight."

But many professionals have picked up on rising standards and more stringent regulation and believe that the move to fee-based business models is a key part of this:

"IFAs appear keener to look more professionally qualified and regulated and, if they are prepared to take exams such as the Chartered Tax exams or equivalent, they should be treated on an equal footing. Historically, lots of IFAs worked on a commission basis and so you couldn't be certain you were getting truly independent advice. Now, as I understand it, there has been a shift to fee-based business models, which puts IFAs more on a footing with accountants and lawyers."

Profile: The accountant working with IFAs

Tim Page, Head of the Private Client Practice of Creaseys LLP, Chartered Accountants

“Creaseys is a regional chartered accountants based in Tunbridge Wells serving around 3,500 clients across the south-east and London. We have nine partners and a total of 80 staff. We have strong tax planning expertise within the firm.

For many years we maintained a subsidiary IFA firm with three to four qualified IFAs to meet the financial-planning needs of our clients. However, recently we took the decision that we needed to be in a relationship with a much larger IFA. Rather than expand the subsidiary we decided to set up a joint venture with an existing outside firm.

After a tender process, we chose to forge an alliance with AWD Chase de Vere. I had already worked with AWD through my own tax consulting business so I already knew the quality of their work. We were impressed by the enthusiasm they showed for a joint venture with us. We also liked their style of interacting with clients: like us, they are focused on building long-term relationships and are willing to invest time with clients, even if that's unpaid.

Our clients range from basic tax and accounts cases to high net-worth non-domiciled with very complex arrangements. Being able to address tax and financial-planning together is a very attractive proposition to clients right across the spectrum. When people ring us up they are often looking for a firm that can do both – so it can be a deal-breaker, in many cases, if you can't.

At a first meeting, one of us from each firm will look to attend and it gives the prospective client a lot of confidence that there are two people in front of them getting a full picture of their circumstances. Lots of the routine tax and financial-planning work might then be conducted separately but we might both meet up with the client once a year to review their arrangements.

I think joint advice has been especially valuable for inheritance tax-planning, where there need to be discussions about investing surplus assets and setting up trusts. The client gets a more rounded solution. It's also highly beneficial in family situations where you are looking to make the most of each member's tax status and determining where they should invest for growth or income.

AWD works on a commission basis and Creaseys has a time-based fee structure. That can sometimes be challenging to explain to the client but as long as the commission structure is fully transparent, it need not be a problem.

We have been working with AWD since July 2009. We have invested time and resources to embed the relationship properly because you are dealing with two quite different cultures and so there are still barriers to break down.

So, for example, we look to ensure that everyone at every level of the organisation understands the relationship and why it's there. We have also had a lot of education internally. AWD has come in to explain financial products and their own planning techniques and that has given our people a lot more confidence in those areas.

We have also conducted joint marketing and provided each other with a platform at each others' events and conferences. That is certainly allowing us to tap into new client opportunities and deepen our perspective on the whole process of advising clients.

The decision to work with a big national firm has been pivotal for us because it reflects the type of firm we are and our own ambitions. There's no necessity for us to be part of the same firm – I think the client benefits from having two different but complementary cultures working together on their behalf.”

Part Two

Making connections

If IFAs want to build professional connections – how should they go about it? In this section we consider how accountants and solicitors source IFAs to work with and the attributes they look for in the advisory firms they use.

2.1 Sourcing IFAs to work with

Personal recommendation and qualifications are key

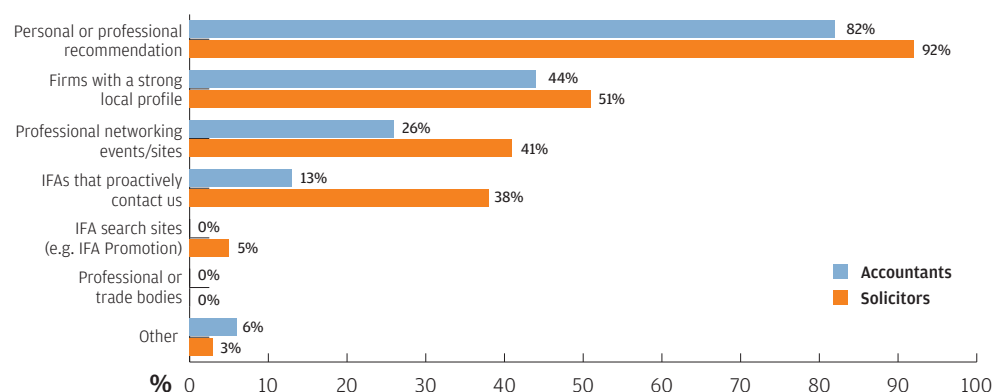
Networking and profile-building are key to building presence in the professional connections market. The vast majority of accountants and solicitors say they source the IFAs they work with through personal or professional recommendation – see Diagram 7. Firms that haven't been recommended but that have a strong local reputation and profile are also likely to come onto their radar. There is also a reasonable level of engagement with professional networking sites and services. This is especially true among solicitors, a growing number of whom are likely to identify suitable IFAs through SIFA (see 'Sourcing IFAs through SIFA', below).

There is also a strong case for proactivity – 38% of solicitors say they have used IFAs who contacted them first.

However, resources created by the IFA industry itself appear to have little impact to date. No accountants and only 5% of solicitors use IFA search resources such as IFA Promotion.

Diagram 7: How professionals source IFAs to work with

Question: Which of the following sources has your firm used as a means of identifying suitable IFAs to work with?



Sourcing IFAs through SIFA

SIFA, the support body for solicitors working with IFAs, has established an online Directory of IFA firms to help solicitors identify IFAs whose expertise complements their own and who may therefore be suitable associates for client referrals, joint ventures and other forms of business structure. To qualify for inclusion, IFAs need to satisfy certain defined criteria of professionalism. They must:

- be independent
- be directly authorised
- be fee-based
- possess QCF4-level qualifications as a minimum, and
- be owned wholly or partly by solicitors or accountants or have their application endorsed by a solicitor or accountant.

The Directory – www.sifa-directory.info – is endorsed by the Law Society and accessible via the Law Society's website. The site also provides solicitors with access, via the listed IFA firms, to SIFA's handbooks, compliance support and marketing material.

Comment

The methods by which accountants and professionals identify suitable IFAs indicate a level of passivity: both types of professionals tend to use IFAs that readily come onto their radar – they do not actively seek IFAs out.

It is therefore up to IFAs themselves to work to specifically build awareness of their services and reputation in the professional community. It cannot be assumed that an IFA business – however successful with among its clients – will automatically be known among other local professionals.

Marketing to professionals

Where an IFA is taking the initiative to build professional connections with a solicitor or lawyer, it is valuable to show both commercial and technical expertise – and to suggest ideas that can add benefit its core business and target client-base without placing excessive new demands on its activities or resources.

Here are some suggestions for marketing IFA services to solicitor or accountancy firms:

- offer to arrange joint client seminars on topics where there is high interest and clear overlap between advice professions – e.g. inheritance tax and estate planning, equity release, management of settlements/compensation.
- offer to speak at the solicitor's or accountants client events or annual conference and invite them to speak at yours.
- maximise the opportunity for reciprocal business leaders – for example:
 - invite solicitors to act as trustees, review client wills, arrange powers of attorney or pre-nuptial agreements
 - invite accountants to do tax-return work, review inheritance tax arrangements, sit in on high-net worth client financial-planning sessions
- offer to provide reviews of trust portfolio investments – remind trustees of their obligations under the Trustee Act 2000 to review trust portfolios and ensure suitability of investments and tax wrappers
- agree with partners that your marketing material should refer to the solicitor/accountant relationship and vice versa
- offer to conduct workplace financial-planning sessions to the firm's corporate clients
- offer personal financial-planning reviews to a firm's partners and associates

With thanks to SIFA, www.sifa.co.uk

2.2 Evaluating IFAs

When assessing an IFA to work with/recommend, both solicitors and accountants put very high emphasis on recognised professional qualifications – see Diagram 8. Chartered or certified status is highly sought after and is considered very important by twice as many respondents as an IFA's length of experience. A strong cultural and personal fit with the professional's own firm is also a strong deciding factor – especially among accountants. Solicitors appear more interested than accountants in IFAs who offer the opportunity for high-quality referrals from their own client-base.

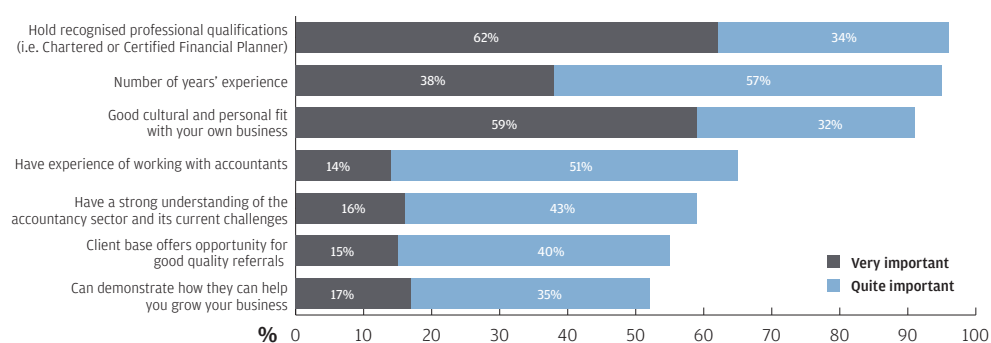
Neither group expects an IFA to have extensive past experience of working with accountants or solicitors. However, one in four solicitors believes it is very important that an IFA understands the challenges facing the legal sector so a thorough knowledge of the Legal Services Act among other issues may be of value.

Ideas on how to help the solicitor or accountant to grow their own business are generally considered a 'nice to have' but are by no means a deal-breaker – although as we shall see later, firms are highly amenable to ideas that can improve levels of client referral or levels of new business from existing clients (see Part Three, page 25).

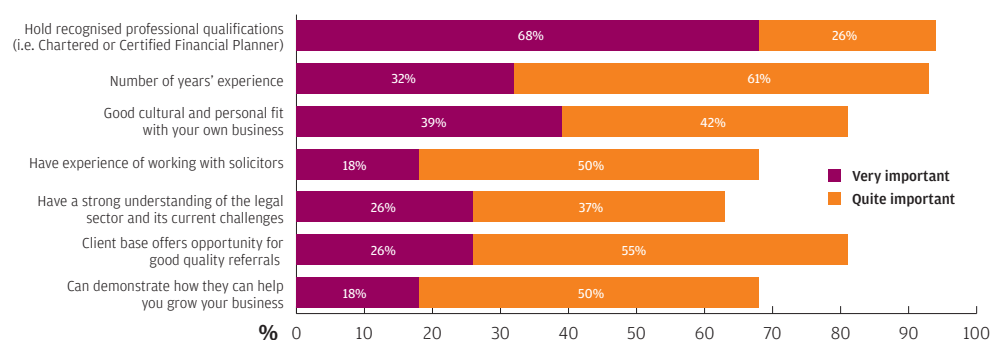
Diagram 8: Positive factors when evaluating an IFA

Question: Overall, if you were evaluating a new IFA, how important would each of the following be?

i. Accountants



ii. Solicitors



First-hand: Making a good fit

Asked what they look for in the IFAs they work with, many solicitors and accountants talked about empathy. Put simply, these professionals are looking for IFAs who can give the same level of personal service that they would give to the client themselves.

One accountant says: *"I look at how easy the person is to get on with, if they show empathy to clients... generally I would endeavour to go with smaller wealth management type firms as I feel the service will be better and more personal."*

There is also a strong concern that the adviser demonstrates good advice not simply that they are chasing sales. In some cases, this creates a preference for smaller advisory firms. An accountant says: *"I prefer smaller wealth management type firms because I feel that an IFA should be looking after their clients' best interests, we don't want them just going for the transactions...they have to give the clients best advice and if the best advice is to do nothing, then so be it."*

A solicitor says the ability to explain the complexities of transactions is essential: *"We want advisers who can explain matters in detail, who spend time ensuring people understand what they are doing. It's not about who makes a client the most money but who can explain precisely what the risks are."*

Empathy also needs to extend to the people the adviser is working with. One solicitor says: *"When we involve an IFA, it is usually part of a particular transaction and so they are part of a team. Whatever we are doing, the most important part of delivering to a client is having a team that works together. The IFA may not be so regularly involved in the transaction but it is still vital they fit into the team and understand what is involved and how everything works."*

Comment

Solicitors and accountants both put great value on an adviser's qualifications. But very few are likely to know what an IFA's required qualifications entail. Any presentation to a solicitor or accountant firm should therefore include a thorough explanation of both base-line and advanced qualifications and an explanation of the new minimum standard imposed by the Retail Distribution Review.

IFAs with Certified Financial Planner status from the Institute of Financial Planning or Chartered Financial Planner status from the Chartered Insurance Institute/Personal Finance Society should foreground these qualifications, detailing their differing requirements and the code of ethics/conduct entailed in membership.

IFAs that can clearly demonstrate that their technical knowledge, experience and standards of conduct are on a par with the professional's own are likely to achieve the greatest success in the professional connections market.

2.3 Preferred IFA business models

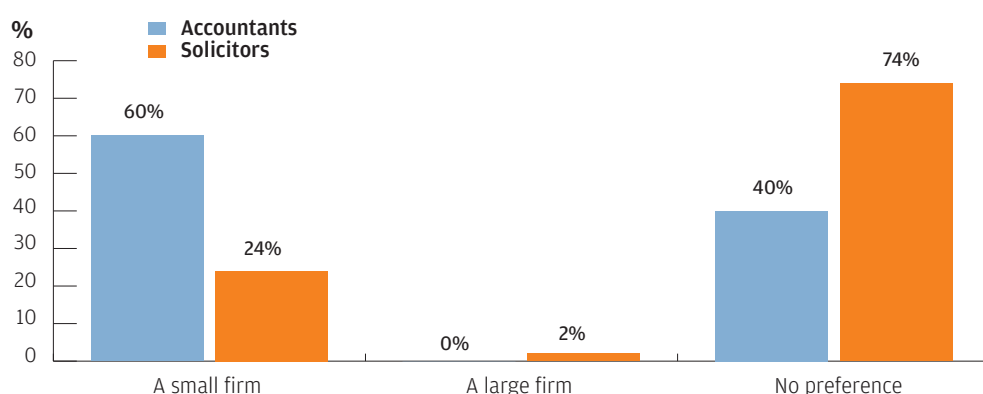
Small, fee-based wealth managers sought most

In terms of an IFA's business structure, there are few clear preferences – see Diagram 9. Sixty percent of accountants say they prefer to work with a small IFA firm whereas three-quarters of solicitors say they have no preference regarding an IFA firm's size (although it is noticeable that barely any of our respondent firms actively seek out large IFA firms). IFAs that focus on wealth management for a small number of clients are preferred over sales-focused firms transacting at high volume – although around half of respondents say they have no preference about a firm's operating model.

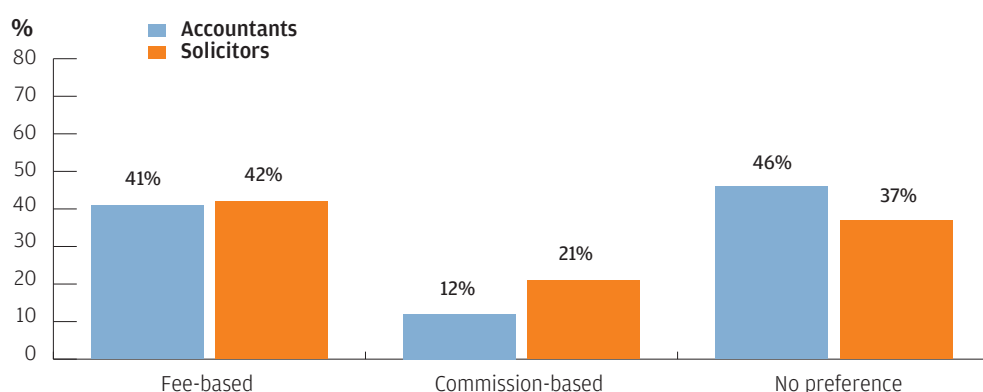
In terms of remuneration, over 40% of accountants and solicitors both say they actively seek out an IFA who charges on a fee basis. Even so, a significant minority, including a fifth of solicitors, actually prefer IFAs who work on commission. This is perhaps surprising given that the Solicitors Regulation Authority has given guidance that firms should work with IFAs that offer the option of fees (see Part One, page 18).

Diagram 9: Preferred attributes in IFA firms

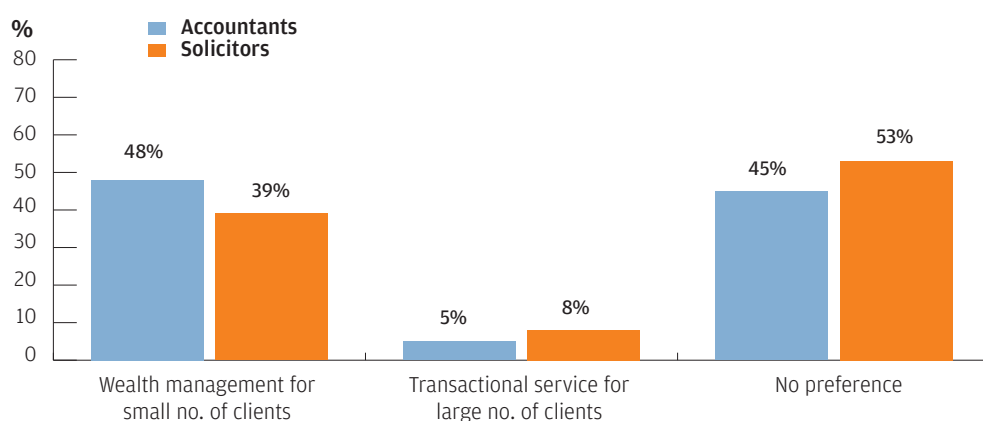
i. Size



ii. Remuneration



iii. Operating model



First-hand: Fees v Commission

Our research suggests that the issue of whether IFAs are paid by fees or product commission is less of a deal-breaker than originally assumed. As fee-based professionals themselves (solicitors are restricted from retaining commission without the client's consent and the SRA indicates that IFAs must offer the choice of fees), one might expect solicitors and accountants to use only IFAs who work on the same basis.

But general opinion is that each client should be able to choose between fees or commission, based on their own preference and ability to pay:

One accountant says: *"It very much depends on the mentality of the client, it's horses for courses. If a client is used to paying professionals for a service then they will be prepared to pay an IFA a flat fee or a percentage fee for their services. However if they are not used to it...then they are better off [paying] commission."*

While many accountants believe fees reflect an IFA's impartiality – they still agree the decision should be down to client choice: *"Fee based or commission depends on the client. The pros of having someone that is fee based is that they are not dependent on the commission, I know that all IFAs are supposed to be independent, but can you be truly independent when your livelihood depends on commission? So someone who is taking a fee is perceived to be more independent."*

"As long as the client can afford it I would generally go for fee based just because I feel that they would get the best advice. The IFA will be doing their best knowing they will get paid for their time and there won't be the pressure of having to earn the commission which can be a problem. If you have an IFA who is a bit unscrupulous then they could just advise to get the highest commission. A lot of people do get put off by upfront fees though."

A few solicitors were far less equivocal, championing fees as being unambiguous and ensuring the client gets advice not a sales pitch. *"Ideally [IFAs] would be fee-based- I am fee-based and am always uneasy with a commission-oriented adviser as to whether they are unbiased."*

Another adds: *"In the line I am in – corporate law – everyone is very fee-driven and would expect people to sign up on a fee basis rather than work on commission. In the modern market and with the sort of areas we deal in, a fee-based approach is far more understandable and acceptable to clients."*

But there are still some solicitors who feel it is for the client to decide and that the benefits aren't completely clear cut: *"It's all a bit of sleight-of-hand really. Broadly IFAs should be fee-based but, by the time commissions have been set off against fees, they amount to roughly the same thing. Still, I like the idea our IFA submits to the same discipline as us by treating commission as clients' money."*

One solicitor says he doesn't mind so long as the cost is made completely clear: *"We're quite happy dealing with commission as long as the client understands exactly what's involved. It can be more painless than signing over a cheque."*

Comment

The issue over fees versus commission is mainly driven by concerns over client affordability. While solicitors and accountants are concerned that commission can bias advice they also have reservations whether clients will be willing to pay another set of fees to an IFA.

The adviser charging regime being proposed in the Retail Distribution Review may go some way to allay these concerns. Under the RDR proposals, IFA remuneration will no longer be determined by product providers. Second, adviser charging also aims to provide more flexibility in how consumers pay for advice – whether as a separate fee or gradually out of contributions.

Given the low awareness of the RDR among our survey sample, IFAs may benefit from including an explanation of the adviser charging proposals – and how they are planning for them – in their discussions with solicitors and accountants.

Profile: The solicitor-IFA joint venture

Jennie Pratt, Partner, Wealth Management Team at Kester Cunningham John Solicitors, Cambridge

“Much of our work in wealth management involves estate planning. In the past, we worked solely with a range of external IFAs to provide clients with financial advice. But it was often difficult to find high-quality advisers that we could confidently put in front of our clients. When we did find a good IFA, he or she often moved firms.

To be able to offer our clients a genuinely joined-up advisory service, we realised we needed to form a more formal relationship with financial planning specialists. We therefore approached Price Bailey Chartered Accountants, which has a highly-qualified team of IFAs, to form a joint venture. This led to the launch of Kester Cunningham John Financial Planning in 2008.

The joint venture is structured as a limited liability partnership. Partners from both firms sit on the board. Various fees are paid to each firm for services provided. Surplus revenues are divided equally between the two firms, although the majority tend to be reinvested into the business as we are keen to grow and expand what we do.

The feedback from clients is extremely positive. For example, when we are talking to a client about trusts, it's great to discuss the legal and tax issues and then immediately follow up with a discussion on investments. It tends to speed up a client's decision-making because they aren't required to go to elsewhere to have that investment discussion. It can also reduce the cost to the client.

The client pays for everything on a fee basis. No commission is involved. We try to be flexible in how we charge. Sometimes we can offer clients a package for legal, tax and investment advice. Often these elements will be billed by different entities and at different frequencies. To take an obvious example, a client may revise their will only every five years but their investment portfolio will be reviewed every year.

The joint venture is intentionally niche in what it provides – a first-class service for high net worth clients. We do still have successful commercial relationships with other financial advisers who handle mortgage work, smaller one-off investments and commercial schemes. We also look to Kester Cunningham John Financial Planning and Price Bailey for team training, for feedback on business development and to strengthen our marketing efforts. Getting a different perspective from non-solicitors is highly valuable to us.

I think the creation of the joint venture will stand us in good stead when the Legal Services Act is implemented. For a start, it means we are already able to offer a range of services under one roof. But more than that, it shows we are open-minded, that we are prepared to experiment and to take bold steps. In a post-LSA world, those are qualities that will really count among legal firms.”

Part Three

Working together

Once a suitable IFA has been identified, how do solicitors and accountants want to work with them? This section looks at preferred business models and the most sought-after areas of advice and collaboration

3.1 Terms of engagement

Professionals look to keep affairs separate

When it comes to working with IFAs, the concept of the one-stop advice shop appears to have little traction as yet. The bulk of accountants (45%) simply want to continue to refer clients to an IFA with no additional interaction, as do a fifth of solicitors – see Diagram 10.

However, two-thirds of solicitors say they are keen to find opportunities to work more with external IFAs to increase business and diversify their proposition. But only 3% are interested in creating a joint venture to do this. Only 5% of solicitors or accountants are interesting in setting up an IFA operation within their existing organisation.

Likewise, neither accountants nor solicitors show much interest in consolidating advice revenues. Over 70% prefer that clients continue to be billed for an IFA's services completely separately from their own activities – see Diagram 11.

Diagram 10: Preferred terms for working with IFAs

Question: *On what terms would you ideally like to work with IFAs in the future?*

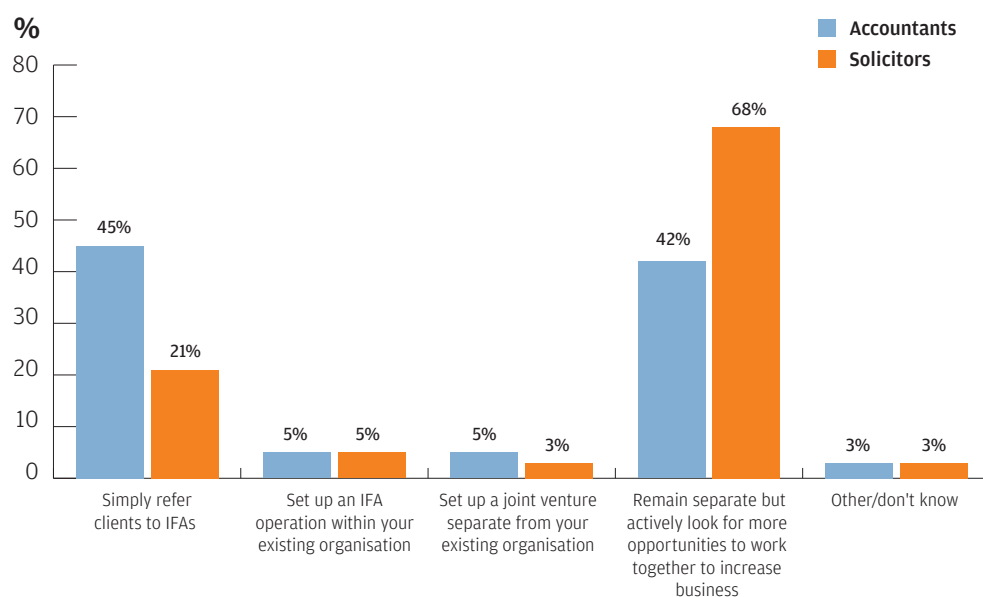
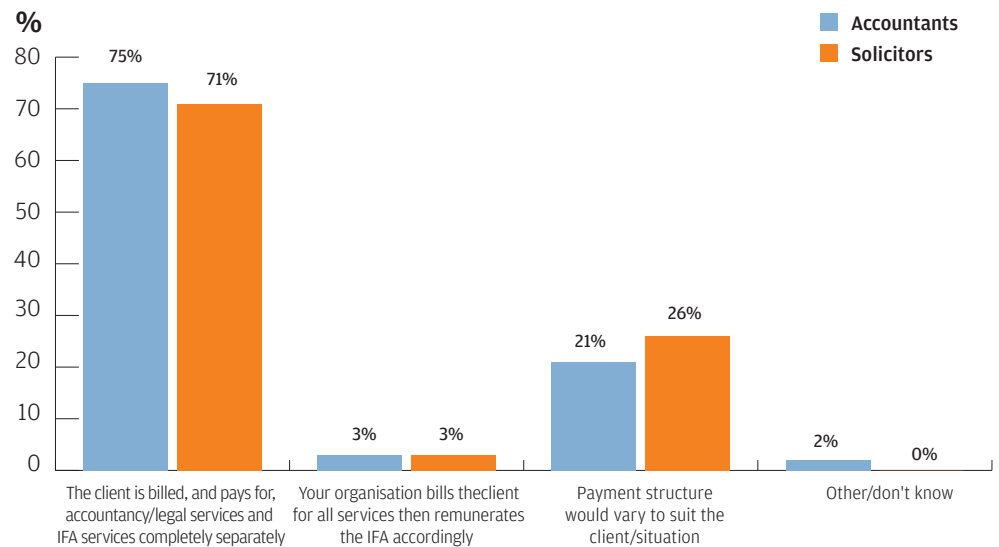


Diagram 11: Preferred method of billing clients for IFA work

Question: When working with an IFA, which of these methods of client billing would you prefer?



Joint ventures

Many accountants and solicitors may be happy simply to refer clients to an external IFA for financial-planning requirements. But others may prefer to manage the relationship on a more formal basis where revenues from joint client activities can be shared.

Currently, the simplest way to do this is to set up a joint venture. Joint ventures are of particular relevance to solicitors: to have a financial interest in a business that does not provide legal advice and is therefore not regulated by the Solicitors Regulation Authority (SRA), it must be set up as a 'solicitors' separate business'.

A strong selling point of a joint venture (over, say, an in-house financial services department), is that it enables the professional firm to participate financially in the venture while responsibility for compliance with FSA regulations can be delegated completely to the participating IFA.

The structure of joint ventures present a range of options:

Limited company or LLP – Assuming the participants want a formal legal structure, a joint venture can be structured either as a limited company or a limited liability partnership. If the IFA entering the joint venture is a limited company, then structuring the JV as an LLP can offer tax advantages. A reduced rate of corporation tax applies to small companies whose profits do not exceed a certain level (£300,000pa in 2009/10). However if a company has control of one or more associated companies, then this threshold is divided between them. Conversely a limited company structure can enable solicitors/accountants to be non-executive directors excluding them from front-line involvement with the FSA, which some may find preferable.

Equity allocation – Many JVs will be set up with a 50:50 equity split. However this can risk deadlock on decision-making. Some IFAs may want equity control if they are running the JV and managing regulatory compliance. Conversely to speed up decision-making, some IFAs may rescind 100% equity ownership to the solicitor/accountancy firm and secure their own position through a management agreement and share options.

Regulatory oversight – A JV can be directly authorised by the FSA but it can be more convenient to make it an appointed representative (AR) of the participating IFA firm in order to be regulated. Clients of the JV and the income from them should be clearly ring-fenced from the IFA's other business. An AR will have its own FSA authorisation number but will be covered by the IFA firm's professional indemnity cover. It is important to note that an IFA firm with five or more ARs will be classified as a network and subject to increased capital adequacy requirements and regulation.

SIFA in association with solicitors DWF LLP has produced a documentation kit for joint ventures between IFAs and professional firms. For further details, contact sifa@sifa.co.uk

3.2 Areas of client advice

IFAs can potentially advise on a wide range of areas. Most of these were of some or great interest to our surveyed professionals, the notable exception being debt guidance – see Diagram 12 below.

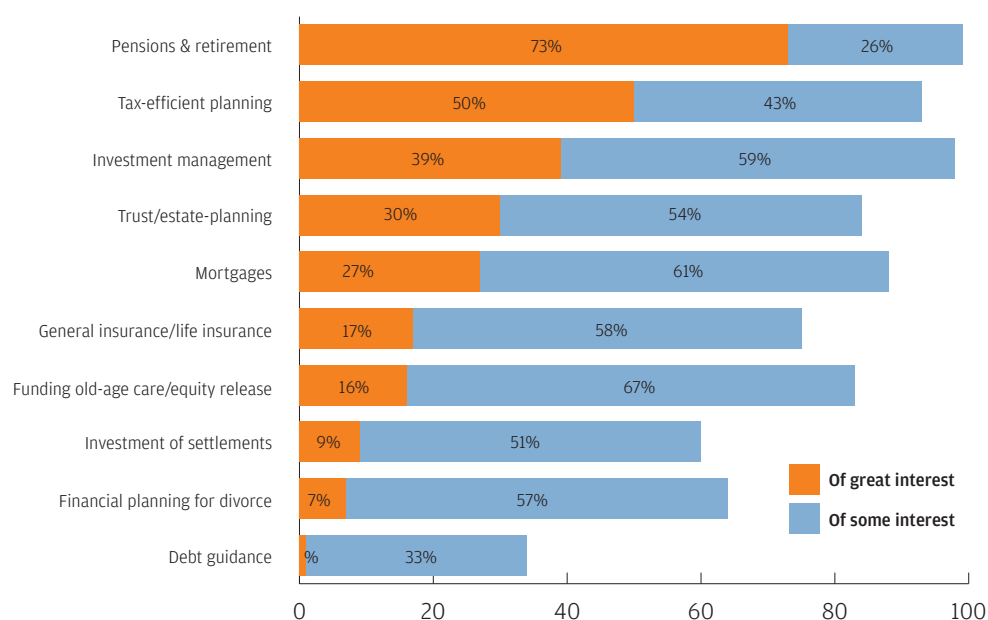
However, IFAs looking to service solicitors and accountants may benefit from targeting their areas of expertise carefully as the areas of advice sought by solicitors and accountants still differ quite markedly. For example, advice on pensions and retirement is sought by both groups – but only 24% of solicitors say it is of great interest to their clients compared to 73% of accountants. Likewise, trust and estate planning is of great interest to 45% of solicitors but only 30% of accountants. Financial planning for divorce was cited of great interest by 26% of solicitors but only 7% of accountants.

IFAs should also note the high level of interest among solicitors in old-age funding and equity release schemes (where older individuals release the value of their home through a lifetime loan).

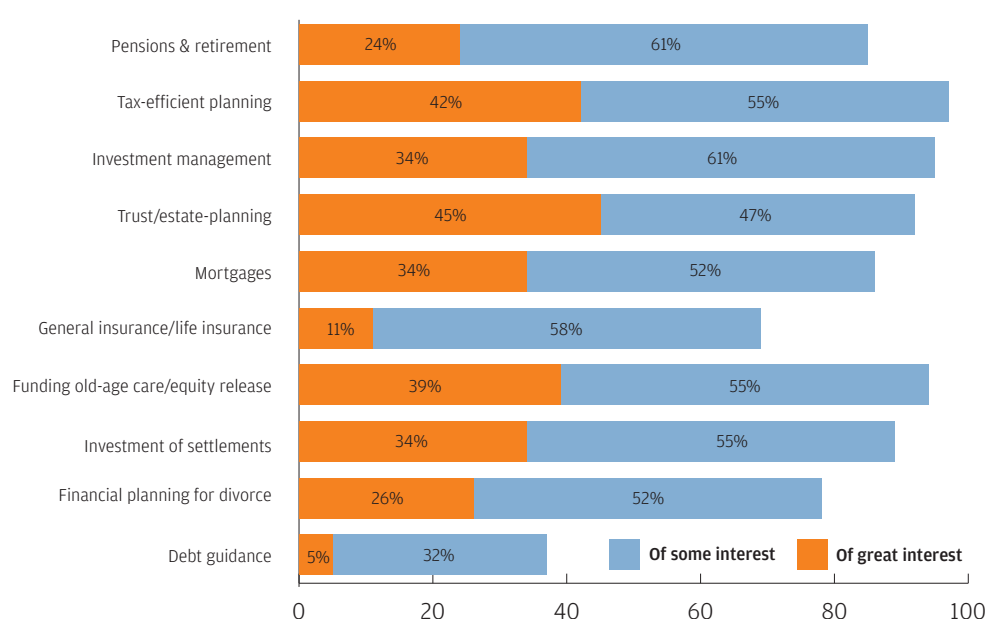
Diagram 12: Most important areas of IFA advice

Question: *Of the areas that IFAs can advise on, how interesting are the following to your clients?*

i. Accountants



ii. Solicitors



First-hand: Clarify your proposition

IFAs looking to expand into the professional connections market may benefit from clarifying and focusing their areas of expertise rather than promoting themselves as generalist financial advisers. One criticism of IFAs raised in our interviews was that it was often unclear what an IFA could offer.

One solicitor says he needs to understand an IFA's strengths so business can be assigned accordingly. *"The services IFAs provide are very wide-ranging and some are better at some things than others. We have learnt over time to cherry-pick services. It would help a lot if IFAs said which services they offered that were special, rather than pretending they can be all things to all men - which they can't."*

Another solicitor agrees: *"As with accountants and lawyers, it helps to have a picture of what a firm or an individual's skill-set is. It's nice to know where someone thinks their skill-set lies as it helps us to tailor our own advice to a client."*

In our survey, 84% of accountants said that an unclear proposition was one of the biggest deterrents when selecting an IFA firm.

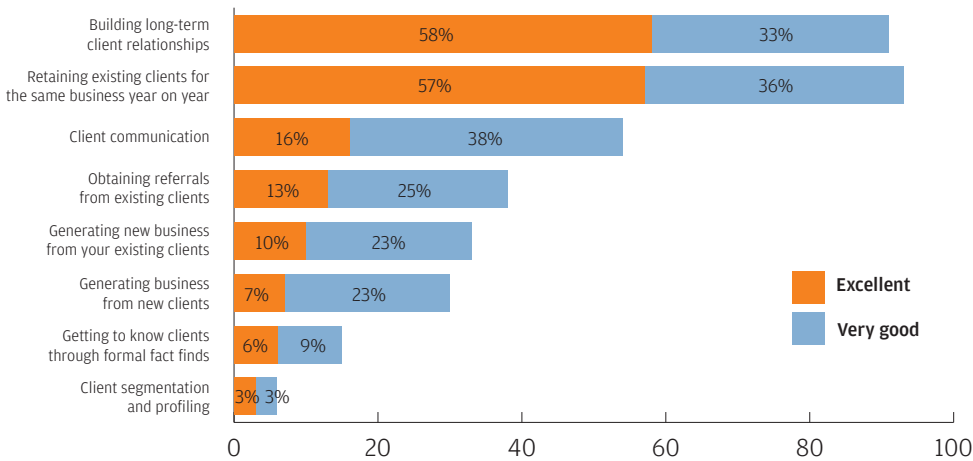
3.3 Adding further value

As well as providing financial advice to their clients, we also wanted to assess if accountants and solicitors felt they could benefit from strong IFA relationships in other ways. In particular, we were interested to see if these professionals could learn from IFA client management practices such as Know Your Client and Treating Customers Fairly.

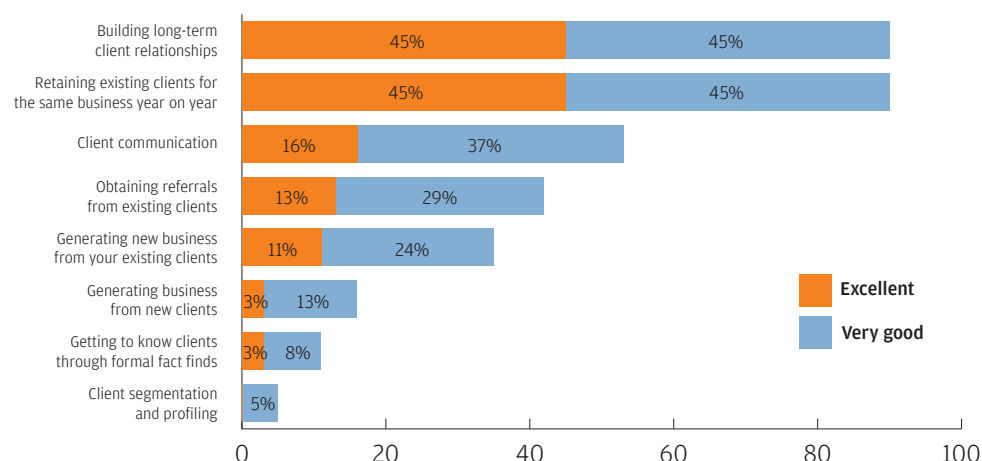
Certainly, accountants and solicitors both feel there are areas of their client management that could be improved. Client fact finds, segmenting and client profiling appear to be areas of particular weakness - see Diagram 13. Fewer than half of respondents in both professional groups believe they have strong client referral processes in terms of generating new business and new client leads from existing clients. Only just over 50% of respondents believe they offer strong client communication. The only areas where both accountants and solicitors appear to feel they excel are in servicing their existing client business - i.e. long-term client relationship and retaining the same client business year on year.

Diagram 13: Client management skills
Question: How would you rate your firm with regard to the following activities?

i. Accountants



ii. Solicitors

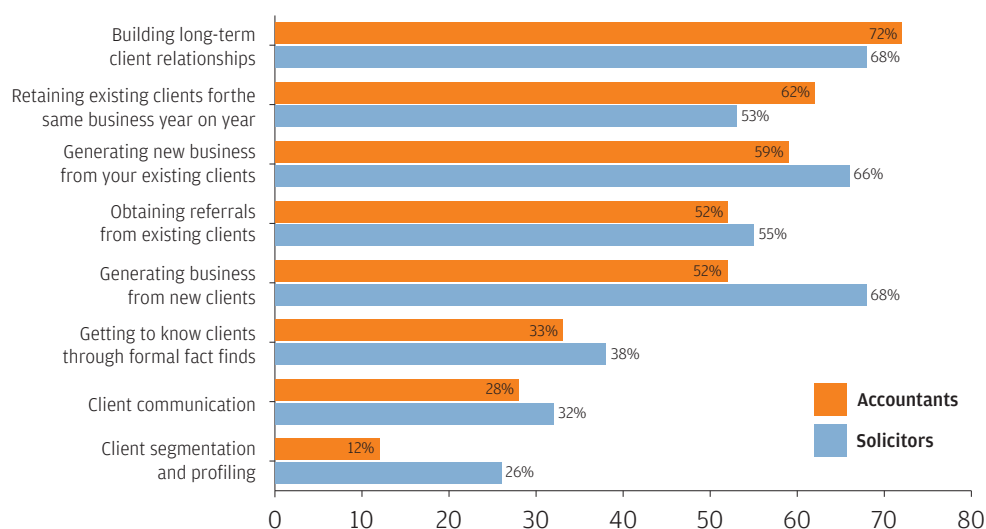


There are, then, a number of areas in which IFAs could potentially help add value by sharing their own experiences and practices. Well over half of accountants and two-thirds of solicitors believe a relationship with a suitable IFA could help them improve levels of business generation from new and existing clients – see Diagram 14. Over two-thirds also believe a strong IFA relationship can strengthen their long-term client relationships.

The areas in which our respondents believe they could benefit least from working with an IFA are also those areas in which they feel themselves to be generally weak – namely client fact finds, communication and client segmentation. Solicitors generally appear more amenable to receiving IFA input in these areas than accountants.

Diagram 14: Client management benefits of IFAs

Question: *In which of the following areas of client management do you think your firm could benefit from having a good relationship with a suitable IFA?*



Showing the value of client analysis

IFAs have been using client segmentation, profiling and fact finds as business tools for many years. But as our research has shown, these are largely unfamiliar practices among solicitors and accountants.

Therefore, there may be a very lucrative opportunity for IFAs to demonstrate how deeper client knowledge, analysis and relationship-building have enhanced their own business – and how these techniques could be applied by other professional firms to help ‘mine’ their client base more effectively.

For example

- **fact finds** – demonstrate the full fact find process and how this translates into financial advice and better client understanding. Highlight the aspects of the fact find that might be particularly relevant to solicitors or accountants. Offer to include questions that might be relevant to these professionals.
- **client leverage** – law firms in particular tend to treat clients as the assets of one partner. Build a matrix to show the different touch-points for a client across different divisions of an IFA firm – then see how that could be reinterpreted for a solicitor or accountancy firm.
- **client referrals** – propose a brainstorming session with the solicitor or accountancy firm in which to consider the type of clients dealt with and create a profile describing them and their likely needs. Consider what referral opportunities exist and what obstacles need to be overcome. Then show how a plan of action can be drawn up to start generating referrals, monitor progress and keep participants informed.
- **management information** – show how sales MI is managed in the IFA world to identify profitable/unprofitable business and to identify potential opportunities/risks (pension consolidation, unused tax allowances, inefficient spousal distribution, inappropriate asset allocation). It can be shown how this knowledge enables an ongoing dialogue with the client and encourages further assets to be placed with the firm.
- **client segmentation** – show how client profiling has enabled your firm to target client servicing efficiently, for example, execution-only servicing to full financial planning. Demonstrate how different profiling (age, wealth, goal or profitability) can be applied to give clients a highly tailored service and to anticipate their changing needs over time.
- **communication** – show how newsletters, mail-shots, email and online campaigns have translated into new business. Outline a list of topics throughout the year that your firm could write on for a solicitor or accountant’s own newsletter or website.
- **client reporting** – demonstrate how IFAs are making use of portfolio analysis technology by presenting high-quality research reports, asset allocation analysis and cash flow forecasts based on real client portfolios.

Profile: The IFA working with solicitors

Dave Robinson of Albert Goodman Chartered Financial Planners

"I have been forging professional connections throughout my career. I started life as a practising accountant and after qualifying re-trained as a financial adviser partly because I recognised that tax advice leads on to a need for financial advice.

My background naturally led me into working as an IFA within accountancy practice. This suited me extremely well because accountants work as I do – offering a high level of technical knowledge on a fee basis with a clear focus on long-term planning and client relationships.

In 2005 I moved my clients to Albert Goodman Chartered Financial Planners, which is a wholly owned subsidiary of Albert Goodman Chartered Accountants. I became a Partner in the Accountancy practice and a Director of the financial planning subsidiary. Our strength is the calibre of our people – four of our team, including me, hold Chartered Financial Planner status and we also have two Certified Financial Planners. We use a trading style of "Chartered Financial Planners" so we can demonstrate to our introducers that we hold qualifications equivalent to theirs.

Our solicitor connections largely came about because my colleague Clive Weir and I offer specialist services which are of interest and help to them. I advise clients in later life, compensation recipients and trustees and Clive specialises in pensions, particularly pensions and divorce and in advising divorcees. We each spent years building our knowledge and skills in these areas and gaining further relevant qualifications (i.e. SOLLA, STEP, Resolution accreditation amongst others). Now around 95% of our work is introduced by solicitors or barristers.

It is an extremely beneficial relationship for both sides. Solicitors are keenly aware that their clients generally consult with them only when a particular event has happened (i.e. a death, divorce or dispute). Therefore they may not get particularly close to those clients. When we implement financial planning strategies for them we meet the clients at regular reviews – this often enables us to build a bridge between the solicitor and their client and is a way to identify further legal work for the solicitor as appropriate.

Most of our work is conducted on a 3rd party referral basis but we are considering a joint venture with one firm of solicitors. This approach can work well for the right firms – effectively it enables the lawyer to set up a chartered financial planning business under their brand but with us retaining responsibility for compliance, insurance and for providing all the resources required including staff. Thus the lawyer can offer the service at little cost and risk and we have a good source of clients.

Success with professional connections requires impeccable qualifications, good experience and a fee-based approach. We also believe it is important to specialise as our introducers do. In addition to Clive and my specialisms, others specialise in business owners, group schemes, pre-retired clients and so on.

We also believe cultural alignment is vital. Anyone going in and looking to maximise product sales and commission earnings will probably not last long.

I'm very hopeful that a genuine financial-planning profession is now emerging. We are now seeing financial planners and lawyers working together to raise standards of advice – for example, Solicitors for the Elderly and the Society of Later Life Advisers, or Family Lawyers and Resolution accredited financial advisers. Collaboration of this kind can only be a good thing for our clients."

Conclusion

The legislative building blocks are in place to create stronger professional connections between IFAs, accountants and solicitors. The Legal Services Act in 2011 may herald a new era in multi-disciplinary practice (MDP) in England and Wales. However our findings suggest professionals are exploring the potential market tentatively as yet.

The market for simple IFA referrals from accountants and solicitors appears healthy and most professionals agree it has potential for further growth. IFAs wishing to build a more ambitious and integrated advice proposition with solicitors and/or accountants will need to overcome a widespread reluctance to merge business interests or revenues.

That said, our one-to-one interviews with firms that have formed joint ventures show that the experience has been consistently positive. We are confident therefore that a strong market potentially exists for more formally structured interaction between the different professions.

Winning attributes in the IFA referrals market

IFAs wishing to build professional connections need to be keenly aware that solicitors and accountants are highly protective of their own professional standing and reputation. They are sensitive to the potential reputational risks entailed in making client referrals. This sensitivity is compounded by the scepticism that still persists regarding the professionalism of IFAs.

So, while our research discovered that these professionals can be flexible in terms of the type of IFA firm they refer to in terms of size of firm and operating model, some criteria are less negotiable.

Core attributes that IFAs must display are:

Excellent qualifications – Both solicitors and accountants expect IFAs to demonstrate qualifications on a par with their own and ideally certified or chartered status. Recognised qualifications are seen as more important than extensive years of experience.

Strong reputation – Overwhelmingly, accountants and solicitors have identified IFAs to work with through personal or professional recommendation, local profile and business networking. Very few have relied on remote resources such as trade bodies or IFA sites. IFAs that are locally known and respected are likely to forge the strongest and most extensive professional connections.

Clear areas of expertise – IFAs that can demonstrate a clear area of expertise are likely to attract more interest and credibility than generalist advisers who claim to do everything. It is also important to assess a solicitor or accountant's main areas of activity (divorce, probate, trusts, personal, corporate etc) and target expertise appropriately. The advice needs of solicitor clients can differ markedly from accountancy clients.

Focus on advice not sales – Our interviews show that the image of IFAs as insurance salesmen still persists. Solicitors and accountants are sensitive to any indication that their clients are being sold to rather than advised. Advisers must be willing to invest time in client relationships even if this doesn't result in any immediate revenue.

Flexible remuneration – Contrary to our initial expectation, accountants and solicitors are not insistent that IFAs need to work for a fee rather than commission. While fee-based services are generally preferred, these professionals are primarily looking for IFAs with the willingness and flexibility to work around the budget and preferences of their clients. However, support for commission comes primarily from the fact that it can be deducted gradually from a client's investments rather than requiring upfront payment.

A need for IFA proactivity

Client referrals are likely to remain the most fruitful area of the professional connections market for now. However our research suggests that solicitors and accountants are receptive to the idea of working in new ways with third-party IFAs to develop their own business and provide clients with greater value-added services.

Solicitors in particular understand the urgency to explore new business models to protect themselves against potential new entrants to their sector in the wake of the Legal Services Act. The main drawback is that many accountants and solicitors have neither the time, resources, nor often the business acumen, to move away from their core activities to explore these ideas in depth.

IFAs may have to take the lead both in contacting firms and in demonstrating the opportunities that exist. But given that IFAs tend to be more commercially minded – particularly more so than solicitors whose current partnership model often stymies enterprise – this can be an advantage. IFAs have had to learn how to weather regulatory and commercial headwinds for many years. Solicitors now face dramatic market liberalisation and a major overhaul of their code of conduct. There is much the latter can learn from the former – be it in terms of expanding their advice proposition, to making full use of client fact finds and referral opportunities or adopting outcome-based regulation.

And proactivity can pay off – as we have seen, almost 40% of solicitors who make IFA referrals say these relationships have stemmed from IFAs contacting them first.

Of course, all the advice professions are currently battling with a severe economic downturn which as one solicitor puts it means that 'most law firms are trying to keep their heads down and anything involving risk is being frowned upon'.

As the economy recovers, more solicitors and accountants may be in a position to address ambitions such as creating alternative business structures or joint ventures. When this happens, IFAs who possess the attributes we have outlined – and who have already made efforts to build strong referral relationships – will be the most likely beneficiaries.

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