Your business could be a national firm, or it could just be you and your partner making a difference in your local community. Regardless of size, it’s important to consider what will happen when you leave.

If you’re on the smaller side

According to the FCA, smaller companies remain a significant part of the intermediary sector, with almost nine out of ten financial adviser businesses having five or fewer staff. But at this size, figuring out a succession plan could be more difficult.

In fact, we conducted our own research and found that one quarter (24%) of sole traders think of succession planning as one of their top three business challenges. Starkly different to the 8% for firms with five or more registered individuals.

Let’s explore what this means for your business and what you can do to get ahead.

Although you may not be thinking about retiring anytime soon, according to The Heath Report 3, one in five financial advisers could leave the industry in the next five years through retirement. So, thinking of a game plan could be extremely beneficial.

Why succession planning important?

Without having a plan in place, clients in particular can face unnecessary disruption to the service they’re used to when owners leave the business.

Staff, business partners, prospects and family can also be affected, as can your reputation. So, a succession plan is crucial for securing a healthy financial future.

The earlier you start putting together a plan, the better, i.e. long before you leave the business or retire. This should allow your successor to get fully immersed in the business and should mean nothing gets overlooked during the transfer. It will also give your successor the chance to build a level of trust with clients.
What options are available?

Selling to someone within the company
Choosing this option often allows for a smooth transition as the new owner should already have a good understanding of the business and client base. Consider employee share plans or a period of transition so your successor can raise the funds.

Selling to an external company
You could always sell your business to a company that has the capital and experience to hit the ground running and keep your business operating smoothly. It may be the company you choose isn’t in the finance industry, so careful consideration around this is needed.

Selling or merging with another firm
This is often seen as an attractive option, especially if the other company has a similar cultural fit and experience running a similar-sized firm. It could also reassure clients who may otherwise be uneasy about receiving advice from a large firm.

Retaining ownership interest
During the transition, your continued presence could reassure clients (and staff) that their future has been carefully considered. And you could take on as many (or as few) direct responsibilities as you like.

Important points to consider

Plan ahead of time
So your successor understands the business and their responsibilities before they have to step up.

Maximise the value of your firm
Ahead of any acquisition you should review and maintain the strengths of your business, and work on improving any weaknesses.

Use the tools available to you
Our Reporting Services provide information about your clients’ investments to help you manage your business more efficiently.

Bring everything together
If there are any siloed parts of your business, try and make sure they’re minimised so the transfer of work and information is easier.

Sort out the accounts
If you’re selling your business, it’ll make things easier if the business accounts are all in immaculate order.

Look after your staff
Consider the impact the transfer will have on them and make sure they’re comfortable with any decisions.

Have a plan B
There are a number of variables and potential issues that may pop up and being prepared for any eventuality will minimise any damage if something does go wrong.
Firstly, your successor should be someone who’s the right fit for clients – they are the most important part of your business after all.

You might need someone ambitious, or you might need a great sales person. Maybe you need someone who’s conscientious and diligent. Whatever personality traits you think will fit with your team and your clients, be sure to consider them early on, so your search is made simpler.

Throughout the transition process, clients will no doubt have a lot of questions, and you should be as open and honest as you can. This is paramount in making sure trust in the company is retained.

To help screen questions, put a client plan in place and share it with both your successor and clients themselves. This could be a good opportunity to introduce both parties and make everyone feel at ease.

If there are any changes throughout the process, keeping everyone up-to-date is important. But do remember to deliver information consistently and at appropriate times. Too many updates sent at inconsistent times could raise alarm bells.
In February 2017, the FCA conducted the Supervision review report: Acquiring clients from other firms. Their findings could certainly help improve your succession planning process.

In particular, the research highlighted areas that weren’t being adequately managed. For example, clients weren’t told:

- Details of services offered by the new firm.
- Level of charges at the start of the client relationship.
- Any differences between services offered by the new and old firms.
- Any differences to the tax (VAT) status of ongoing service charges.
- That they could opt out of any ongoing services.
- That historic advice responsibility would not be taken over by the new firm.
- How they could complain about advice given by the original firm.

So, whenever there’s a change to a firm providing services, or a change to services themselves, you should always act in the client’s best interests and any information given to them should be fair, clear and not misleading.