Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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24 December 2015

Dear Sir, Madam,

Financial Advice Market Review Call for Input

This is the response of the Financial Services Consumer Panel (the Panel) to the joint FCA and HM Treasury Financial Advice Market Review Call for Input.

The call for input defines the advice gap as *"any situation where consumers cannot get the form of advice that they want on a need they have, at a price they are prepared to pay... the advice gap may also include areas where consumer demand is low because the long-term benefits of advice may not be fully appreciated"*

We have not seen any evidence to show the existence of a gap in the supply of professional advice, apart from in the provision of compulsory pension advice, e.g. on defined benefit to defined contribution transfers.

Consumers do not always seek professional advice, even when they could benefit from it: some are not aware of what is available; they do not want to pay for advice because they do not understand the price or value of it; they cannot afford it; or they prefer to take decisions themselves. The industry needs to be more transparent. People want to know exactly what they are paying for and what they are getting for it.

We are dubious about the argument that the cost of obtaining regulated advice is high because firms are concerned about potential future liabilities or because they are unclear on where the regulatory boundaries lie. The Panel has not seen any evidence that long-term liability has caused widespread issues for firms, although we understand how it could be a problem for sole trader or micro firms looking to exit the market. We think the solution here is to look at the costs of professional indemnity insurance and consider how this market could be improved.

The Panel agrees that there is a gap in overall consumer engagement. There is an ample supply of 'generic' financial advice, e.g. through the Money Advice Service and Pension Wise, that is underused. We have covered this in our response to the Public Financial Guidance Consultation.

We consider that more work is needed on the existence and nature of the advice gap in each segment of the market, as it will be highly connected to people's individual circumstances and attitudes.

Sue Lewis
Chair
Financial Services Consumer Panel

Consultation Questions

The Panel has only answered questions where it has substantive comments.

Q1 Do people with protected characteristics under the Equalities Act 2010 or any consumers in vulnerable circumstances have particular needs for financial advice or difficulty finding and obtaining that advice?

The Panel has no evidence about people with protected characteristics, but we would note that everyone is potentially vulnerable at some point in their lives, through a change of circumstances such as losing a job or partner. Equally, a sudden cash 'windfall' can make people vulnerable. It is not sufficient just to be able to find advice: people need to be able to trust that whoever is advising them is professional and acting in their best interests. While the Retail Distribution Review (RDR) has demonstrably improved the regulated advice market for consumers[1], a recent FCA thematic review found severe and persistent problems in the wealth management and private banking industry[2].

Pension reforms have highlighted the potential vulnerability of consumers who suddenly acquire cash. These consumers are not only vulnerable to scams and fraud, but have problems getting the right kind of advice. One example is individuals who have high levels of debt and need to determine whether they should use their pension assets to pay it off. Debt advisers cannot help, as they cannot provide advice in relation to investments[3]. On the other hand, regulated advisers are not debt specialists and their charges could be prohibitive for someone heavily indebted.

In addition, advisers are reluctant to give advice to consumers with guaranteed annuity rates or those with defined benefit schemes who want to transfer to a defined contribution scheme, because this increases the cost of their professional indemnity insurance cover. This will also be an issue for the planned secondary annuities market.

Q2 Do you have any thoughts on how different forms of financial advice could be categorised and described?

The government is consulting separately on Public Financial Guidance, but the Panel considers the 'help' provided by industry, third sector and government-funded bodies should be considered together, as consumers will not necessarily understand the differences.

Advice is either regulated (the adviser recommends a course of action), or it isn't. Consumers do not need to understand the difference, but they do need to know the extent to which they are protected, and whether the adviser is impartial or trying to sell them something.

<u>Independence of advice/help from a product sale</u>

The Thoresen Review[4] made clear that there was a gap in the provision of impartial information and guidance. People want help that is impartial and on their side. They have an interest in knowing whether their adviser is trying to sell them a product – and will benefit financially from doing so, directly or indirectly - or whether the adviser is looking impartially at their overall financial position and helping them meet their financial

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[1] Post Implementation Review of the Retail Distribution Review 2014: https://www.fca.org.uk/news/post-implementation-review-of-the-rdr
[2] TR15/12: Wealth management firms and private banks: suitability of investment portfolios, December 2015
[3] Qualified includes being authorised to carry out the relevant regulated activities by the FCA.
[4] Thoresen Review on Generic Financial Advice: Final Report: http://webarchive.nationalarchives.gov.uk/+/http:/www.hm-treasury.gov.uk/media/8/3/thoresenreview_final.pdf

goals.

Investment advice labels

Advice labels like basic, focused, simplified and independent are not useful to consumers, and make it hard for them to make sense of the market.

Consumers need to understand what range of products and providers a financial adviser can choose from when making a recommendation, but having different types of advisers - independent financial advisers and two status levels of restricted financial advisers – is also confusing. The panel believes the MiFID II definition of independence will help. This will allow 'whole of market' restricted advisers to be classified as independent, making the distinction between independent (whole of market) and restricted (by provider) advisers clearer.

Consumers should not have to determine what type of advice is right for them and why. Firms need to be clear about the service they are offering and take responsibility for ensuring consumers aren't misled into thinking they are getting a certain type of advice when they aren't.

Protection

Consumers need to know whether the advice they get will give them access to redress through the Financial Ombudsman Service (FOS) or Financial Services Compensation Scheme (FSCS) if they need it. We think that the FCA should require firms that sell regulated products without regulated advice to provide much clearer and prominent warnings about the lack of protection. For example, firms should warn consumers that they won't necessarily have access to the FOS/FSCS[5] if a product bought 'execution only' should prove inappropriate for their needs.

Firms should also help consumers understand that with regulated financial advice they will receive a written report confirming why the course of action recommended to them is suitable. If they don't get this, they are taking responsibility for their own decision.

'Non-advised' sales

The Panel also believes that commission should be banned for 'non-advised' sales of regulated products. The RDR showed that payment of commission led to consumer detriment in the advised sector, so it is difficult to justify retaining it for 'non-advised' sales. Instead firms should charge clients a fee to carry out the transaction and make this clear to consumers upfront.

In addition, the Panel believes the FCA should introduce a code of conduct for firms selling regulated products without advice. We would like to see the FCA put together a working group consisting of industry and consumer representatives to draw up this code.

Q3 What comments do you have on consumer demand for professional financial advice?

The Panel's research on annuities[6] found that there were several reasons why consumers did not use financial advisers in this particular context. The main factors were:

- Lack of awareness of, and trust in, the benefits of advice;

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[5] MiFID introduced an appropriateness test for certain non-advised sales from November 2007 (e.g. complex products such as some structured products)
[6] https://www.fs-cp.org.uk/sites/default/files/optimisa_annuities_final_20130708.pdf

- Lack of familiarity: consumers felt apprehensive about speaking to someone who they imagined would have financial knowledge far greater than their own, and that therefore they might not understand what the adviser was saying, or would be made to feel stupid;

- Concern over costs and benefits. People did not know what the cost of advice might be, or how to evaluate the potential value of advice. For some, this was a consequence of inexperience in using advisers. Others were unconvinced of how much value an adviser could add over and above their own efforts;

- Disappointment with previous advice experience in relation to other products.

Those who felt confident to shop around often used informal sources of advice. These included 'savvy' (relatively engaged with financial services) friends and family who had experience of buying an annuity and other information sources such as websites and newspaper articles. Several people had attended pension seminars arranged through their employers or their spouse's employers.

While these experiences relate to a particular market, it seems likely the conclusions can be applied to other markets or to professional advice in general.

Different consumer segments have different needs for advice. Sometimes people know what their advice needs are (e.g. they want help in a particular area but do not know where to go or believe they cannot afford to get the help they need); or they are unaware that advice could be available to them and what the benefits may be.

What is clear is that the industry has done a poor job in marketing the costs and benefits of professional advice. For example, research from Which? in 2014[7] found that financial advisers were reluctant to reveal how much they would charge until they had met a client in person and 70% of the firms sampled did not list their prices online. The industry has also done little to dispel the myth that, prior to the RDR, investment advice was free. It is perhaps not surprising, then, that consumers are reluctant to pay for something that they believe used to be free.

We would emphasise that financial advice is the same as many other professional services. People pay for professional services in other areas, such as for accountancy advice. Some people can afford this, others can't. Yet the government does not generate a debate about whether there is, for example, an accountancy 'advice gap' that must somehow be filled. Services are accessible to those who need them at the market price.

Q5 Do you have any comments or evidence on the types of financial needs for which consumers seek advice?

The Panel's recent research[8] found that consumers use a number of different decision-making processes when buying a product, with variations in the time spent, extent to which they shopped around, and whether or not they sought advice. Some of these behavioural differences were based on the product type being acquired, and some were related to the particular characteristics of individual consumers, including their age, socio-economic status and confidence in financial matters.

Advice does not of course need to be related to buying a product. People may also want help with, for example, understanding complex terms and conditions ('jargon busting'), interpreting financial statements, budgeting and financial planning.

The main point is that different consumers have different needs, and we think further

[7] http://www.which.co.uk/news/2014/01/many-financial-advisers-tight-lipped-over-fees-351668/
[8] https://www.fs-cp.org.uk/sites/default/files/consumers-coregulators-research-2015.pdf

research on the needs of different segments is required.

Q6 Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

The FCA's model would be improved by including intergenerational and attitudinal issues, for example, looking at a young person starting out in the context of their wider circumstances, such as whether their parents are able to support them. We think the Money Advice Service segmentation model would probably work better for looking at advice needs.

Q8: Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

We take this question to refer to regulated advice only.

Most advisers charge a percentage of the amount to be invested, which also varies according to the size of the investment. Advisers usually allow customers the choice of paying for the fee up front or having it deducted from the amount to be invested, so, with lump sum investments at least, the costs can be spread.

Most consumers should be able to access regulated advice if they need it. Whether they want to pay for it (or understand the value of paying for it) or not is another matter.

Q9: Do you have any comments or evidence on why consumers do not seek advice?

As above, it appears this question is about regulated advice. Our response to question 3 also applies here.

Q10: Do you have any information about the supply of financial advice that we should take into account in our review?

As above, it appears this question is also about regulated advice.

The FCA's post-RDR research considered whether the RDR led to an advice gap.[9] It concluded there was *"little evidence that the availability of advice has reduced significantly as a result of the RDR, with the majority of advisers still willing and able to take on more clients. However by revealing the true cost of advice, the RDR has led some consumers to consider the extent to which the advice they receive represents value for money, and in some cases conclude it does not. This group includes consumers who would be likely to pay for a cheaper form of advice, for example that which may be provided by a simplified advice model".*

There is some evidence to suggest that, post-RDR; advisers are increasing the minimum portfolio size they will provide advice for. According to research published by Rplan in November 2014[10], 25% of advisers required clients to have over £30,000 of investable assets and 16% of advisers required a minimum amount of over £50,000. The number of advisers now imposing a minimum threshold of £50,000 is probably much higher.

Q11: Do you have any comments or evidence about the recent shift away from sales based on professional advice and the reasons for this shift?

The Panel's annuities research[11] showed an increase in non-advised sales of annuities

[9] https://www.fca.org.uk/static/documents/post-implementation-review-rdr-phase-1.pdf
[10] http://www.ftadviser.com/2014/11/24/ifa-industry/advisers-increasing-minimum-portfolio-sizes-since-rdr-w0eivD2zv0wvV4cdELHIiN/article.html
[11] https://www.fs-cp.org.uk/sites/default/files/optimisa_annuities_final_20130708.pdf

and now there is evidence of consumers moving to non-advised sales of income drawdown products. The call for input itself cites FCA data showing that the proportion of retail investment products sold without advice has increased from around 40% of the total in 2011/12 to around 66% in 2014/15.

Firms have turned to sales without advice because (a) they can still be paid commission so their customers think the service is free (b) there is no liability for the sale – all liability is on the customer so it is a very cheap model.

Q12: Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

There are firms in the regulated market that are trying out new and innovative business models, including some regulated advice through a mixture of telephone, email and 'Skype'. Two market leading providers have developed fully automated, but fully regulated, advice models – LV= and Just Retirement.

The FCA has clarified the guidelines firms must follow when delivering automated or focused advice. As this technology develops further, the FCA needs to be satisfied that online advice firms are using appropriate risk profiling tools.

We feel the market is beginning to move and these new and innovative models should not be undermined by the panic to fill an 'advice gap' that has not been proven to exist.

Q16: Do you have any comments on the barriers faced by firms providing advice?

The barriers cited in the call for input apply to most start-ups in any sector. It could also be argued that some of these suggested barriers, such as liability, act to reinforce good behaviour by firms, and hence increase trust in the market.

Looking at each of the suggested barriers:

Establishing reputation and trust: Any new business faces this problem. Until a firm builds a reputation customers are bound to be wary. Lack of trust is heightened in the financial services industry because of the catalogue of poor behaviour spanning back over decades. Ironically most of this bad behaviour didn't occur through advice firms, but through banks and insurance companies – yet it is the advice firms that are paying the price.

That said, whilst past performance does make it harder to establish trust, firms can do this by having transparent charging and by providing quality advice so they get referrals. Financial advice is a personal service and should be viewed in that context.

Finding consumers: This is difficult to do, especially for small firms. This is where good guidance can help by providing 'leads' to regulated advice firms via impartial sources such as the Money Advice Service directory. There is a link with the financial capability agenda here: if people understand in general terms the benefits of professional advice, they are more likely to seek it out.

Regulation clarity: The financial services industry has been regulated since 1988 and there have been millions of successful transactions through thousands of advisers. The FCA has also produced guidance to clarify regulations[12]. We are therefore unclear why firms are still calling for clarity. If they don't understand the rules, this calls into question whether they should be selling products and services to consumers.

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[12] FG15/1 – Retail investment advice: Clarifying the boundaries and exploring the barriers to market development: https://www.fca.org.uk/your-fca/documents/finalised-guidance/fg15-01

Business costs: All new businesses have to deal with costs; again we are unclear why financial advice firms should be treated differently.

Regulatory cost: There may be elements of regulatory cost that merit further consideration, and we support the work on the share of the FSCS levy borne by advisers.

We also think the regulator should look at the cost of, and restrictions imposed by, Professional Indemnity Insurance (PII). We understand that PI insurers are dictating what advice firms can and can't provide, and the cost of being able to provide advice across the board is becoming prohibitive for some firms. The excesses are now so large for certain types of advice that many small firms have to withdraw from providing that type of advice. That reduces consumer access and choice.

The Panel is a strong advocate of PII and would not like to see the protection it offers weakened, but we do believe a review of the market is long overdue. If there is the possibility that PI insurers are effectively stifling competition, perhaps this is something the FCA's competition team might look at.

Lack of profitability: Again, we fail to see why government feels it is appropriate for it to interfere in one particular market. Businesses are either profitable or they are not. There are plenty of firms offering financial advice under the current regulatory regime that are profitable.

Liability: If an individual can't, or doesn't want to, make a decision themselves, they pay for the services of a professional to recommend a course of action for them. Financial advice is no different in this respect from any other professional service, all of which take responsibility for their recommendations.

Q17: What do you understand to be an advice gap?

We do not agree that the advice gap is: *any situation where consumers cannot get the form of advice that they want on a need they have, at a price they are prepared to pay*. If the advice gap is measured by '*the price consumers are prepared to pay'* then it would indeed be large, at least until consumers can understand the costs and benefits of professional advice.

There is no evidence of a supply-side gap for professional advice, except in the few circumstances we outline above. We consider, therefore, that any gap should be thought of in terms of consumers understanding what advice is available to them, where this advice is available and how receiving advice could add value to their financial transactions.

Q18: To what extent does a lack of demand for advice reflect an advice gap?

As set out in responses to previous questions, we agree that lack of understanding of the long-term benefits of advice may be one reason demand for advice is low. We also agree in principle that lack of demand does not lead to an advice gap where consumers have no real need for advice, but we are not sure this is helpful from a policy perspective. The call for input defines "no real need for advice" as when a consumer has the appropriate knowledge to take decisions without assistance, or when the decisions they need to take are not complex. However, it is important to note that consumers frequently overestimate their own financial capability. They don't know what they don't know, and this can have disastrous consequences. .

Q19 Where do you consider there to be advice gaps?

There appear to be some problems accessing advice for consumers who are resentful of paying for it and yet could benefit from advice. Knowing the true costs of advice for various transactions would be helpful in establishing whether there are groups of consumers that genuinely cannot afford the cost of advice, even after shopping around. We hope that as part of this review there is research being undertaken to publish some examples of costs.

Few consumers would have the expertise to take 'at retirement' decisions independently. Pension Wise should help people decide on their broad options; though it is unlikely those with small pots would be able subsequently to get regulated advice. This is probably the right outcome: investing a small pot to generate an income is likely to be a bad deal given how much would be eaten up in costs and charges, but it could nevertheless be regarded as a gap.

There is a gap for those wishing to transfer a pension with safeguarded benefits, and for those who want advice as to whether they should use their pension assets to repay debt.

Please also see our answers to questions 1 and 39.

Other areas where individuals need access to both regulated financial advice and help and guidance are:

- Saving into a pension (living for now; hard pressed; striving; stretched);
- Saving for short term needs (living for now; hard pressed; striving/supporting; stretched/resourceful);
- Taking out credit and managing debt (starting out; living for now; hard pressed);
- Getting retail general insurance (retired on a budget, retired with resources);
- Getting life insurance (starting out; living for now; hard pressed; striving; stretched; retired on a budget);
- Long-term care and housing; and
- Generic help not related to buying a product.

Q21 Which advice gaps are most important for the Review to address?

In the Panel's view the priority areas should be determined by a deeper analysis of the advice gap for different segments.

In general terms, the Panel believes that some advice gaps can be addressed by extending the scope of 'guidance'. Provided the guidance is provided by independent sources (not product providers) under a supervised regime, consumers could be provided with guidance about which products will help them meet their financial goals and where to purchase them safely.

It is important to note that not all need for advice is linked to a product, but there could still be an advice gap e.g. holistic long-term financial planning, including tax arrangements.

Q22 Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?

Pension freedoms have generated an urgent need both for regulated advice and help, and sorting this should be a priority. There are other areas where increasing numbers of consumers need help and protection outside of retirement, such as consumers in debt.

Q24 Are there aspects of the current regulatory framework that could be simplified so that it is better understood and achieves its objectives in a more proportionate manner?

The Panel is aware that some financial firms believe the current regulatory framework is too complex and difficult to adhere to, despite the FCA's attempts to clarify its rules through updating its regulations and issuing guidance for firms.

The Panel considers the FCA's finalised guidance on retail investment advice[13] laid out in considerable detail the rules as they relate to advice and what constitutes advice and what does not. It also compared the FCA rules with those of the EU - in particular MiFID II.

If the regulatory framework needs to be simplified further, the first challenge is to identify which of the FCA's specific rules are causing confusion or applying a different standard to MiFID II. There then needs to be an assessment of whether removing or adapting any "gold-plated" rules would weaken consumer protection. In conducting this exercise, it should also be borne in mind that mis-selling and poor practice in the advice market was what led to the considerable restructuring of the market through the RDR. Therefore, if simplifying the rules means weakening these rules, consumer protection will be compromised.

Q25: Are there aspects of EU legislation and its implementation in the UK that could potentially be revised to enable the UK advice market to work better.

Where EU legislation intended to protect consumers does not apply to certain groups of UK financial services consumers, we believe these rules should 'read across' so that no groups of UK consumers are disadvantaged. Two such examples of EU legislation are MiFID II and PRIIPs, which we believe should apply to pensions. Where UK legislation is already stronger than proposed EU legislation we believe the higher level of regulation should prevail (where legally possible) unless there is demonstrably no weakening of consumer protection from 'paring back' to EU rules.

Consumer protection in the financial services industry has been hard fought and should not be weakened by a perception of an advice gap that may not exist.

Q26 What can be learned from previous initiatives to improve consumer engagement with financial services?

It depends what is meant by 'engage'. Assuming it means 'buy more products', then we would observe that people engage very well when they want to borrow money, or they need a product, such as car insurance. They don't when it comes to saving and investing for a host of reasons from low interest rates to lack of transparency to a justifiable lack of trust in the industry. Looking at some of the previous initiatives, we observe:

[13] http://www.fca.org.uk/static/documents/finalised-guidance/fg15-01.pdf

- If there is not enough profit in it for product providers, it will fail;
- Government designing products is a bad idea, as are price caps (in general);
- Consumers liked 'CAT' marked products as they gave clear messages. However, in themselves they did not encourage consumers to buy more. Kite (or CAT) marks only help a buying decision once the consumer is already motivated;
- Stakeholder products were equally clear but not that profitable, so industry shunned them, refusing even to market the products. The exception was stakeholder pensions, largely due to the regulatory intervention of 'RU64'. This FSA rule meant that advisers could only sell a personal pension more complicated and costly than a stakeholder if they could explain how the additional costs were justified by the added benefits; and
- Simple products are destined for the same fate as stakeholder products, unless the FCA makes wider use of 'RU64'-style regulatory interventions.

The Panel's 'consumers as co-regulators' position paper[14] and research[15] showed that providing more information to consumers is not the answer. People are easily overwhelmed by 'too much' information and it is therefore important to consider how best to package data so that it can be accessed and used easily by consumers.

Q29 To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice.

The Panel disagrees strongly that any further reduction of liability on firms is necessary or desirable. Liability for regulated financial advice has been the subject of scrutiny for many years and has only recently again been addressed in the RDR.

Safe harbours of any kind involve the reduction of liability on firms thereby increasing the risk to consumers and weakening consumer protection.

Q30: Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

The Panel does not believe safe harbours are in consumers' best interests for the reasons given above.

Financial advisers are paid to take responsibility for the advice they give – in the same way that lawyers and accountants and other professionals are paid for their advice. There is no reason for the liability of an adviser to vary simply because the channel the advice is going to be delivered through is different.

Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

A safe harbour reduces the adviser's liability and therefore increases the risk to the consumer. There are no steps that can be taken to ensure that a safe harbour includes consumer protection. You either reduce an adviser's liability or you do not. Consumers should have access to the FOS/FSCS if the adviser fails to follow FCA rules.

Given past precedent, where the government has used taxpayer's funds to eliminate risks to consumers (e.g. by using taxpayer's funds to purchase share capital in Royal Bank of Scotland and Lloyds Banking Group), would the government be expected to step in if there were a scandal relating to safe harbours?

[14] https://www.fs-cp.org.uk/sites/default/files/consumers_as_co-regulators_final.pdf
[15] https://www.fs-cp.org.uk/sites/default/files/consumers-coregulators-research-2015.pdf

Q32: Do you have evidence that absence of a longstop is leading to an advice gap?

No. We have had many discussions with representatives of the advice market concerning the longstop for many years and we have never been provided with any evidence that the lack of a longstop is responsible for an 'advice gap'.

Q33: Do you have evidence that the absence of a longstop has led to a competition problem in the advice market e.g. is this leading to barriers to entry and exit for advisory firms?

The Panel believes that it is not a long stop that should be seen as a potential barrier to entry and exit for firms. Instead we believe there should be a review of the professional indemnity market. The way this market is working appears to cause difficulty for many advice firms – particularly the smaller ones. If professional indemnity insurers are stifling competition in the advice market this should be addressed.

Please also see our response to question 32.

Q34: Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

Yes. All of the mis-selling scandals that have occurred since regulation came into force have related to long-term products which could be held for much longer than 15 years, namely: pensions, precipice bonds, split capital investment trusts, endowments, equity release (home income plans), payment protection insurance, whole of life plans and structured products.

Q36: Do you have any comments on the extent to which firms are able to provide consistent automated advice at low cost? Are you aware of any examples of this, either in the UK or other jurisdictions?

Two well-known examples are those developed by LV= and Just Retirement; others are emerging. These firms provide low cost regulated advice. They give a personal recommendation signed off by Level 4 qualified advisers and accept full liability for the advice. Consumers are covered by the FOS and FSCS.

Q37: What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

This question assumes that there are barriers to digital innovation, when this may not necessarily be the case. In question 36 above, we give two examples of automated regulated advice.

Commercial viability is likely to be the primary issue for incumbents, rather than regulatory barriers. Where the status quo is profitable, and there is limited threat from new entrants, there is little incentive for firms to innovate. Incumbent firms may nevertheless argue particular rules they don't like are stifling innovation. The FCA needs to test these claims vigorously.[16]

Q38: What do you consider to be the main consumer considerations relating to automated advice?

The FCA's research on the motivations, needs and drivers of non-advised investors has highlighted[17] the importance of straightforward, easy to understand, information:

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[16] https://www.fs-cp.org.uk/sites/default/files/fscp_response_project_innovate_call_for_input.pdf
[17] http://www.fca.org.uk/static/documents/research/non-advised-investors-research-paper.pdf

- 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;
- Charging structures set out in a clearer and more comparable format;
- Inclusion of telephone support and easily found phone numbers; and
- Clear and bold information at point of purchase on complaints and redress.

We believe that the government or the FCA should conduct research to check consumer understanding of online models and, in particular, whether they understand the difference between protected and unprotected advice.

Q39: What are the main options to address the advice gaps you have identified?

The Panel believes 'advice gaps' can in general be filled by extending the boundary of guidance (under supervision from the FCA)

On the demand-side, consumers need better information on the value of regulated financial advice and clarity on costs and charges.

A review of the Professional indemnity insurance market could help to encourage firms to come back into the market where known gaps exist.

We would also refer you to the Panel's response to the Public Financial Guidance Consultation.

Q40: What steps should we take to ensure that competition in the advice markets and related financial services markets is not distorted and works to deliver good consumer outcomes as a result of any proposed changes?

Please see our answers to questions 38 and 29.

The Panel's response to the FCA's Asset Management Market Study[18] highlights the need for both the Financial Advice Market Review and the FCA's market study to examine how competition works for consumers when they purchase an investment product through an intermediary, in particular how this might lead to better informed choices.

The Panel's previous discussion paper[19] and research on investment costs[20] published in November 2014, highlighted the fact that the full costs incurred by consumers when making long-term investments are not consistently and comprehensively defined, nor understood. Consumers need to be aware of these charges in order to be able to compare and assess value for money across providers.

Q41: What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

Please see our answer to question 39.

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[18] https://fs-cp.org.uk/sites/default/files/fscp_response_-_fca_asset_management_market_study_tor.pdf
[19] https://www.fs-cp.org.uk/sites/default/files/investment_discussion_paper_investment_cost_and_charges.pdf
[20] http://bit.ly/1k6i1ul

The introduction of a code of conduct for non-advised sales, robustly supervised by the FCA, would highlight the differences between protected and non-protected services and provide consumers with the information they need in order to make an informed choice.