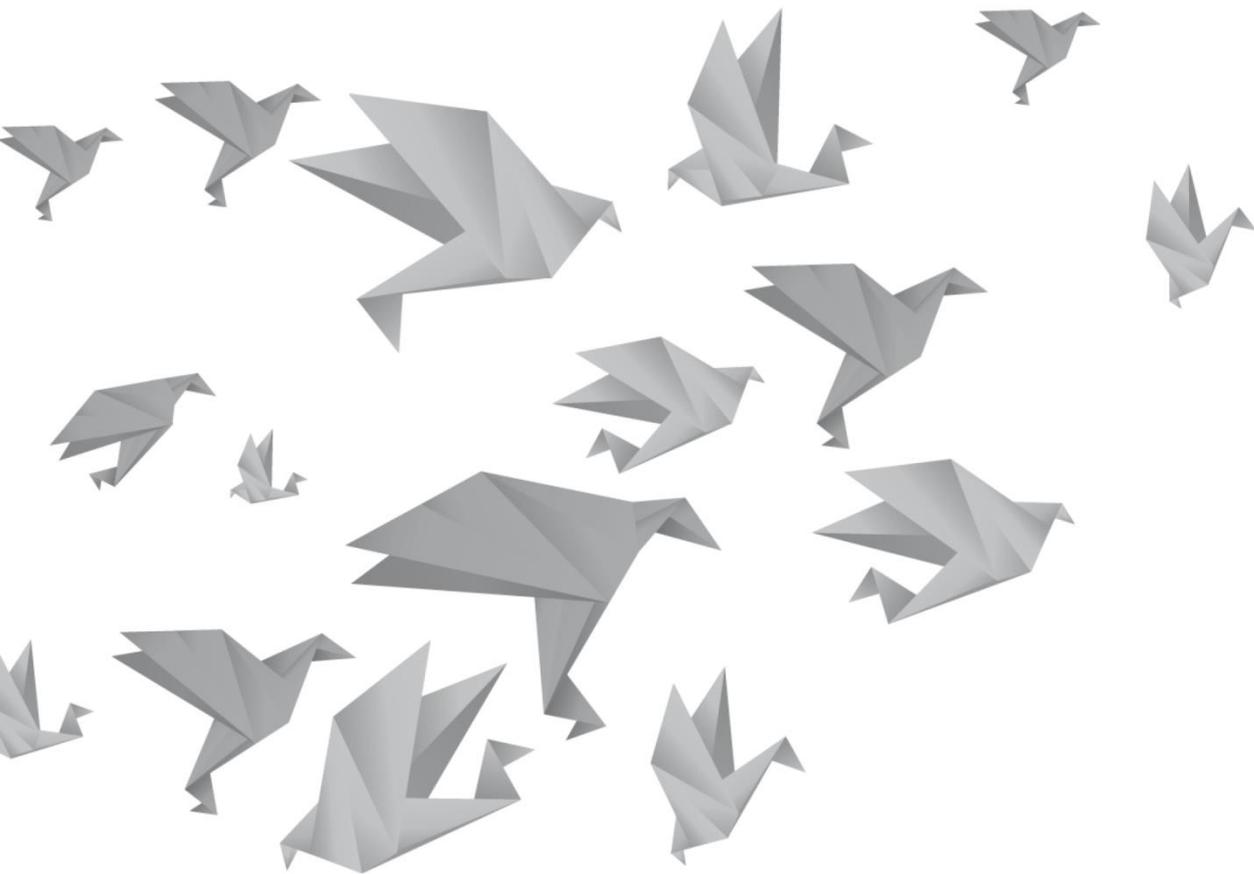


# The motivations, needs and drivers of non-advised investors

A qualitative research report



## Authors & acknowledgements

This document reports the findings of a research project carried out for the Financial Conduct Authority (FCA) in March 2014 by NMG Consulting.

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The views contained within the implications and conclusions of the report are NMG's based on the research findings. Any errors in the report are the responsibility of the authors.

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## 2 List of abbreviations

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Abbreviation	Meaning
FA	Financial Adviser
FAQ	Frequently Asked Questions
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
IFA	Independent Financial Adviser
RDR	Retail Distribution Review

### 3 Glossary

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The report contains a number of industry terms. Definitions are as follows:

<b>Term</b>	<b>Meaning</b>
<b>Participants</b>	The individuals who took part in this research. Used when research findings are being described.
<b>Consumers</b>	The potential audience who may buy investment products using non-advised channels. Used when discussing insights, implications and conclusions that may apply to the broader market.
<b>Non-advised</b>	For the purposes of this report, this term is used as an 'umbrella term' to mean sales where consumers have not received a 'personal recommendation'.
<b>Personal recommendation</b>	This term has the same meaning as in the FCA Handbook, that is, a recommendation that is advice on investments and is presented as suitable for the person to whom it is made or is based on a consideration of the circumstances of that person.
<b>Self-investing / self-directed investing</b>	The act of investing without taking advice.
<b>Advised consumers</b>	Consumers who set up investment products via an established or transactional relationship with an adviser.
<b>Adviser</b>	Provides regulated advice to consumers including both Independent Financial Advisers and Restricted Advisers.
<b>Advice</b>	An opinion or recommendation offered as a guide to action – not a regulatory term when taken in context with the below term.
<b>Regulated advice / advised</b>	For the purposes of this report, we use this term to mean sales where consumers have received a 'personal recommendation'.
<b>Guidance</b>	Statements of facts and figures or generic information that is not related to a specific investment.
<b>Independent advice</b>	Regulated advice based on a comprehensive and fair analysis of the relevant market, it is unbiased and unrestricted.
<b>Restricted advice</b>	Any regulated advice that does not meet the standard for independent advice.
<b>Execution-only</b>	A transaction executed by a firm upon the specific instructions of a client where the firm does not give advice on investments relating to the merits of the transaction and in relation to which the rules on assessment of appropriateness (COBS 10) do not apply.
<b>Adviser charging</b>	The charge for advice services agreed in advance with the client and paid for by the client.
<b>Heuristics</b>	Refers to the process by which individuals make decisions based on approximate 'rules of thumb' (broad application principles that are not intended to be strictly accurate or reliable for every situation).
<b>Gamification</b>	The use of game thinking and game mechanics in non-game contexts to engage users in solving problems.

## 4 Background

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The structure of the UK retail investment market has undergone substantial change in recent years. One noticeable trend has been the growth in the number of risk based investment products purchased by consumers without regulated advice (i.e. where consumers make their own decision on the investments they wish to purchase). Given the FCA's forward-looking regulatory approach, it commissioned a piece of qualitative research to investigate and better understand the motivations, needs and drivers of non-advised consumers. In this report we refer throughout to "advised" and "non-advised" sales. These terms are used as a form of shorthand to refer to situations where consumers have, or have not received a personal recommendation which has a defined regulatory meaning (see glossary).

### 4.1 Relationship to the FCA's work in this area

This qualitative study into the needs and drivers of non-advised consumers within the retail investment market is one of many inputs informing the FCA's post implementation review to assess the impact of the Retail Distribution Review (RDR). The findings will feed in to the FCA's thematic review of non-advised sales, which aims to examine whether non-advised channels are providing good outcomes for customers.

### 4.2 Economic and regulatory backdrop to the research

It is important to consider the timing of this research and the impact of the economic climate on consumer confidence and their propensity to invest without advice. It is also necessary to consider how the impact of regulatory change – such as the implementation of the RDR – may have altered the dynamics of how consumers interact with the retail investment market.

2013 was a year of steady economic growth, bringing increasing activity in the housing market, higher consumption and largely bright prospects. Consumer confidence in the economy and in the potential for growth grew as evidenced by a number of studies tracking consumer sentiment during this period. Over the period 31<sup>st</sup> December 2012 to 31<sup>st</sup> December 2013, the FTSE rose from 5,897.81 to 6,717.91 (+13.9%) bringing good news to many investors. This, combined with the dissatisfaction savers felt with consistently low interest rates on cash based accounts, encouraged consumers to move into risk based investing, often for the first time.

The RDR came into force at the end of 2012 with a primary objective to improve public confidence in the financial advice sector by enhancing professionalism and increasing transparency in the way advisers are remunerated. This has necessitated a change in business model for many firms to accommodate adviser charging. In some cases, it has meant reviewing business propositions, re-defining target customer groups, developing specialisms and tailoring the way firms interact with customers.

A shift in the distribution landscape has taken place:

- The withdrawal from the market of a number of banks and insurers offering investment advice

- Product providers reconsidering product distribution strategies
- A marked increase in both the volume and number of firms offering customers the opportunity to purchase investments without advice
- The emergence of online advised investment sales

These changes have significant implications for the way in which consumers navigate the market and make investment purchase decisions.

It is important to consider these economic and regulatory changes when examining the profile of today's non-advised investor. Three important factors need to be considered. First, the overall confidence individuals feel when making an investment at this time may be high due to buoyant market conditions. Second, consumers who would traditionally have limited themselves to cash based savings may be entering the investment market for the first time, driven by the poor returns from historically low interest rates. Third, consumers who previously sought advice on investments may have decided to make their own decisions for the first time. All of these factors may have an impact on the profile of the non-advised consumer.

It should also be noted that the research was undertaken before the 2014 Budget announcement (which included the proposal to include flexibility in how individuals can use their pensions savings and support their choices through free, impartial guidance). The findings do not therefore take into account any subsequent changes to the retail investment landscape and the potential to impact behaviour in the future non-advised market.

#### **4.3 Business objectives**

The FCA's business objectives for this research were to determine:

- The motivations, needs, level of understanding and decision-making ability of consumers using non-advised channels
- Whether consumers are aware of the implications of purchasing investment products without advice, and are confident transacting on this basis
- Whether there are any identifiable limitations to consumer decision-making that firms need to take into account when designing and delivering non-advised services

#### **4.4 Target market for the research**

It is important to note that specific quotas were set for this research, with the aim of ensuring that the views of mass market investors, including those investing for the first time, were represented. Whilst a broad cross-section of the UK investor population was interviewed, it is worth highlighting that to ensure mass market representation, a relatively low entry level of individual investable assets (£5,000) was set. Groups of investors that were new to self-directed investing or to risk based investing were recruited (in addition to more established direct and multi-channel users). The participants in the research may not therefore represent the entire UK market.

A full breakdown of the sample framework is included in Appendix A.

## 5 Executive summary

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In this report we refer throughout to “advised” and “non-advised” sales. These terms are used as a form of shorthand to refer to situations where consumers have, or have not received a personal recommendation which has a defined regulatory meaning (see glossary).

***There is no single, dominant profile of the non-advised customer. Knowledge base, behaviour and attitudes tend to vary widely but there is an emerging typology.***

The assumption that consumers transacting without regulated advice display the characteristics expected of a confident and self-assured, experienced investor is only partly correct. While this consumer profile is clearly evident in the non-advised market, other key segments display differing characteristics. Non-advised consumers are often not wedded to non-advised channels for all of their investment requirements. Many are multi-channel users or would envisage seeking regulated advice in certain circumstances (e.g. for higher value investments and/or more complex needs).

The research identifies three main consumer types in the non-advised population targeted by the study. (Other types may exist in the broader market.) The distinguishing trait is the *degree of comfort felt when investing*. This emotionally-led characteristic shapes overall attitudes to investing and can influence behaviour. This research report refers to these three types as: Confident Self-starters, Eager Learners and Hesitant Hopefuls.

### *Confident Self-starters*

These more relaxed, and often (but not always) more informed and experienced, investors may have been transacting on a direct basis for some time (sometimes in parallel with an advised relationship). They have a greater capacity for loss and will tolerate more risk in their non-advised investments. Confident Self-starters see real benefits in self-directed investing and are more confident in their decision-making abilities based on their perceptions of the market and/or a strong self-belief in being able to pick the best investments (albeit this may be misplaced at times).

### *Eager Learners*

Often new to self-directed investing, these consumers are engaged and excited to be ‘dipping their toe in the water’. They are keen to learn and will invest time conducting research before making a decision. They will search online, review third party web sites and try and compare information to the best of their ability. This group are making more considered decisions on the whole and as such, feel more comfortable with their investment than Hesitant Hopefuls.

### *Hesitant Hopefuls*

This category of consumers often feels ‘out of their comfort zone’ when investing by themselves. This group of often inexperienced investors is more likely to be investing simply to achieve a slightly better return than that available from their preferred cash ISAs and deposit accounts. After five years of Bank of England base rate at 0.5%, they feel driven to seek higher returns. They commonly display low levels of understanding around the product features and risk profiles of their investments, combined with a lower capacity for loss and propensity for risk. They seek reassurance and particularly like the perceived security of trusted brands.

***Misconceptions and a lack of knowledge are evident amongst investors who are less comfortable dealing with the complexity of investment decisions.***

Due to the perceived complexity of investing, Hesitant Hopefuls rarely invest sufficient time in research and tend to bypass some of the information gathering and evaluation stages often conducted by the other two types. In lieu of comparison of key product features, they will often use short-cuts, which may result in them making sub-optimal choices. This is particularly true of first time investors, who may have low awareness of features, such as penalties for withdrawal or waiting periods and a poor knowledge of product structures and risk implications, for example knowledge about the underlying funds contained in a product. In some cases, the research participants were not aware that they had elected to invest in a specific fund, assuming that this happened automatically. In these cases, the individuals appeared to have chosen the default or balanced fund option if presented with a choice. This may – or may not – be problematic, dependent upon the risk profile of the individual, the tenure of their investment and investment objective.

More experienced investors – either those that also use advice channels or have been self-investing for some time – have developed a much greater awareness of the key points of consideration when choosing an investment.

***Investment decision-making is often heavily influenced by behavioural biases.***

Consumer decision-making in a non-advised environment can be described along two variables: a) the extent to which individuals ‘delegate’ decisions to trusted third-parties (including well-known brands or existing providers) and b) the amount and type of information they will seek before making that decision.

Given the perceived complexity of investing for many participants in the research, behavioural biases play a significant role. This is particularly commonplace in an unfamiliar buying environment, as is the case for the investor buying on a self-directed basis for the first time. Participants (most commonly Hesitant Hopefuls but seen across the types) ‘shortcut’ the more complex stages of the decision process, with little or no evaluation or comparison of options and used ‘rules-of-thumb’ to help make decisions. Typically, as investors become more experienced, they are increasingly likely to take a more considered approach to their decision-making, although this is not always the case. Common behavioural short-cuts seen in the research included:

- Sticking to the status quo – i.e. not searching beyond existing bank / building society / insurance providers
- Relying on recommendations from influential others – taking guidance from others within their social network whom they assume to be knowledgeable without any further validation
- Relying on provider simplification – i.e. using filtered lists of recommended funds
- Resorting to defaults – for example simply picking the balanced fund for a pension investment

Trust – either in a preferred brand or in the recommendations of family and friends – plays a significant role in decision making around what provider to use. This also tends to limit the amount of shopping around and discourages investors from using unfamiliar brands. This is seen across all segments although Confident Self-starters appear most open to trying out new propositions.

Overcoming these hard-wired biases is difficult and providers and platforms need to understand the influences at play and develop processes that engage and support the consumer. Providing clear and simple fund information (risk level, access, charges, term etc.) at an easy click of the button, or clearly highlighting the key information that should be

compared when choosing an investment would help consumers make better informed decisions. Making content more engaging through interaction can help (i.e. consumers being asked to complete fun tasks or quizzes rather than fill in long forms). Participants expected both providers and independent third parties to deliver this type of information and whilst they acknowledge that some providers have gone some way towards offering this, there is clearly an appetite for greater simplification and information delivered in plain English and in ways that facilitate comparison.

***A high percentage of research and purchasing is being carried out online and for the majority the purchase journey is quick and efficient.***

Despite the popularity of high street brands, for many participants in the research online has become by far the preferred purchase channel for non-advised investments. Key drivers are the ease of access to online services, the withdrawal of face-to-face service amongst many high street brands and the increasing familiarity that many have with transacting in this way. Some Hesitant Hopefuls like to start their journey in-branch and will only go part-way through the process online, preferring to purchase and transfer funds via more traditional channels. There remains a strong need for telephone support to provide information and clarification at key points along the process. Online chat is still in its infancy and was not used to any great degree by the research sample.

***There are both positive and negative drivers influencing customers to invest by themselves rather than take advice.***

Participants who more willingly and actively self-invest are frequently the ones more comfortable with investing (Confident Self-starters and the more 'savvy' Eager Learners). They may have learned about the pitfalls of investing via advised relationships or from prior direct experience. They demonstrate positive drivers towards self-directed investing including confidence in being able to understand the products and monitor performance, a sense of enjoyment in meeting the challenge of self-directed investing and satisfaction at the convenience and ease of use of online channels. Several of these investors are keen to avoid the perceived performance drag of advice fees and perceived adviser bias.

Eager learners are excited at the potential of self-directed investing. They are moderately confident and comfortable in their decision, given their understanding that the medium to long-term nature of their investment gives them the ability to claw back any losses. In addition, the positive performance of the FTSE in 2013 and an increasingly optimistic mood in the press are likely to be influencing attitudes. They are also less affected by prior poor experiences.

Those less comfortable taking investment decisions are generally put off by the complexity perceived to be inherent in investing and display negative drivers to self-directed investing. These individuals would generally have preferred to have stayed in savings based products (and so may revert to these as and when interest rates increase) or would have considered taking regulated advice if they did not have to pay an explicit charge or if their investment amounts were larger.

Across the attitudinal segments a degree of cynicism towards financial advisers exists, with some belief that the benefits of regulated advice do not justify the costs. Some of the research participants felt that they could do just as well, without the cost or fear of bias that may come with adviser involvement. It should be noted that attitudes towards advice are very much influenced by the amount being invested – typically below £20,000 in any single transaction (and often aligned to annual ISA limits). There is a strong sense that the perceived value to the

consumer of paid-for advice is greater with larger investments. Subsequently, the willingness to seek advice increases as the value of the investment and/or the complexity of the need increases.

***There is clarity when using most online services without regulated advice, that the purchase is non-advised. However some ambiguity exists when human interaction is involved.***

Participants were generally able to distinguish between advised and non-advised service definitions. The key cues of regulated financial advice (see glossary definition) are that advice is paid for and the adviser is giving a *tailored recommendation* after reviewing the client's personal financial situation. Regulated advice is strongly associated with independence and access to the whole of the market. In the research it was very rare for regulated financial advice to be described as a restricted or single provider service.

The key cues that signify a non-advised service are that the consumer does most or all of the research and the provider does not recommend particular products or funds over others, either explicitly or implicitly.

Participants were clear about the scope of service from non-advised providers and platforms when an online channel is being used. But when there is a degree of human interaction, particularly face-to-face, there is potential for information provision or product guidance to be misinterpreted as advice. The confusion is compounded by the fact that consumer understanding of "advice" can be very different to the regulated definition. This was evident within a few examples in the research where participants who had received guidance believed they had received regulated advice but when probed, it was clear they had not paid a fee or received a recommendation based on their personal circumstances.

***Participants using non-advised channels take responsibility for their investment decisions.***

Participants believed that responsibility for the investment decision lies with them when making non-advised purchases; even those that mistook information provision or guidance for advice. However, they do expect the Regulator or an independent industry watchdog to be their 'consumer champion', by informing them on the key information they need to know before investing, providing a means of checking on the reliability and security of providers and advising on the best routes to seek recourse for poor service provision.

***The majority of non-advised investors do not appear to be exposing themselves to excessive risk and are making broadly appropriate investment choices based on current circumstances.***

In the context of the rest of their financial world and capacity for loss in their non-advised investments, the majority of investors do not appear to be exposing themselves to excessive risk and seem to be making broadly appropriate investment choices. However, a minority are making choices that could be deemed to be sub-optimal. The most common mistakes being made are:

- Investing in high risk products / funds without being aware of the risk profile of their investment (or the implications of being in a high risk investment)
- Holding a product that is different to the one they thought they had bought
- Buying an investment product that is not tax efficient when ISA thresholds have not yet been reached
- Uncertainty around whether or not they have received and/or paid for regulated advice

***In conclusion, providers need to respond to the diverse needs of non-advised consumers and ensure that channel design, communications and support services help deliver good outcomes for the least to the most capable.***

Based on what participants in the research requested and NMG's interpretation of their requirements, there is still some way for providers to go to deliver what the broad spectrum of non-advised consumers need. Whilst the research did not include a detailed exploration of provider propositions, it is evident that some firms have already started to target and tailor their services to suit the differing needs in the market. However, the direction of travel for the industry should be to focus on the need for greater customer engagement to both support behavioural biases and limit any potential detriment.

Information is an important starting point – although content without due consideration to context, will always be limiting in its effect. Providing information in a format that the most inexperienced self-directed investor can absorb would be a good starting point:

- Simple, bite sized chunks of information, in plain English, covering the “must know” basics (“the five key questions you must know the answer to before you proceed”).
- A clear and consistent format for this “must know” product information to help with identification of key features and comparability across providers would be very helpful
- Charging structures to be communicated in a clearer and more comparable format
- Inclusion of telephone support and easily found phone numbers
- Clear and bold information at point of purchase on paths for recourse
- Reminders on the key points of the purchase being made before the final decision is made

Different segments, based on comfort with investing, will have differing information needs and providers need to reflect investors' range of capabilities in the way information is presented. For providers targeting the more 'sophisticated investor' there may be less need to provide the type of information described above. But given the large number of investors entering the non-advised channel for the first time, it seems sensible for providers to look at ways they can cater for the needs of this more vulnerable consumer.

Providers should look at better understanding the behavioural biases evident in the way consumers buy investments and provide information to help avoid pitfalls when short-cuts are made. As a minimum, simple guides to nudge investors along the best process and the provision of the key information that should be sought and compared, should be easily available. Providing tools to encourage greater involvement – fun quizzes, games etc... will help ensure key information is absorbed. Investment solutions that support the need for simplification (e.g. pre-set portfolios and filtered fund lists) appear vital based on this research.

The research participants believed that the FCA has a role in ensuring the industry provides transparency of information and clarity around the scope of service and charges applicable. Non-advised services need to be clearly labelled at point of purchase as such. This is particularly relevant where human interaction is involved to help avoid any ambiguity. A clear statement of responsibilities for every party involved would provide clarification for non-advised investors.

## 6 Research objectives and methodology

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This chapter describes the business and research objectives set for the study and the methodology used.

### 6.1 Research objectives

The key research objective for this project was to understand the non-advised consumer's experience of retail investments in a post-RDR market.

The research sought to understand non-advised consumer motivations and needs by exploring individual experiences and looking at the processes they went through and the rationales for the choices they made.

The research aimed to inform the FCA of the profile of the non-advised consumer and how the proposition and service met their expected and/or actual needs. The research looked at why consumers made these choices and what influenced their decision.

Specifically, the research set out to understand:

- The profile of the non-advised consumer: age, investment amount, financial situation, investment term, investment objective, risk tolerance, capacity for loss, wider portfolio and expectations for future performance
- The non-advised consumer's motivations and needs prior to using the service, triggers and key drivers, awareness and understanding of the range of services available, consideration of channels, and decision-making process
- Consumer understanding of the implications of advised vs non-advised routes, cues that signal each channel, awareness of general investment principles (including risk and term, amongst others) and how these influence their choice, whether the information given is clear and comprehensive and meets consumer requirements
- The decisions that the consumer makes and where they may need support, the basis on which the decision is made and what alternatives are considered, how tools and guides influence their decision, which elements of the service they value and how these could be improved

### 6.2 Research method and sample

The findings described in this report are based on a series of qualitative face-to-face depth interviews and consumer workshops carried out in March 2014 amongst a total of 92 non-advised consumers, all of whom had made a retail investment since 1<sup>st</sup> January 2013.

This excluded the following:

- Pensions decumulation products (such as annuities and drawdown)
- Protection and General Insurance products

### 6.2.1 The sample

A free-find approach to recruit consumers who had purchased at least one investment product through a non-advised channel since 1<sup>st</sup> January 2013 was undertaken. All participants were the main or joint financial decision-maker in their household for long-term investing and saving.

It is important to note that specific quotas were set for this research, with the aim of ensuring the views of mass market investors, including those investing for the first time, were represented. This meant including a relatively low entry level of individual investable assets (starting at £5,000), recruiting some that were new to self-directed investing or to risk based investing and ensuring potentially less experienced, younger investors were included within the research.

Consumer types were recruited based on the following criteria:

- **Channel experience:** New to investing or to using non-advised channels since 1<sup>st</sup> January 2013; use of single-channel (always advised or non-advised) or multi-channel prior to 1<sup>st</sup> January 2013
- **Level of investable assets:** £5,000 - £29,999; £30,000 - £99,999 or £100,000+
- **A male: female split** of 6:4
- **Lifestage:** Young Singles/Couples, Young Families, Older Families, Empty Nesters, Retirees
- **Regional spread:** North of England, Midlands, South of England, West of England and Scotland

A full breakdown of the sample framework is shown in Appendix A.

A mix of financial competence and sophistication was recruited and allowed to emerge naturally across the sample in addition to a mix of purchase channels (i.e. online, telephone, face-to-face, postal).

### 6.2.2 The method

48 extended depth interviews and six two-hour workshops were conducted using semi-structured discussion guides.

Each participant was also asked to complete a pre-interview questionnaire. This was used to help understand individual financial profiles and attitudes to risk. Participants were asked to refresh their memories by looking at any product materials received during their purchase experience and to bring these to the research sessions if they felt comfortable doing so.

During the course of the sessions, each participant was asked to fill in a short questionnaire on the product features they had considered when setting up their investment. This enabled the interviewer to gain improved insight into the participant's level of knowledge and understanding of the product purchased.

Show cards were used with definitions of advised and non-advised routes to explore the participant's understanding of the different services.

During the course of the workshops, case studies were presented for discussion to understand how the consumer journey described in each could have been supported and

improved for a better outcome.

### **6.3 Reporting conventions**

The report makes use of two types of illustration to support the findings.

#### **Verbatim comments**

These are participant quotations, based on interview recordings with only minor editing. They are labelled by consumer type, age bracket, lifestage/marital situation, existence of dependants and level of investable assets. The respondent quotations demonstrate their own views and may not always be factually correct.

#### **Case studies and pen portraits**

More detail has been given about the views and circumstances of some participants to illustrate findings. Names of individuals and firms used have been changed to preserve anonymity.

## 7 Profile of the non-advised consumer

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This chapter describes the three types of non-advised consumer that emerged most prominently from the research. It identifies the distinguishing attitudes, knowledge and experience profiles and behaviours of each type. It also highlights attitudes and behaviours that are common across the three categories.

### 7.1 Summary

Based on the research sample, there appear to be three broad non-advised consumer types evident with the distinguishing trait being *the degree of comfort (or discomfort) felt when dealing with investments*.

Each of the three types - referred to as Confident Self-starters, Eager Learners and Hesitant Hopefuls, in decreasing order of comfort with investing - displays unique attitudes and behaviours around investing. However, some commonalities do exist. These are mainly around the amounts invested and attitudes towards paying for financial advice.

### 7.2 Comfort with investing is a strongly indicative trait

There is no single persona that describes the non-advised consumer. While some attitudes and behaviours are present across non-advised investor types, there are some distinguishing traits.

The strongest criterion determining attitudes and behaviours with regards to non-advised investing was *the degree of comfort felt when engaging with retail investing*.

This differs from the more traditional definitions of 'financial sophistication' or 'competence', as it is not necessarily directly related to the consumer's knowledge or experience. It is also different to 'confidence' which is likely to be inherent in an individual's personality and is frequently independent of actual capability.

On the other hand, how comfortable a consumer feels with self-directed investing and their overall *emotional response* to purchasing or managing investments is likely to be a good indicator of the types of behaviours and decisions they will take around self-directed investing. Comfort in this context is a measure of how at ease, happy and relaxed a person is about making an investment decision without advice.

Furthermore, there is evidence that the extent to which a consumer feels comfortable with self-directed investing is directly related to the *degree of complexity* they believe is inherent in investing. For instance, consumers who believe that self-directed investing will necessitate coming to grips with fairly complex concepts and processes may associate investing with feelings of apprehension, while those who believe that most transactions are relatively straightforward are more likely to feel excited by the prospect of a new investment.

Based on this definition, three main types of self-directed investor were identified: Confident Self-starters, Eager Learners and Hesitant Hopefuls. Given the qualitative nature of the research, these types provide directional insights into possible consumer groups that

require further quantitative validation. There are likely to be sub-segments within these types (e.g. more or less experienced) and in the broader investor population other types may well exist.

### 7.2.1 Confident Self-starters

These individuals are very comfortable with the prospect of self-investing a portion, or even all, of their assets. The key emotions related to self-directed investing are *enjoyment and satisfaction*.

A full description of this consumer type is given in Figure 2 below.

<b>Attitudes towards investing</b>
<ul style="list-style-type: none"> <li>• Confident in their ability to select funds or the right wrapper</li> <li>• Believe investing is a key way to achieve growth (more so than savings and cash accounts)</li> <li>• Medium to high capacity for loss in non-advised investments</li> <li>• Highly aware and tolerant of risk. They are strongly driven by the prospect of high gains while being fully aware that they can suffer significant losses.</li> <li>• Many are largely conversant with investment literature and terms and are often interested in more detailed opinion articles published by fund managers</li> <li>• Many understand and engage with the 'macro' level of investing e.g. global economies and the resilience of different market sectors</li> <li>• More likely to stay invested, even if suffering considerable losses</li> <li>• Fully expect their investment experience to include both gains and losses</li> </ul>
<b>Awareness and knowledge</b>
<ul style="list-style-type: none"> <li>• Generally aware of a wide range of product types, industry sectors/asset classes</li> <li>• Often have a good understanding of international markets and sector performance</li> </ul>
<b>Experience and holdings</b>
<ul style="list-style-type: none"> <li>• Often have a long-standing and varied experience in investing</li> <li>• More likely to hold a spread of asset types and a portfolio of investments</li> <li>• More likely to be actively trading individual stocks and shares</li> </ul>
<b>Behaviours and decision-making</b>
<ul style="list-style-type: none"> <li>• Tend to self- invest money that they "<i>can afford to lose</i>"</li> <li>• Historically, have used both advised and non-advised routes</li> <li>• Generally, will use advisers for larger sums</li> <li>• Often use a variety of professional advisers e.g. accountants and stockbrokers</li> <li>• Multi-channel with high use of online</li> <li>• Invest relatively frequently and monitor and/or review investments regularly</li> <li>• Make decisions based on the overall strategy for the portfolio and generally adopt a more complex financial planning approach than either of the other consumer types</li> </ul>
<b>Demographics</b>
<ul style="list-style-type: none"> <li>• Tend to be 40 or older</li> <li>• Strong male bias</li> <li>• Some bias towards the higher asset levels</li> </ul>

**Figure 2: Description of Confident Self-starters**

*While most Confident Self-starters are very engaged with investing, a sub-category of these does not necessarily keep up with news and developments in the market, or indeed, care to get into too much detail. Nonetheless, consumers in this sub-group are very comfortable*

with investing and display other behaviours common to this group; e.g., high risk tolerance and relatively complex portfolio and financial planning needs.

*"I feel I can take a bigger risk as it's not important if we lose it. It's what I'm prepared to play the stock market with. I've got a mix of investments."  
(45-64, married, with dependants, £100,000+)*

*"I enjoy what looks like a good investment with what I can afford to lose.  
With that I look at the fun bit."  
(35-44, single, no dependants, £5,000-£30,000)*

## Confident Self-starter

Daniel

### Profile

- 45 years old
- £5,000 - £29,999 in investable assets
- Married with a two-year old child
- Employed as a senior manager
- Has moderate experience with investments and holds a private pension, stocks and shares ISAs and a small shares portfolio



"I am a risk taker because I have a history of making investments in different shares. I have made and lost money. I am willing to take risks based on an appropriate reward."

### Motivations for investing

- To better the return that he was getting on cash based products

### Customer journey

- Daniel received an annual statement for a regular saver account and decided that he wanted to get a better return on his money
- He spent six months researching his options – mainly using online provider and dedicated investor websites
- He went onto an online platform he had used before and set up a new account
- He transferred the money using online banking and bought funds
- He has had no interaction with any provider representative and now reviews his investment every few months by logging into his account

### Outcome

- Daniel's investment has done well
- He is happy to have been able to set this investment up quickly and easily
- He also likes the fact that he can login and check his investments regularly

### 7.2.2 Eager Learners

This consumer type is eager to learn and has a hands-on approach to investing. They do not feel they have a strong knowledge base and are only moderately comfortable setting up even fairly straightforward types of investments. They believe that all the information they need is publicly available (usually online) and are happy doing their research and “giving it a go.”

Another characteristic of this group is that they believe they will gain confidence over time and gradually invest larger sums of money in ‘more complex’ products.

The key emotions related to investing are *nervousness and excitement*.

<b>Attitudes towards investing</b>
<ul style="list-style-type: none"><li>• Eager to learn about investing – ‘pulled’ by the promise of high returns</li><li>• Potential earnings are often earmarked for a specific objective e.g. paying off the mortgage, building a house extension</li><li>• Take an active interest and spend time taking in information aimed at consumers (high use of online sources)</li><li>• Hold the key attitude that successful investing is a matter of “<i>doing the research</i>”</li><li>• May have used financial advice in the past (for products perceived to be more complex, like a mortgage) but tend to be unconvinced of the value of using advice for small investments and are reluctant to pay fees</li><li>• Would seek advice for more significant amounts of money</li></ul>
<b>Awareness and knowledge</b>
<ul style="list-style-type: none"><li>• Are aware of, and understand the more mainstream products e.g. stocks and shares ISAs, OEICs</li><li>• Have a basic understanding of other investments, which will grow with experience</li></ul>
<b>Experience and holdings</b>
<ul style="list-style-type: none"><li>• Have limited experience but are often keen to learn and are frequently on a path of steadily increasing engagement</li><li>• May hold a small set of simple products or a mix of simple and complex products; some preference for UK funds which are often perceived to be “<i>safer</i>”</li></ul>
<b>Behaviours and decision-making</b>
<ul style="list-style-type: none"><li>• Will invest money that will not impact their current standard of living but may affect their plans for the medium or longer term</li><li>• Often multi-channel e.g. in the younger age bracket, they may have seen an adviser about a mortgage but have since taken the non-advised route</li><li>• Some simple planning of their asset portfolio</li><li>• Aware of risk; some narrow bracketing to ring-fence potential losses</li><li>• Moderate capacity for loss in non-advised investments</li><li>• Generally ready to stay invested if they suffer a loss although many have a lower threshold beyond which they will cash in their investment</li></ul>
<b>Demographics</b>
<ul style="list-style-type: none"><li>• Tend to be between 30 and 50 years old but may also include older ‘hobbyists’</li><li>• Some male bias</li><li>• Some bias towards individuals with medium asset levels; generally with good income prospects in the future</li></ul>

Figure 3: Description of Eager Learners

*“Finances are quite simple until you come to serious investments but I am self-taught. I made a reasonable amount of cash from my decisions”  
(35-44, married, no dependants, £5,000-£29,999)*

*“I’ve got a fair bit of disposable income. I read a little bit about it. I recently did my housing qualification that gave me a good insight into government policy, etc. I keep an eye out. I like Martin Lewis, etc. I try to make the most of it.  
(20-34, single, no dependants, £5,000-£29,999)*

*“The information is useful and it educates you. The more you read, the more you get a feel. You read articles from fund managers and what they think are good things to invest in. (You read) Articles in the Financial Times and the Sunday papers.”  
(45-64, married, empty nester, £100,000+)*

## Eager Learner

Richard

### Profile

- 32 years old
- Single, no children
- Between £5,000 and £29,999 in investable assets
- Employed with an audio production company
- Has enjoyed a relatively good income for the past three years which has left him with a reasonable pot of savings



“I gathered enough information to know it would be successful.”

### Motivations for investing

- Would like to buy a property in Cyprus and hopes that a good return on his investment will put him on a good footing to do this

### Customer journey

- Did extensive research – reading about various products and looking at different provider websites
- After a couple of months he decided to invest £10,000 from his savings pot.
- At this point he felt that he had enough information to continue the process without advice so he went onto one of the provider websites which he had found quite user-friendly and had contained a lot of interesting information, and purchased an OEIC
- He now checks the value of his investment online a couple of times a year

### Outcome

- Richard’s investment has done well. He attributes this to the extensive research he made.
- He is eager to learn more and thinks he will be setting up other investments in future

### 7.2.3 Hesitant Hopefuls

Hesitant Hopefuls are more likely to be uncomfortable with making most investment decisions. This stems largely from their perceived lack of knowledge. They generally tend to feel vulnerable in the investments market, are uncomfortable managing the complexity of investing and are often distrustful of financial services providers when there is no existing relationship.

These individuals often have a low tolerance for loss, making them ideal candidates for cash and fixed interest products. However, they may have taken the difficult decision to purchase an equity-based product in an effort to shield their savings from inflation and better the low interest rates on cash products. Importantly, consumers in this group are the most likely to feel 'forced' into investing as they would generally prefer the security of cash.

The key emotion related to investing is *apprehension*.

#### **Attitudes towards investing**

- Traditionally tend to prefer cash based products to equity investments
- Are nervous around investing; a 'not-for-me' attitude
- Very low capacity for loss; see investing as a "gamble"; generally feel they do not have money they can afford to lose
- Very low opinion of their own capabilities in making investments
- Very risk averse and generally have a very poor understanding of risk and where this lies within different products
- Feel discouraged from doing any research because they feel the information is complex and overwhelming; often at a loss over which sources to trust
- Largely do not trust themselves with taking investment decisions and would not be averse to using advice if they a) could avoid the fees, and b) were certain that the adviser was "doing the best by me"
- Feel there is not enough regulation of the industry to ensure consumer interests are protected

#### **Awareness and knowledge**

- Little to no understanding of investment products, including the more mainstream ones (e.g. confusion between cash ISAs and stocks and shares ISAs)
- Little to no interest in products that require ongoing management by the customer
- Little to no interest in the dynamics of investing and global markets
- Low to no awareness of individual funds held within a wrapper
- No interest in actively trading individual shares

#### **Experience and holdings**

- Limited to no experience in investing
- Limited to no experience in using non-advised channels

#### **Behaviours and decision-making**

- Infrequent investing
- More likely to have been non-investors in the past
- Strong tendency to 'narrow bracket' and compartmentalise their financial planning
- High reliance on familiar brands and channels
- Highly likely to mirror product/fund choices made by peers
- Most likely to disinvest early if they experience a dip in value
- Most likely to engage with traditional (face-to-face or phone) channels
- A simple investment portfolio with a very small number of investments and entry-level products (e.g. stocks & shares ISAs)

## Demographics

- Wide range of ages; a tendency for investors to become more cautious pre- and post-retirement
- Some female bias
  - Some bias towards the lower asset levels

Figure 4: Description of Hesitant Hopefuls

*"I have a deposit account, the return is minimal but it is safe and I can see it."  
(35-45, single, no dependants, £5,000 - £29,999)*

*"I feel you need the security of a safety net of savings."  
(45-65, empty nester, £100,000+)*

*"I am a hesitant person and that is why I said I was extremely uncomfortable but I think that everything was done to put me at ease. I could get the information and take it or leave it."  
(35-44, married, no dependants, £5,000-£29,999)*

## Hesitant Hopeful

Val

### Profile

- 59 years old
- 3 grown-up children, 3 grandchildren
- Self-employed, part-time florist
- First-time investor
- Describes herself as "very cautious"



"This is the first time I have invested. I am quite cautious. With investments I am cautious, apprehensive, maybe too expectant of good growth."

### Motivations for investing

- Was left some money by a cousin
- As it was money she didn't have before, she decided she could afford to lose it and chose to invest

### Customer journey

- In early 2013, Val went into her local bank branch to enquire about investments
- She spoke to a bank representative who told her to look at the bank's website and apply using the online facility
- Val then looked at Martin Lewis' Money Tips which she found quite useful and decided on a Stocks and Shares ISA because "They are quite safe. Stable"
- Without any further research, Val applied for a stocks and shares ISA on the bank's website which was set up over the next few days

### Outcome

- Val is happy with her investment so far
- She considers it a long-term investment – 10 to 15 years
- She feels reassured that her product is with a brand that she knows and trusts "If you're happy somewhere, why go somewhere else?"

### 7.3 Some attitudes and behaviours are common across consumer types

While non-advised consumer attitudes and behaviours may vary based on how comfortable they feel with the retail investing market, some behaviours appear across all investor types:

- **Individual transactions tend to involve relatively smaller amounts.** Generally, individual transactions tend to be below the value of £20,000 and for participants in the research with under £30,000 in investable assets, the upper threshold for self-directed investing is often between £5,000 and £10,000. Additionally, given the high take-up of stocks and shares ISAs, the sum invested is often determined by annual ISA limits.
- **Investments made through non-advised channels tend to be linked to a greater capacity for loss than those made after taking advice.** This stems from the fact that participants were generally self-investing monies that they “*could afford to lose*”. The amount of loss tolerated will vary, with the lowest being amongst Hesitant Hopefuls.
- **Mitigating risk by spreading across products:** Spreading one’s assets across products is a strategy employed by many. Essentially diversification to the majority of participants means spreading their assets across products; for example, building up a portfolio of short-term savings accounts, cash ISAs and equity products. Less frequent is the spreading of assets across providers. Participants had a propensity to stick with providers with whom they have had a good experience. Confident Self-starters are the exception and are more likely to try out, and house their investments with, a variety of providers. Trying a new provider is driven by a desire to reduce fees, receive better servicing and/or greater flexibility for managing their portfolio (for example, on an online platform).
- **There is a reluctance to use financial advice** for lower value transactions, largely due to the advice fees payable and a lack of conviction that the cost would provide value. It is worth noting that many participants did not have a true idea of what financial advice would cost but subscribed to the opinion that it is generally expensive and therefore questioned its value (See Chapter 10 for more detail on attitudes to financial advice). However, the great majority felt that larger investments may warrant paying for advice.

### 7.4 Consumers may move into another segment as they gain experience

Generally speaking, comfort levels tend to increase with experience. For example, a Hesitant Hopeful may migrate to the Eager Learner category as subsequent investments help them feel that they are ‘coming to grips’ with the principles of investing.

Perceptions of complexity are attenuated and the consumer is likely to feel more comfortable with self-directed investing. This means that they effectively move into the Eager Learner category, sometimes after setting up just one or two investments. This is especially likely in younger consumers who gain confidence over time.

However some of the more apprehensive investors may never move across types as their nervousness around the perceived complexity of investing, and their own vulnerability within this market, is too strong a barrier. A highly volatile market and/or a huge loss on their investment may also deter them from investing again.

*“I'd do it again. It has increased my confidence a little. I took it out 6-9 months ago. It's doing okay. I haven't lost anything.”  
(Hesitant Hopeful, 35-44, married, with dependants, £5,000-£29,000)*

## 7.5 Implications

- As the non-advised market evolves and access to non-advised channels broadens, more inexperienced and nervous investors are making tentative first steps into investing. There is scope for providers to recognise that not all customers are confident and competent in their investment decisions, and that information and purchase structures need to consider the capabilities of their target market.
- The different consumer types point towards a need for a tailored approach to the information and proposition, in terms of detail and complexity. Providers need to understand what their core market requires and ensure that products and fund choices within 'easy reach' are appropriate. For example, if a provider's core market is mass market consumers with limited knowledge and experience, the use of simpler products, highly filtered fund choices, easy to navigate processes and plain English, top-level information, with little jargon or technical detail would be important. Information provision should be planned in ways that help consumers navigate from the most basic to the more complex. This will mirror the consumer's own progression and allow them to move intuitively into the level they feel most comfortable with.
- In communications planning, the language and presentation of facts and figures needs to take into account the different levels of engagement and understanding. Gamification is in its early stages of development in the retail investment sector but it is this type of engagement mechanism that will help less comfortable and new to self-directed investing consumers feel confident and informed.
- The relatively smaller investments made via non-advised channels means that information and guidance focusing on this level of investment (between £5,000 and £20,000) and on the products that this level of investment would be most suited to (e.g. investment ISAs) would be most relevant to the non-advised consumer.
- A large loss on a non-advised investment is likely to have major implications for future investment behaviour amongst those less comfortable with investing, along with a rise in cash interest rates in the future.

## 8 Consumer motivations and needs

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This chapter describes the drivers for consumers to consider investing, the prompts and triggers for investing and factors taken into consideration when choosing to invest without financial advice.

### 8.1 Summary

Participants were largely driven by a need to achieve a better rate of return than they would earn on cash-based savings. Most commonly they considered investing after a change in life circumstance or after receiving a windfall.

They value an easy and efficient transaction, some reassurance against loss (such as a prior positive experience with the provider) and an investment at the right level of risk. These motivations and needs are largely consistent across consumer types but Hesitant Hopefuls are the ones most likely to trade-off higher returns for a safer investment.

### 8.2 Modest growth is the most common reason to invest

By far, the strongest motivation is to achieve modest growth over the medium to long-term horizon. The great majority of participants were realistic about potential gains and possible losses.

Amongst Confident Self-starters, investing is an appealing way to achieve an attractive rate of growth and a return that is markedly better than that possible on a cash account.

While the percentage return deemed satisfactory varies across the types (with higher gains expected by Confident Self-starters), it is a key requirement across all categories. The rate of return expected is at least partly dependent on the term of the investment. However, generally the expectation for medium-term investments (between five and ten years) is between 5% - 8% per annum.

Many Hesitant Hopefuls felt that they have been 'forced' to consider investment products because of the low returns on their cash products. Their anticipated gains were not generally as ambitious as the other categories. Indeed, these individuals felt they must invest to *maintain* their level of wealth and mitigate the impact of inflation. This is potentially an area of vulnerability as some of these individuals are clearly outside their comfort zone.

In a minority of cases, non-advised investments were taken out for a specific objective. For example, investors aged 45 and older, may set a target pot size for retirement. Other goals could be paying for children's university fees, a wedding, the deposit on a first property, paying off a mortgage or financing some home improvements.

*"I just want to see how I get on with this. They are not big sums. I put it in there as it was something different and it promised me a bigger return than just putting it into a savings account. I'll see how it goes."*

*(Hesitant Hopeful, 45-64, married, no dependants, £5,000-£29,999)*

*“If I didn't make anything, maybe I wouldn't be entirely happy but it's not the be-all and end-all. I'm not getting much return on my cash ISAs. The interest rate is so rubbish.”*  
(Eager Learner, 35-45, single, no dependants, £5,000-£29,999)

*“My goals are for my investments to outperform anything I can get from the bank. My expectation is, over 10 years I expect my initial investment to have doubled.”*  
(Confident Self-starter, 45-64, single, no dependants, £5,000-£29,999)

*“A mixture between growth and safety. I think it's quite a good way for non-experts with limited resources to invest – to take that little bit of extra risk. I thought the risk seemed reasonable, having discussed it. I was happy enough.”*  
(Eager Learner, 45-65 empty nester, £30,000-£99,999)

### 8.3 The common triggers to invest are changes in life circumstance or receiving a windfall

Once again, these triggers are fairly consistent across the consumer types:

- **A change of circumstance** which has resulted in an increase in the amount of regular disposable income, such as a new job, a promotion, the lifting of a salaries freeze or a better mortgage deal.
- **Age/lifestage triggers** may prompt consumers to review their financial requirements. Some examples of these may be: getting engaged, having a child, a significant birthday or a spouse's health deteriorating and the need to plan for financial security should they pass away. In some cases, an informal discussion with peers who have made investments in response to similar life events, may act as a trigger.
- **Receiving a lump sum** through an inheritance, redundancy, endowment, monetary gift, sale of property, work bonus or retirement lump sum
- **A review of existing savings or investment products.** This may come about following an annual statement or the maturing of an ISA or bond. It may also be prompted by dissatisfaction with how current investments are performing, a decision to take action after indications that an investment's value may fall or consolidating pension funds

*“Now I've got kids, I think you have to start being more sensible and thinking about saving for the longer term.”*  
(Eager Learner, 35-45, married, with dependants, £5,000-£29,999)

*“I get a bonus now and again and we had a bit of money spare. It's safe in the bank but they don't give a return so we thought we'd get a stocks and shares ISA.”*  
(Hesitant Hopeful, 35-45, married, with dependants, £5,000-£29,999)

### 8.4 Participants value a smooth transaction and easy-to-understand information

Participants valued a quick and hassle-free transaction. The processes by which funds are selected, the application form completed and the money transferred, should be as simple and user-friendly as possible.

For example, on an online platform, they would like to be able to view and select the funds, complete a simple online form and, most often, transfer the money via online banking. An email acknowledgement would quickly follow, confirming that the transaction had gone through.

Other factors that were important to participants were:

- **Selecting the right level of risk:** generally refers to the overall risk within a product wrapper for Hesitant Hopefuls and to that within individual funds for the more experienced Eager Learners and many of the Confident Self-starters.
- **Trust in the provider:** included high street banks, large insurance companies and better known online platforms. Trust was especially important to Hesitant Hopefuls and Eager Learners. Confident Self-starters' expectations of providers were more focused on an efficient transaction.
- **The ability to pay in a lump sum or make regular payments:** valid across categories
- **Third-party guidance:** could include bank staff, family or friends' recommendations and, to a lesser extent, online consumer forums.
- **Perceived safeguards against the threat of loss:** examples of this were provider reassurances via either advertising or a reassuring chat with a staff member ("*Your money is safe with us*").
- **Tax efficiency:** tax favoured investments (ISAs)
- **Choice of funds:** e.g. preferred sectors, access to world markets and large-cap shares (Confident Self-starters)
- **Ease of ongoing management and flexibility:** for Hesitant Hopefuls, this refers to the ability to let the product 'manage itself'. For Confident Self-starters and Eager Learners, this translates into ease of access and the ability to monitor and change funds.
- **Ease of understanding:** of the product, application process and ongoing management

These factors were generally not spontaneously mentioned but, when probed, participants deemed them relatively important:

- **Cost:** relatively low consideration of product and fund costs across the types
- **Cancellation rights and penalties:** Low awareness of these amongst Hesitant Hopefuls

*"I wanted the balance between a reasonable profit and a fairly secure investment."  
(Hesitant Hopeful, 45-65, retired, no dependants, £30,000-£99,999)*

*"The fact that I can do the whole transaction online and I have a password and client ID. I can go on daily and check the value, so that is good. My experience with them is hassle-free although I think they are going to start charging an annual fee. (At the moment) There is no fee or very little fee, so that is important."  
(Confident Self-starter, 45-65, married, with dependants, £5,000-£29,999)*

*"With the pension it had to be something I can afford to pay every month. It will build up over time. I am very confident. I envisage that I can have it almost as a weekly wage and not a lump sum."  
(Eager Learner, 20-34, single, no dependants, £5,000-£29,999)*

*"The ability to monitor and change. It is not a huge sum but I don't want to see the value halved. It is the ability to switch, and flexibility. The flexibility is the driving thing to decide (whether to invest) - the risk element, where things are invested and the flexibility."  
(Confident Self-starter, 45-65, married, with dependants, £30,000 - £99,999)*

## 8.5 There are both positive and negative drivers towards choosing to invest without advice

Participants who more willingly and actively self-invested were frequently the ones more comfortable generally with investing (Confident Self-starters and more experienced Eager Learners). They may have learned about the pitfalls of investing via advised relationships or from prior experience.

They cited the following as reasons to self-invest:

- A confidence in being able to understand the products, monitor performance and switch or disinvest when necessary
- A sense of enjoyment in meeting the challenge of self-directed investing
- The convenience and ease of use of online channels
- Wanting to avoid the performance drag of adviser fees

*“I like it because I can go in and manage it like it's my own portfolio but in a tax efficient scheme. I do tend to, but sometimes I hold it and not change it.”  
(Confident Self-starter, 35-45, married, with dependants, £30,000-£99,999)*

*No (I did not take advice) because it was too simple.”  
(Eager Learner, 65+, retired, £100,000+)*

Eager learners are excited at the potential of self-directed investing. They are moderately confident and comfortable in their decision, given the amount of time they have to claw back any losses. In addition, the positive performance of the FTSE in 2013 and an increasingly optimistic mood in the press is likely to be influencing attitudes. They are less tarnished by prior poor experiences.

Those less comfortable taking investment decisions were generally put off by the complexity perceived to be inherent in investing and displayed negative drivers to self-directed investing. These individuals would generally have preferred to have stayed in savings based products (and so may revert to these as and when interest rates improve) or would have considered taking regulated advice if they did not have to pay an explicit charge or if their investment amounts were larger.

Across the attitudinal segments a degree of cynicism towards financial advisers exists, with some belief that the benefits of advice do not justify the costs. There is a sense that non-advised investors believe they can do just as well as an adviser, without the cost or fear of bias that is evident. Examples of common views heard were that financial advisers:

- *“Do not know the future any more than I do”*
- Cannot truly have visibility of the whole of the market
- May restrict themselves to a *“preferred set”* of providers with whom they have better (and maybe more profitable) relationships
- May take unwarranted risks with their clients' money

It should be noted that these attitudes towards financial advice are very much influenced by the amount being invested – typically below £20,000 at any one time. The likelihood to seek advice increases as the amount being invested increases.

*“No (I did not take advice) because they (financial advisers) don't know any more about it than I do. They don't know what is going to happen in 15 or 20 years.”  
(Eager Learner, 45-64, empty nester, £100,000+)*

*“I am not sure that some of these financial advisers are any better at this than the man in the street. I care what happens to my money more than other people do. There are a lot of people happy to gamble with your money.”*  
(Eager Learner, 45-64, empty nester, £100,000+)

*“I don't trust people so my main thought is he is probably getting a bigger kickback from one place than another and that will influence him when he advises me where to put my money.”*  
(Eager Learner, 65+, empty nester, £100,000+)

*“I feel strongly about people getting advice on something they don't understand. Quite often it is the financial advisers and I think it is because they get a good percentage fee. The riskier the investment is, the higher their fee is.”*  
(Confident Self-starter, 65+, retired, £100,000+)

*“No (I did not take advice) because I have previously paid for financial advice and not found it very satisfactory 17 years ago when I bought an endowment mortgage.”*  
(Confident Self-starter, 45-64, married, with dependants, £5,000-£29,999)

## 8.6 Implications

- Given that the overriding motivation is to achieve a better rate of return than that on offer on cash products, there is a clear need for tools based on outcomes to be provided to consumers to help them understand, for example, the impact of inflation, tax, investment tenure etc., and what this translates into, in terms of the actual gains made over time. The industry is clearly moving in this direction in terms of the focus on customer outcomes.
- However there is a need to recognise that some consumers are being pushed out of their comfort zone. Clear, repeated information on the levels of risk and access, both within a wrapper and the individual funds, is important to ensure that the consumer does not select a product that carries more risk or inflexibility than they would knowingly accept.
- It is important that consumers are made aware of factors that may influence their choice and later experience with their investment. A consumer is vulnerable when they do not know what questions to ask. Tools such as checklists and guidelines on what to look at when considering a product, set out in concise and simple language, would be helpful, especially if these are made available at point of purchase. Bold communication of the key points about the investment being made, could be made more prominent before the final decision is made.

## 9 Decision-making processes and the customer journey

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### 9.1 Summary

The majority of participants did not follow a traditional purchase process<sup>1</sup>; many short-cuts were evident. Less experienced investors (generally in the Hesitant Hopeful category) were using heuristics and basing some, if not all, the decision-making on rules of thumb. This can lead to poorer investment choices.

Eager Learners were keen to understand the product and the process and make a decision after a relatively long research exercise. Experienced Confident Self-starters would frequently rely on their ongoing engagement with the market and read around the chosen funds in more detail when making an investment. A majority of this group may do some occasional shopping around for the best service provision at competitive prices.

### 9.2 Participants are not always aware that there are multiple decisions to be made

Self-directed investing often involves a complex network of decisions. There are choices to be made with regards to whether it is appropriate to invest in the first place, the product, the provider and the funds to be selected. The less experienced were often unaware of the selection of providers they could have used and/or that frequently they could have selected funds within the product.

As consumers gain experience, they become better aware of the individual decisions that need to be made and start to adopt more rational and linear approaches. The key stages in a linear purchase process are information gathering, identifying options, comparing and evaluating alternatives, selecting the product most suited to their needs and post purchase review. On the other hand, those new to investing without advice are likely to bypass one or more of these stages.

Across all categories, consumer decision-making in a non-advised environment can be described along the extent to which the investor 'delegates' decisions to trusted third-parties (such as well-known brands) and the amount and type of information they will use in making that decision. The two variables tend to depend on the investor's level of experience.

### 9.3 The influence of behavioural biases can result in poorer investment choices for some

Misconceptions and a lack of knowledge were evident amongst investors who were less comfortable dealing with investment decisions. Amongst Hesitant Hopefuls, there was a poor understanding (or even awareness) of product features and the risk implications of investing.

Some examples of a lack of knowledge, especially amongst Hesitant Hopefuls, were:

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<sup>1</sup> See Figure 5, section 9.8

- No awareness of whether disinvesting would incur penalties, that there was a waiting period before getting access to the money and, for a few, the tax advantages of investing in an ISA wrapper
- Extremely low awareness that individual funds were contained within products such as stocks and shares ISAs. The majority were under the impression that it was a product rather than a wrapper and did not know how risk was spread across the individual funds or even that they could have selected these themselves
- A widespread assumption that stocks and shares ISAs are less risky than other equity-based products because of the 'ISA' label
- Apart from ISA products, there was very low awareness of the tax efficiencies of other investment products
- Very low awareness of the cost of setting up their investment and ongoing charges
- Very low awareness of sources of information; such as the Money Advice Service

This knowledge gap may be based upon lack of experience, lack of engagement, inability to comprehend or absorb complex information, amongst others. Despite the advances some providers have made to help consumers bridge this gap (and the tools observed by participants during the research are discussed in 9.6 below), the research highlighted common errors still being made by some.

#### **9.4 The majority are making broadly appropriate decisions but some sub-optimal choices are being made**

In the context of the rest of their financial world and capacity for loss, the majority of participants did not appear to be exposing themselves to excessive risk and made broadly appropriate investment choices based on current circumstances. However, a minority that did not conduct sufficient research made what could be described as sub-optimal choices based on their circumstances.

The most common mistakes made were:

- Investing in high risk products / funds without being aware of the risk profile of their investment (or the implications of being in a high risk investment)
- Holding a product that was different to the one they thought they had bought
- Buying an investment product that was not tax efficient when ISA thresholds had not yet been reached
- Investing directly in funds and / or shares when it would have been more tax efficient to have used a wrapper.

The likely drivers behind the decision making process and influences on how choices are made are discussed below.

#### **9.5 Behavioural biases play a significant role**

The research confirmed that behavioural biases play a huge role in the complex, and often unfamiliar environment of non-advised investing. In particular, Hesitant Hopefuls used cognitive short-cuts to assist in the more complex stages of the decision making process. This means they tended to be less thorough in terms of gathering information and evaluation of options and key stages were often bypassed. In Behavioural Economics

terms, this is largely a System 1<sup>2</sup> (i.e. spontaneous and less rational) approach to decision-making. Positively, behavioural biases helped these individuals take action and make choices when inertia could have been the easier response.

Frequently, Hesitant Hopefuls carried out very little, if any, research. They were often quickly overwhelmed by the amount and complexity of information available.

This means that less experienced consumers will often a) limit the number of information sources they use, and b) employ less rational behavioural strategies (effectively delegating the decision-making to a trusted provider or other third party), which may potentially expose some to the risk of making poorer choices than where regulated advice is sought.

Some examples of decision-making 'short-cuts' are:

- **Sticking to the status quo:** An example of this would be deciding to set up the investment with a provider where a relationship already exists. This is often the result of taking a *'better the devil you know'* approach rather than a rational assessment of the provider's track record in the investment area they are considering.
- **Defaulting to the 'balanced' fund:** the *'balanced'* descriptor is a cue for 'mainstream' and 'popular' and signals a low-risk investment. The use of default 'balanced managed' funds in personal pension purchases was seen a few times in the research.
- **Herd behaviour.** Participants often chose popular funds as they felt these were being 'endorsed' by others. This is especially true if the risk description resonates with them, e.g. 'for cautious investors'. Top ten fund lists proved popular and play to this bias.
- **Trusting an established provider.** For younger and inexperienced investors with few, if any, financial relationships in place, the familiarity of a high street brand is reassuring and provides them with a tangible point of contact, in case they need to query their investment. This trust in a known brand can be strong enough to eliminate the need to look elsewhere. In several instances in the research, first time investors simply contacted their current account provider as a first point of contact for their non-advised investment.

It is important to note that despite these biases and the potential impact on the quality of decision making, the vast majority of participants were satisfied with their investment decision and the process they had been through. The positive return on investments during 2013 and into 2014 may well be helping to drive this sentiment.

*"I only looked at the banks' websites. I'd only go with someone I know."  
(Hesitant Hopeful, 30-34, married with dependants, £5,000-£29,999)*

*"I just asked my father-in-law. He suggested this one. He found out for me and suggested this in a few days."  
(Hesitant Hopeful, 45-64, married, with dependants, £30,000-£99,999)*

*"I didn't really look around. I have a current account and ISA with (retail bank) and I went onto their website and there it was. I went with what I know. I typed in stocks and shares ISA and (retail bank) came up. I went straight to (retail bank website) not Google."  
(Hesitant Hopeful, 20-34, single, no dependants, £5,000-£29,999)*

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<sup>2</sup> Stanovich & West, 2000

## Case Study

Emily

### Profile

- 66 years old
- Married with children and grandchildren
- Likes to work part-times and enjoy life
- Not too well informed on financial products beyond the day-to-day money management



### Motivations for investing

- Downsized last year leaving her with £30,000 spare cash
- Wanted to invest this to set aside for her grandchildren

### Customer journey

- Was told by her adviser to consider an ISA product as a tax-efficient shelter for some of her money
- Decided against as she thought the return would be very low (based on her awareness of cash ISA interest rates)
- She was familiar with a leading insurance company so called them and asked them to suggest a suitable product
- She took out an investment bond with the insurance company because it had an element of life cover

### Outcome

- Emily is happy with her investment but is unaware of the tax implications or product charges of her investment

#### 9.5.1 Rules of thumb

Participants who felt less knowledgeable than they would like, often employed rules of thumb (otherwise called heuristics) when picking their investment products. The following are just a few examples of ones witnessed during the research. In all cases, the rule of thumb reduces the perceived need to research and understand the level of risk carried in their choice and, therefore, in the consumer's mind, justifies that their decision was a good one:

- *"It tracks the FTSE, so it must be ok."*
- *"It's all UK funds so it must be quite safe."*
- *"It was good enough for my Uncle, so it's good enough for me!"*
- *"It was a brand name that I knew well"*
- *"I picked the fund in the middle (of a risk spectrum)"*

#### 9.5.2 The importance of trust

Trust plays a significant role in customer decision-making, especially amongst less experienced investors. It is used to circumvent what is perceived to be a lengthy and complex evaluation process and can, and often does, outweigh rational decision-making. Hesitant Hopefuls in particular will limit themselves to products from providers they know and often only from those with whom a relationship already exists.

This may limit their shopping around and discourage them from investing in products or funds where they have limited knowledge.

Some examples of trust playing a key role in the research were:

- Sticking with the familiar and/or resorting to defaults: e.g. a previously purchased product or pre-existing provider relationship
- Recommendations from family and friends (non-experts). Investors (particularly, but not exclusively, Hesitant Hopefuls) often ‘mirrored’ a friend’s product and fund choice
- Expert reviews and other consumer channels. This short-cuts the need to carry out research and gives a quick and easy comparison with the reassurance of getting an ‘expert’ opinion.

## 9.6 More experienced investors tend to take a more rational approach to decision-making

Participants with some experience in self-directed investing and a greater desire to engage were more likely to research their investments thoroughly before making a choice. This is a more rational, System 2 based response. The shift to more considered investing often happens in incremental steps as consumers gain more experience and confidence in digesting the information available.

Eager Learners were the most ‘information-hungry’ category. They were the most likely to use a number of information sources; e.g. online provider sites, family or friends with knowledge of the sector they are considering, specialist consumer magazines or independent online forums. They read key facts documents and fund fact sheets and looked at information on past performance.

Rather than identifying the investment choice early on, they were keen to consider options and go through a gradual narrowing down of choices driven by a growing understanding of sectors and performance and an ongoing comparison of same. Although some of the less experienced were sometimes confused by provider data and had difficulties comparing charges, they were happy to take the time to shop around.

More experienced Confident Self-starters generally had a good knowledge base to start with and read up on investments on an ongoing basis, irrespective of whether they were in the market for a new investment. Once they had decided to take out a new product, they often researched different providers and compared charges (where possible), in addition to researching the funds in more depth. While Confident Self-starters may still ‘short-cut’ their decisions for convenience sake (e.g. defaulting to a long-standing existing provider rather than making any new comparison of charges and service features) they are still likely to review their investments and service provision more often than less experienced consumers.

*“I brought up all the tables for which return and which product match and then went to the provider. I looked at some that were at the bottom too. I read through as much of the literature as there is to try and make an informed choice. It came down to two products. I went to friends who work in the industry. I found what I needed on the website. The literature has got far stronger.”*

*(Eager Learner, 20-34, single, no dependants, £5,000-£29,999)*

*“I looked in my sector for shares. I looked at emerging sectors. Banks are all shot. Energy was getting heavily regulated. I read the papers through to get a handle on where things*

*are going. I thought that I couldn't invest in my sector. So it wasn't going into shares or premium bonds as the return is pants. So I stuck it in another investment.”  
(Eager Learner, 35-44, married, with dependants, £30,000-£99,999)*

*“I do go online, I go onto the (provider) website and they have some decent articles with stocks that are currently in vogue and what their fund managers invest in themselves. I try to get a spread of opinion when I buy anything. It is about trying to ensure that whoever is writing doesn't have a vested interest in it. I just read around it and maybe it is a gut feeling.”  
(Eager Learner, 45-65, empty nester, £100,000+)*

## **9.7 Provider solutions can play to behavioural biases**

A few participants were able to recall particular tools or solutions that they used which helped to simplify the decision-making process. These were not commonly recalled and were mostly mentioned by participants that completed the purchase process online.

These included:

- The use of filtered fund lists – a few participants highlighted the usefulness of fund lists based on the provider's screening criteria or popularity. These help avoid the hard work of fund research and play to some participants' desire to short-cut this potentially complex part of the process and avoid uncertainty.
- The use of pre-packaged portfolios – a few participants commented on the ease of making investments when pre-determined portfolios, labelled by risk level, were available to choose from. The reduction of choice here (and for some, avoiding a conscious decision by simply picking the middle or 'balanced' option) again helps to accommodate the need to take short-cuts and reduce complexity.
- The use of default funds – a couple of participants setting up personal pensions had opted for the “balanced managed” type fund without any further investigation of fund choices. Providers offering this are clearly very aware of the need to reduce choice for less engaged customers.
- The use of simplified language and educational literature – a small number of the more experienced investors commented on a noticeable improvement in customer literature on their preferred online provider sites.

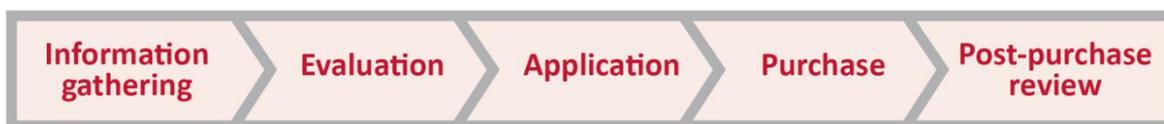
Conversely, several participants requested further support and guidance through the process and felt that providers could and should do more to reduce the jargon, make key information clearer and more comparable. This is covered further in the implications and conclusions sections of the report.

## **9.8 The customer journey is made up of a number of key stages**

The traditional purchase process for investments is shown below. NMG has adapted a well-known marketing framework to illustrate the common stages in the buying process.<sup>3</sup>

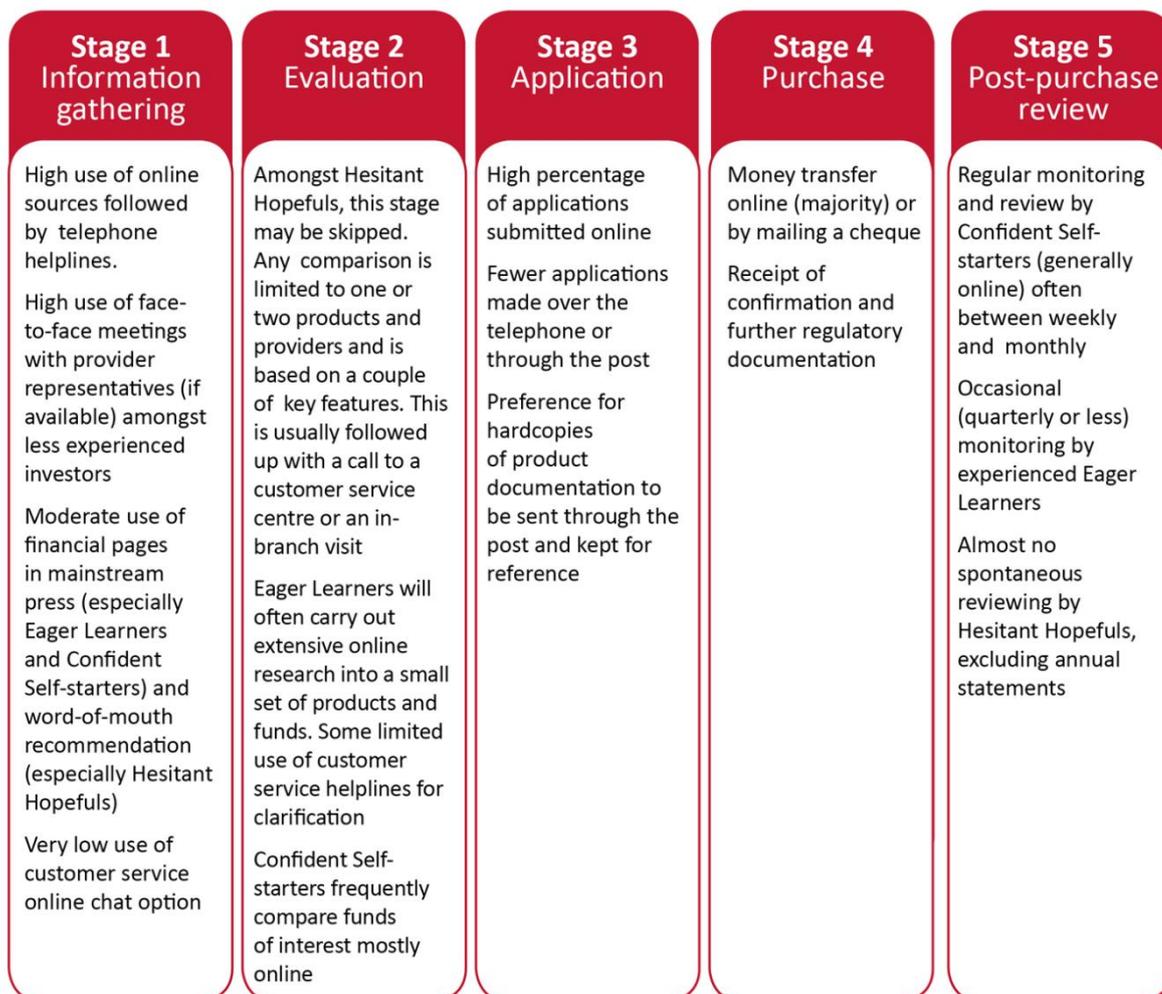
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<sup>3</sup> Kotler and Armstrong, 2008



**Figure 4: Key stages of the investment purchase process**

At each stage participants were using a number of channels as shown in the diagram below:



**Figure 5: Channels used at each stage in the customer journey**

### 9.9 Stage 1: The amount of information gathered often varies greatly

As highlighted earlier, in a high number of cases information gathering was perfunctory. Many took short-cuts and missed out a stage altogether, opting to purchase a product or use a provider that was recommended with little or no further comparison. The start point for many Hesitant Hopefuls was their local bank or building society branch; for those keener to engage more, online was more popular.

Frequently, an online search may have as its starting point a word-of-mouth recommendation or a particular type of investment or, in a few cases, it may be a generic search, e.g. 'saving for retirement'.

This stage usually involves browsing for information, often starting at a mainstream search engine. Those browsing looked at one or more of the following:

- Existing provider websites (often banks, building societies and insurance companies)
- Consumer advice sites
- Comparison websites
- Consumer discussion forums

Many believed that much of the literature available is similar in content and generally used just one or two provider information pages to get a basic understanding of the product before moving on to comparison websites or to executing their decision.

Eager Learners and Confident Self-starters will often go further by using online search engines to find the companies whose funds they are considering.

Interestingly, Confident Self-starters may do less research around the provider at this stage as they are likely to go back to an online broker or platform they have used before. Their search tends to start from a narrower starting point and often focuses on fairly detailed information on funds they are interested in, using the information on the provider platform as a first port of call. They appear to have developed strong relationships with favoured online platforms and are comfortable re-using their services.

The majority discussed their proposed investment with their spouse or partner (where applicable), while a small minority discussed their investment with a more experienced or well-informed member of their social network (more common amongst Hesitant Hopefuls). For Hesitant Hopefuls, this personal sense-check replaces a more formal evaluation which they believe they are not confident, or capable of, undertaking effectively. The approval of an influential other is sufficient to provide the reassurance needed to progress directly to application.

*"I went into the (retail bank) branch without an appointment; went in a week later with an appointment; discussed it with someone for about an hour; talked it through with my wife then went back a week later and invested."  
(Hesitant Hopeful, 45-65, empty nester, £5,000-£29,999)*

*"I just went onto Google and searched 'stocks and shares ISA'. You read similar bumf and it's only limited by so much info. The (bank) guy was friendly and helped me open the account. It does make a difference when someone is pleasant. He went out of his way and that's why they got the business."  
(Eager Learner, 35-45, married with dependants, £30,000-£99,999)*

*"I Google companies to get the background. I did a bit of research on the iPad, I looked at the share prices and how they had been over the last 12 months. I put "Share advice" into Google and sometimes it takes you into forums."  
(Eager Learner, 35-45, married with dependants, £30,000-£99,999)*

## **9.10 Stage 2: There is often little to no comparison and evaluation of products**

Many participants felt that comparing product options against other providers and alternative products was too difficult and therefore often narrowed down the choices they

were considering to a smaller subset of what they perceived to be simpler products from the providers identified in stage 1. This reduced the amount of information they needed to look at and also made comparison easy.

Furthermore, focusing only on, for example, stocks and shares ISAs, reassured participants that there was less need to look into specific features as it was a relatively 'popular' product and was therefore unlikely to be a bad choice.

Many had tried browsing online for information around products. While it quickly became apparent that information was available, some gave up after a short while because of the complexity of specific information such as individual fund performance and product and / or platform charges, which they found it too taxing or tedious to follow.

Confident Self-starters and Eager Learners are more likely to actively pursue information on products, individual funds and providers, looking at fees and service capabilities in the latter case.

Rather than carrying out a detailed evaluation of whether a product would be appropriate by reviewing the different features, participants tended to focus on the one or two key features most important to them (e.g. the ability to pay in monthly) and 'short-cut' to the product choice.

Given the relatively low value being invested and the expectations of moderate growth over the medium to long term, participants often only considered stocks and shares ISAs (once the decision to move beyond cash-based products had been made). A small number had not conducted the necessary research to make them aware of the tax advantages of the ISA wrapper (and had subsequently invested directly in funds despite not utilising their ISA allowance). A small number with specific long-term needs extended their search to pension products.

Around a quarter of participants considered alternatives for their money, such as buying a car or renovating their home, but then chose to dedicate part of their money to this and invest the rest. This behaviour is most common when they are in receipt of a windfall.

*"I considered other cash ISAs and putting my ISAs into stocks and shares. I looked at trackers because I perceived them to be fairly straightforward and easy to manage. I haven't got round to that."*

*(Eager Learner, 45-65, empty nester, £100,000+)*

*"We decided to use some of the money on updating the house and a percentage of it to invest."*

*(Confident Self-starter, 45-65, empty nester, £30,000-£99,999)*

*"I looked at different investments - ISAs, endowments etc. We went for the ISA because of the amount involved. If you have £50k or £100k, it's another level of investment."*

*(Hesitant Hopeful, 65+, retired, £30,000-£99,999)*

*"We considered pensions. The trust is in my name and hers. She has pensions but we thought this (stocks and shares ISA) would be more accessible. She could take the funds and dip in and out of it and add to it. It is security for her."*

*(Hesitant Hopeful, 45-65, empty nester, £100,000+)*

Following the initial information gathering, a minority of participants needed reassurance by clarifying some terms of the product or, occasionally, guidance on how to submit the application, transfer money etc.

This often involved a telephone conversation or, for a few Hesitant Hopefuls, a face-to-face dialogue with a firm's representative (if using a high street brand).

There are two different scenarios playing out at this stage. In one scenario, participants were looking for information (not advice). They contacted the provider with specific questions and generally had a purely factual conversation with what they thought to be a customer service representative.

In another scenario, especially in the Hesitant Hopeful category, participants sought reassurance *"that this product is right for me"*. Most often, this involved trying to make an appointment with a member of staff (e.g. at a local bank branch) and asking to be talked through the product and its implications – including the risk involved.

While participants were aware that this is a single provider (i.e. not independent) service, the face-to-face nature of this type of interaction can act as a cue that some form of advice is being given. Many participants came away from these meetings feeling that a product had been *"suggested"* and that the provider had selected the product that they felt was most appropriate to them. It is important to note that, irrespective of whether they felt that they had been guided to a product or not (some did refer to it as 'advice'), all participants felt that they would shoulder full responsibility for their decision should their investment make a loss. All felt that it was their decision and that they would not have any right of recourse to the provider should it go wrong (more detail on consumer perceptions around the nature of advice and where responsibilities lie is given in Chapter 10).

### **9.11 Stage 3: The process varies by degree of comfort in investing**

Comfort with investing appears to be an indicator of whether consumers will take the online route. The less experienced Hesitant Hopefuls generally preferred at least part of the transaction to be carried out over the phone, face-to-face or through the post. Once again, this is about reassurance and a need to add a tangible element to the process. *"I don't like it that my money 'disappears' for a while before I see it again."*

The majority of investments (especially stocks and shares ISAs) were initiated online. A small minority went into a high street branch or called the provider and asked to be sent an application through the post.

As mentioned earlier, a high number of Hesitant Hopefuls and less experienced Eager Learners would prefer to have at least one contact with a firm representative before purchasing. While in many cases, the product details were fairly straightforward, they frequently tended to call the provider to confirm their understanding and ask for the process to be initiated. This was generally not related to asking for advice, but was rather a vehicle by which to obtain reassurance about the firm they trusted.

### **9.12 Stage 4: The purchase journey is generally considered to be quick and efficient**

Once the application had been submitted online or through the post, the money transfer was similarly either carried out online or by posting a cheque. Stages 3 and 4 were often completed at the same time. The provider's confirmation was then received through the post or online, together with further product literature and regulatory documentation.

At this point in the journey, the participant often felt that they knew enough about the product so any documentation received was frequently skimmed over and filed away for future reference.

The entire process often took no more than a week or two for participants using the post at some point in the process, and a few days for consumers conducting the transaction entirely online. For others, this took up to a few months if they were interrupted or simply stepped out of the process.

### **9.13 Stage 5: Review frequency varies greatly**

Following their purchase, many participants, especially Hesitant Hopefuls and less experienced Eager Learners, conducted little or no post-purchase evaluation or review of their investment.

Of those that did monitor their investments, Eager Learners tended to do so, on average, on a quarterly basis while Confident Self-starters were more likely to check more frequently. Those who are actively trading may check on their investments several times a week. This is generally done online and, less frequently, by reading the financial press. Conversely, most Hesitant Hopefuls did not expect to engage much with their investment and would wait for a communication from the provider (e.g. an annual statement) to briefly review.

### **9.14 Implications**

Given the perceived complexity of investing for the majority, behavioural biases play a significant role, particularly when the buying environment is unfamiliar. Consumers (most commonly, Hesitant Hopefuls but seen across the segments) will short-cut the more complex stages of the decision process, with little or no evaluation or comparison of options and use rules-of-thumb to short-cut decisions.

This results in purchases that a) the consumer has insufficient knowledge about, b) have not been fully evaluated or compared to alternatives, or c) may not be the most appropriate solution. The lack of engagement, often until receipt of product documentation post-purchase, inhibits consumer knowledge of important product features.

Despite the risks inherent in investing, the vast majority appear satisfied with their level of research and engagement, both at the time of purchase and ongoing. It is reasonable to assume however, that more extensive research is likely to lead to a more informed decision, which may, in turn, facilitate better outcomes for consumers.

Providers should look at better understanding the behavioural biases evident in the way consumers buy investments and provide information to help avoid pitfalls when short-cuts are made. At a minimum, simple guides to nudge investors along the best process and the provision of the key information that should be sought and compared should be easily available. Providing tools to encourage greater involvement – fun quizzes, games etc... will help ensure key information is absorbed. Investment solutions that support the need for simplification (e.g. pre-set portfolios and filtered fund lists) appear vital based on this research.

Ways of improving investors' ongoing engagement with their investment should be encouraged, particularly for Hesitant Hopefuls who are unlikely to look at a valuation for several months at a time. Instant access via apps on smart phones and tablets is likely to prove the best method for improving the likelihood of more investors keeping abreast of their investments on an ongoing basis.

## 10 Consumer understanding of advised and non-advised channels

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This chapter describes consumer understanding of the distinctions between advised and non-advised channels and the implications of any confusion that may exist.

### 10.1 Summary

Participants in the research were generally able to distinguish between advised and non-advised service provision. The key cues that regulated advice is being given are the payment of an explicit charge for that advice and the receipt of a tailored recommendation based on the client's personal circumstances. The cues that a non-advised service is being given are the lack of a specific product or fund recommendation over and above others and that the duty to research and take the right decision lies exclusively with the consumer.

Participants were clear about the scope of service from non-advised platforms and providers when an online channel was being used. However, when there is a degree of human interaction there is potential for information provision or guidance to be misinterpreted as advice. While participants were clear that final responsibility lies with them, they perceived a role for the Regulator or an independent party to play in protecting their interests.

### 10.2 Participants describe regulated financial advice as independent and whole of market

Regulated advice is strongly associated with independence and access to the whole of the market. Another key distinction is that regulated advice is, as it clearly states, regulated, and therefore provides safeguards for consumers. Some participants referenced the role of the Financial Ombudsman in providing further protection and advice and litigation support.

Participants expected regulated financial advisers to:

- Give advice *"based on facts and figures"* and make consumers fully aware of the risks inherent in their investment and the implications of this
- Have their work audited by the FCA
- Direct the consumer towards regulated products
- Communicate a clear pricing structure at the beginning of their dealings with a client
- Hold the qualifications and accreditations required by the Regulator
- Follow a set Code of Conduct/Ethics (minor mention)

Participants believed that a regulated financial adviser *should not* recommend any product that was not the best and most appropriate for their client; give them misleading information or be influenced by the promise of commissions from particular providers.

*"This (regulated financial adviser) will be someone who is independent and their actions will be controlled by the FCA. They can't recommend one particular product. If I go into a bank and ask about their investments, I expect them to say 'We are not able to advise you and can only tell you about our products.' I wouldn't expect them to be regulated. They just tell me about their products. They make that clear. If I go to a financial adviser, I expect them to*

*be independent and to be recommending what is best for me rather than what is best for them.”*

*(Eager Learner, 65+, empty nester, £100,000+)*

*“Whoever is giving that advice is regulated by an authority from which they need to have some qualifications, and would offer me, as an investor, some protection that the advice they have given me is correct. I would expect to be able to have a third party which I could speak to if I was not happy with the advice and say ‘Is this correct, can you look into it for me?’ To have some backing of a larger organisation. I think of that as an ombudsman.”*

*(Eager Learner, 45-64, empty nester, £100,000+)*

*“Everything is regulated to a certain standard and if it is not to a certain standard, authorities will step in and seek to put things right. You have to make sure that somebody is safeguarding these investments and the people that make them. There has to be some sort of protection for your investments, that people are operating to certain acceptable standards, that the consumer has a right to challenge that and that there is a body they can go to for help.”*

*(Eager investor, 45-64, empty nester, £5,000-£29,000)*

Explicit payment for advice and the receipt of a “tailored” recommendation help differentiate advised from non-advised services. A recommendations based on a review of the participant’s *personal situation* was a key distinguishing element of investing on an advised basis. Participants were clear that they felt this type of advice would be independent, based on the whole of the market and would have to be paid for.

*“The ones (providers) that do give you advice, give advice on a personal level about your situation.”*

*(Hesitant Hopeful, 65+, retired, £30,000-£99,999)*

*“Advice would be: ‘This is what you need to do.’ Guidance is, ‘These are your options.’ Guidance is more distant and it is up to you whereas advice is: ‘This is what you need to do.’”*

*(Confident Self-starter, 35-44, married, with dependants, £5,000-£29,999)*

### **10.3 Guidance from single product providers can sometimes be misconstrued as advice**

In the research it was very rare for regulated financial advice to be described as a restricted or ‘single provider’ service. In participants’ minds, the association is still strong that all regulated financial advice is independent. Amongst those that had experienced it, single provider advice (usually from a bank or building society) had been offered at no perceived cost to the client. As the product provider was only presenting products from their own portfolio, there was an understanding that this would, by definition, not necessarily be the best product for them available on the market.

Participants sometimes confused information provision or product guidance with advice. In situations where the participant had spoken to a product provider representative, it was sometimes felt that a particular product had been suggested to them. This is particularly the case where face-to-face interaction was involved and where a product choice had been narrowed down for them. The ‘personal’ element of the interaction is what appears to drive the confusion. The situation is compounded by the fact that what ‘advice’ means to a

consumer can be very different to what 'advice' means within the industry. This was seen in a small number of cases where participants were uncertain if they had received regulated advice but, when probed, confirmed that they had not paid a fee or received a tailored recommendation. Examples of this occurring include a meeting in-branch with a bank representative and a telephone interaction with an insurance representative. In these instances the participants could not recall any mention of the service being described as information only or non-advised. It is important to note that, during these discussions, participants often wanted and actively asked for advice ("What would you do?").

*"You get two kinds of advice. For instance, talking to somebody in a bank.... They may show you what is available. I'd call that information. That is useful in itself. I think it's more common now for banks. They often say now that they can't advise you. It'd be useful at the beginning to say that it's not an advisory thing but to give information to clarify that."  
(Hesitant Hopeful, 65+, retired, £30,000-£99,999)*

#### **10.4 Participants are generally aware they were transacting on a non-advised basis**

The large majority of participants were aware that they had transacted on a non-advised basis. This is especially true of investments that were made online.

Some participants could recall service descriptions on the homepage of the platform or provider that they had used. The provider clearly stated that it was not providing advice.

Other cues were:

- The participant did most or all of the research and took the final decision on what product and/or funds to select
- The provider offered no "weighting of options"; i.e. did not recommend particular products or funds over others
- The only interaction with a member of staff (if any) was administrative or to clarify product facts or features
- For online transactions, the act of actively selecting funds or products

*"It was my decision and I hadn't gone to an adviser. I took it as done. Maybe (the provider had) something at the bottom of their literature. They need that to safeguard themselves. I think it's important that people understand the difference. Here it was down to you."  
(Hesitant Hopeful, 45-65, married, with dependants, £5,000-£29,999)*

*"I'm not a fool. If I'm not asking for help, then the decision is mine alone. I did this off my own back so it's my responsibility. There is a number to call if you have any difficulty. They just answered my question as to what to do on the site. I'd have to pay money for advice and I'm not prepared to do that."  
(Hesitant Hopeful, 20-34, married, with dependants, £5,000-£29,999)*

*"Their fact sheets were very good. I relied on those and understood them. They had the risk, companies, percentages of the assets and descriptions and strategy of the fund. Did I think they were giving financial advice? No. The choice is mine. They have not chosen for me."  
(Eager Learner, 45-64, empty nester, £100,000+)*

*"The research was my job and that was done before I spoke to them. They asked what further information I wanted. It was my decision, with their guidance."*

*(Eager Learner, 45-64, empty nester, £30,000-£99,999)*

## **10.5 There is a role for independent advice amongst non-advised consumers**

Participants who were uncomfortable making investment decisions (generally Hesitant Hopefuls) would have considered taking regulated, independent advice under different circumstances. The majority of these explained that:

- Financial advisers would not wish to deal with them because of the low value of their investment
- They were reluctant to pay explicit fees
- They would not know how to go about identifying a (trustworthy) financial adviser and would refrain from seeking advice without the reassurance of a personal recommendation.

There was a strong sense that, should these individuals be able to access regulated advice at little or no cost, they would have preferred to have used it.

*“If somebody advises you, you have more knowledge so you can make up your mind whether you want to buy. If it is non-advised, you will be in the dark then.”  
(Hesitant Hopeful, 45-64, married, with dependants, £30,000-£99,999)*

*“I understand now there are advisers that you don't necessarily have to pay, which I would consider if I had a larger amount to invest.”  
(Hesitant Hopeful, 45-65, empty nester, £5,000-£29,999)*

Across the segments most participants believed that investing one-off lump sums of a larger amount (at least £20,000) would warrant taking financial advice. This is indicative of the fact that the *level of comfort* felt with self-directed investing may vary depending on the amount being invested.

It also implies that the value of paying for financial advice is generally only questioned when investing smaller sums. Despite some of the cynicism expressed around financial advisers, the large majority of consumers see the added benefit of a financial adviser's expertise when planning for amounts of money that would measurably impact their financial future.

There were very few outright rejecters of financial advice in the research sample, even amongst those that had never experienced it or had moved from an advised to a non-advised channel. Even the most committed self-advised consumers do not see themselves as exclusively self-advised across all need areas and life stages.

It is worth highlighting that at no time did the research explore the cost of accessing financial advice in any detail and so these findings do not take in to account the impact of adviser charging on potential customer behaviour.

## **10.6 Non-advised channels must provide transparency around products and charges**

Participants were clear about the responsibilities of providers selling investments without regulated advice. They felt strongly that it was the provider's responsibility to make it clear what they were purchasing and what the set-up and ongoing costs would be.

They also expected:

- Product and fund descriptions to be clear and aimed at consumers (as opposed to financial practitioners)
- All literature to be relevant and concise (too many pages were not likely to be read; bite sized chunks are more digestible)
- The 'small print' to be highlighted, especially information around the responsibilities of the provider and the risks to the consumer
- Any communication from the provider to be in plain English and not overly technical
- The responsibilities of both the provider and the consumer to be clearly laid out and to be given in writing with the product literature
- Inclusion of telephone support when clarification is needed

*"A lot of things are supposed to be written in plain English but some of it is gobbledegook, although they do have a glossary. (Named online platform) have a number you can ring up and ask questions and they are quite helpful. I like to think I can understand most of it."  
(Eager Learner, 45-64, empty nester, £100,000+)*

*"(I would like) a bit more clarity around commission fees. There are three ways you are paying for unit trusts - commission on purchase of the units, the bid to offer spread and sometimes they take an annual fee. For the investor, you don't know that there is consistency in the charging models from the investment houses and brokers."  
(Confident Self-starter, 45-65, married, with dependants, £5,000-£29,999)*

*"If they were execution-only, they would have to make it clear – in big and bold writing. They would have to define that."  
(Eager Learner, 45-64, empty nester, £100,000+)*

*"The literature that accompanies financial investment whether online or in the high street is so verbose and full of financial terms that go over your head. Cut that down and make it far simpler."  
(Hesitant Hopeful, 35-44, empty nester, £5,000-£29,999)*

## **10.7 Participants believe that responsibility for their decisions lies with them**

An overwhelming majority of participants felt that they were responsible for the ultimate investment decision whether they had transacted on a non-advised basis or felt they had received a suggestion or guidance on the best product from the provider. Despite the misunderstanding around advice from single product providers, participants still believed they were wholly responsible for decisions made following advice or guidance from these firms. There is very little knowledge or clarity around provider and platform ongoing responsibilities.

*"They (building society) have no responsibility once you've opened that account. They take a back seat. I think if you've been rightly or wrongly advised, it's your responsibility really. It's your money and if you lose it all, it's you. They're not going to give it back."  
(Hesitant Hopeful, 35-44, with dependants, £30,000-£99,999)*

## 10.8 The FCA has a role as “consumer champion”

While consumers are clear on what their responsibilities are, they would like the Regulator or an independent third party to be their ‘consumer champion’ by ensuring the following:

- Firms provide reliable, transparent, independent information on which to base an informed decision. This includes basic information for those less experienced, e.g. a ‘checklist’ of things to review when taking out an investment, etc.
- Firms make the responsibilities of both consumer and provider are made completely clear at point of sale
- Providers are clear about the scope of service being offered
- Information on the recourse for consumers should things go wrong and how to go about this
- Ways of knowing ‘who to trust’ in the industry

*“We like FAQs. A bit more information, I guess, independent of the provider - just reputable. Top 10 things you should know. (For a) First-timer buying an ISA. Things you should know.”*

*(Hesitant Hopeful, 45-65, empty nester, £5,000-£29,999)*

*“Publish more information about firms who are doing well. We call it ‘The good, the bad and the ugly!’ A league table.”*

*(Confident Self-starter, 45-64, married, with dependants, £100,000+)*

## 10.9 Implications

- The ambiguity around (generally) single product provider interactions and the type of guidance or advice given, may lead consumers to take decisions while erroneously believing that the provider had guided them towards the best product for their situation. There is scope for this to be further clarified by the provider at point of sale.
- The differences in usage of financial terminology between the industry and consumers are reinforced by this research. ‘Advice’ and ‘guidance’ are not as distinctly positioned for consumers as they are for the industry. There is a strong need for a well-articulated explanation using more meaningful cues, language and definitions which communicated consistently by providers and the industry to consumers.
- In non-advised channels, transparency and comparability of information is key. Further consideration to the way facts and charges are presented would be beneficial to consumers.
- Consumers (especially those with little or no experience in self-directed investing) often do not know who to trust. Clear and efficient ways of signposting the ‘legitimacy’ of a firm or organisation may be considered and promoted to consumers.
- Consumers are not always aware of provider and platform responsibilities suggesting that they may not always be aware of when and how they can seek recourse for poor outcomes

# 11 Conclusions

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This Chapter looks at the implications for consumers and the industry based on the findings of this research.

## 11.1 Summary

Non-advised investors within the research sample appear to be satisfied with their investment choices and the majority are happy with their decision and level of engagement. However, some may be making less well-informed decisions which could lead to sub-optimal choices being made.

There are some key considerations for both the industry and the FCA to take into account to help ensure the best outcomes for non-advised consumers.

## 11.2 Providers should respond to the diverse needs of non-advised consumers

Providers need to recognise that consumers entering the non-advised market have different levels of experience with, and understanding of, investments. They are also likely to take different 'paths' to making their decision. A "one size fits all" approach is unlikely to work.

This points to a need for a 'tailored' approach to the customer. Providers need to understand their core customers in terms of the type of information and support required, with a clear navigational path, to ensure that the consumer is clearly able to access information when it's needed and better inform themselves on the implications of their investment. Whilst the research did not include a detailed exploration of provider propositions, it is evident that some firms have already started to target and tailor their services to suit the differing needs in the market. However the direction of travel for the industry should be to focus on the need for greater customer engagement to both support behavioural biases and limit any potential damage that they may yield.

Information is an important starting point – although content without due consideration to context, will always be limiting in its effect. Providing information in a format that the most inexperienced self-directed investor can absorb would be a good starting point:

- Simple, bite sized chunks of information, in plain English, covering the "must know" basics ("the five key questions you must know the answers to before you proceed")
- A clear and consistent format for this "must know" product information to help with identification of key features and comparability across providers
- A clear navigation path for consumers to find their way to the 'level' of information they require (e.g. drilling down from basic FAQs to top-level facts and figures to fund-specific detail and/or commentary for more experienced investors)
- A clear description of the risk involved in the investment and its implications. The level of risk needs to be made very clear using unambiguous, consumer-friendly language (e.g. a traffic lights system)
- Fun and engaging tools, quizzes and games to encourage the consumer to get involved and help them understand the fundamentals
- Apps to encourage more regular checking of valuations

- Charging structures to be communicated in a clearer and more comparable format
- Inclusion of telephone support and easily found phone numbers
- Clear and bold information at point of purchase on paths for recourse
- Reminders of the key points of the purchase being made before the final decision is made
- An independent 'go-to' source when information from providers becomes too 'technical'. This could be an online resource with glossaries and simple explanations of risk and its ramifications. This needs to be highly visible and accessible e.g. with links from current provider sites.

### **11.3 Providers must understand and accommodate the impact of behavioural biases**

Clearly behavioural biases are not going to be eliminated and, without them, decision making would be impossible for a great many.

Different consumer types based on comfort with investing will have differing information needs and providers should look to better understand the behavioural biases evident in the way consumers buy investments. This will guide them in providing the right information and the best process to help avoid pitfalls when short cuts are made. Providing tools to encourage greater involvement – fun quizzes, games etc... will help ensure key information is absorbed. Investment solutions that support the need for simplification (e.g. pre-set portfolios and filtered fund lists) appear vital based on this research. Simplification of fund choice and the use of popular or "top" fund lists plays to many investors' need for help in this potentially complex area.

Clearly many providers have already recognised this need and have designed solutions already being used by many investors. However, the research identified a number of individuals that aren't engaging sufficiently to either a) be aware of these solutions or b) want to use them. The key for encouraging these individuals to engage may be to play to their emotions and make investing more meaningful e.g. based around their goals, hopes and aspirations.

### **11.4 Eliminate any ambiguity around where responsibilities lie**

While the majority of non-advised consumers are clear about the nature of the transaction, some interactions may lead consumers to believe they had been given some form of financial advice. The area of concern is when a consumer believes the provider gave a suggestion that guided them towards their decision and which, post-purchase, the consumer interprets as advice. There is scope for this to be clarified by the provider at point of sale, particularly where interaction with a firm representative has taken place.

A clear statement in writing detailing responsibilities of consumers and providers at point of purchase, would resolve this for the majority of consumers. Together with this, information on whether, and how, the consumer could seek recourse for poor service should be provided.

Consumers believe the FCA has a role in ensuring the industry provides transparency of information and clarity around the scope of service being used. There is a need for non-

advised services to be clearly labelled at point of purchase as non-advised; this is particularly relevant where human interaction is involved to help avoid any ambiguity.

## 12 Appendix A – Methodological Appendix

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### 12.1 Sample source

Individual participants were recruited by Leftfield Recruitment. These consumers were sourced on a free-find basis using a detailed recruitment screener to ensure they matched the profiles we sought.

### 12.2 Recruitment process

The team of recruiters worked under the supervision of Sarah Lawrie and Daniel Farrell of Leftfield. The team all had specific experience of financial services research and of recruitment on a free-find basis. Celia Callus of NMG Consulting conducted a detailed recruitment briefing on 19<sup>th</sup> February. Recruitment began on 20<sup>th</sup> February 2014 and continued until 21<sup>st</sup> March 2014.

Once the consumer had been contacted the recruiter then completed a screening interview. The aim of the screening was principally to ensure that the consumer met the profile requirements. These were:

- **All to have purchased an investment product via a non-advised channel since January 2013**
- **Levels of investable assets:** Focusing on consumers with £5,000 or more in investable assets (ensure coverage of the mass market)
- **Previous history of using financial advice:** The sample was split equally across those having had financial advice in the past and those who haven't. This is representative of the market based on data from NMG's Investor Census
- **Gender split:** Based on previous experience in this area, there is a slight tendency for non-advised purchasers to be male. Sample was therefore weighted towards a male: female split of 6:4
- **Age / Lifestage:** Five key lifestages: Young Singles/Couples, Young Families, Older Families, Empty Nesters and Retired were recruited, representing a realistic range of ages, experiences and financial needs across the population
- **Financial decision making:** The main or equal financial decision maker for long term investing and savings
- **Geographical spread:** Recruiting to achieve a broad geographical spread with workshops and depths in major cities such as London, Birmingham, York and Glasgow.
- **Channels:** Falling out naturally across web, phone, postal and face-to-face
- **Financial sophistication** – a broadly even spread across higher, moderate and lower levels

Where consumers were willing to take part in the research and were 'within quota', an appointment for the interview or workshop was agreed. This was confirmed in writing (by email or post). Consumers were offered incentives between £50 and £75 to take part in the research either as a cash sum, cheque from NMG Consulting or as a contribution to a charity of their choice.

### 12.3 Sample framework

Half the sample was allocated to younger consumers (with and without families) and the other half to older families, empty nesters and retirees (including consumers aged 45 and older).

This approach recognises that younger individuals tend to be less ‘sophisticated’ users. They are less experienced and have experienced fewer triggers for financial purchase than older consumers. This may put them at higher ‘risk’ when purchasing investment products.

#### Depth interviews

	Wealth Level	New to investing	Invested in the past		
			Established direct user	Always advised prior to Jan '13	Multi-channel
<b>Young Singles or Couples</b>	12 x £5,000-£29,999	5	3	3	1
<b>Young family</b>	6 x £5,000 - £29,999 6 x £30,000 - £99,000	4	3	3	2
<b>Older family</b>	3 x £5,000 - £29,999 3 x £30,000 - £99,999 2 x £100,000+	2	2	2	2
<b>Empty Nesters/Older Singles or Couples</b>	2 x £5,000-£29,999 3 x £30,000 - £99,999 3 x £100,000+	2*	2	2	2
<b>Retired</b>	4 x £30,000 - £99,999 4 x £100,000+	2*	2	2	2

#### Workshops

	Age	Lifestage	Wealth level	Sophistication	Channel
<b>1</b>	20 – 44	Young Singles or Couples	£5,000 - £29,999	Lower to Medium	New to investing
<b>2</b>	20 - 44	Young Singles or Couples/Young Family	£5,000 - £29,999	Lower to Medium	Established direct user
<b>3</b>	20 – 44	Young Family	£30,000 - £99,999	Medium to High	Multi-channel user
<b>4</b>	45 - 64	Older Family	£5,000 - £99,999	Lower to Medium	Always advised prior to Jan 13
<b>5</b>	45 – 64	Empty Nesters/Older Singles or Couples	£30,000 - £99,999	Medium to High	Established direct user
<b>6</b>	65+	Retired/Older	£100,000 +	Medium to High	Multi-channel user

## 12.4 Fieldwork

The consumer research involved 48 face-to-face depth interviews with consumers conducted either in central locations including hotels and recruiters' homes and participants' own homes. Interviews took place between the 5<sup>th</sup> and 24<sup>th</sup> March 2014. Respondents were recruited according to a number of interlocking quotas (see above) on a free-find basis. Interviews were around 75 minutes in length and were audio recorded. Participants were taken through a semi-structured discussion, were asked to complete a "suitability quiz" towards the start of the interview and were shown showcards of definitions of advised and non-advised provision towards the end of the interview. When available, interviews were able to view product materials brought by participants and review completed pre task packs.

Additionally six workshops with either seven or eight attendees were conducted in hotels and viewing facilities between the 5<sup>th</sup> March and 17<sup>th</sup> March 2014. Respondents were recruited according to a number of interlocking quotas (see above) on a free-find basis. These sessions lasted two hours each and were recorded. Additional stimulus was used within the workshops to probe around likely responses to scenarios broadly based around the participant profiles.

All research was conducted by one of a small team of senior qualitative researchers familiar with the UK retail investment market and consumer behaviour.

## 12.5 Analysis

The analysis combined positivist and interpretive approaches, i.e. analysis based on the evidence of what people said together with interpretation of the underlying meaning and context. It involved some 'counts' of the answers to specific questions, grounded theory analysis to develop hypotheses and compare findings from sub cells, together with observation and exploration of the language and stories used by the participants.

In addition to the interpretive approaches mentioned above detailed analysis of customer journeys was undertaken to get a good understanding of the cognitive and emotional factors behind the decisions taken. The interviews provided a detailed understanding of the thought processes and behaviours that accompany consumer decisions. Analysis has taken account of Behavioural Economics given the growing importance this theory has in the context of consumer decision making in financial services.

Using subgroup analysis, NMG examined whether responses varied according to a number of different variables. Qualitative research allows comparison of responses not only according to pre-defined market or demographic variables but also according to factors which arise through the process of analysis itself.

This facilitates analysis of factors such as gender, life stage, investable assets, together with more interpretive factors like attitudes towards investments.

Comfort with investing was particularly relevant to this analysis. Following analysis participants were categorised into the following discrete subgroups or types:

- Confident Self-starters
- Eager Learners
- Hesitant Hopefuls

Specific differences between subgroups relating to any of these variables, where they arise, are discussed within the body of the report.



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