Comments on Financial Advice Market Review

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In a personal capacity

I have no additional comments on the questions where nothing is said though comments in relation to other questions may be relevant.

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

A distinction should be made between the provision of orientation and information about financial products and options that is generic (as in the case of Pension Wise as currently mandated), and orientation and information that is personalised in the light of the individual's circumstances, priorities and constraints and compares the consequences for that individual of different approaches (without reference to specific products). The former might be classed as financial education. The term 'guidance' tends to conflate the two and also erroneously to imply that what is offered in the former case will, like a map or guide, result in the identification of a course of action leading to the client's desired destination.

As in the consultation document financial advice that deals with specific products needs to be clearly differentiated from advice that identifies possible courses of action, but also from advice that recommends courses of action but in a product neutral way.

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

Consumer demand does not fully reflect the potential for consumers to benefit from advice – many do not realise that they could benefit from advice and many others do not make clear that they desire it. It is therefore appropriate that potential or latent demand is considered.

In addressing the potential demand it is important to consider the reasons why it does not lead to approaches to professional advisers. And in relation to the demand that is manifest through contact with financial advisers there are crucial differences between demand that aims at benefitting from the professional's knowledge and demand based on the wish to delegate the effort and time involved in arranging financial affairs. While both motivations may overlap, the latter is more typical of the wealthy; it calls for a different approach to marketing on the part of the financial adviser with a particular focus on efficiency, attention to changing circumstance, and good communication.

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

The media coverage of financial topics only makes sense if there is an audience for it. Questions sent to the media (TV, press) show clearly that it is advice as well as information that is sought.

The surveys cited are plausible. Evidence from the surveys and enquiries that have led to the latest plans of The Money Advice Service and Citizens Advice. Both organisations report high levels of satisfaction with the advice they provide but stress the unmet demand. Of particular interest is the Money Advice Service's "financial capability strategy" which involves fostering "financial resilience" among the population and its recognition of the importance of a holistic approach to financial advice. "Complementing the Government's new Pension Wise service, we will provide holistic support to people in and approaching retirement, recognising that retirement is increasingly a journey with a number of stages, rather than a one-off event."

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

The table on page 10 of the consultation is broadly accurate however differences in individual circumstances can easily push less complex decisions (e.g. insurance or unsecured loans) into the more complex category and the reverse is not likely. It is therefore appropriate to start with the assumption that there are ramifications which may reveal a complex need: a consultation which is solely based around a particular 'solution' for an apparently simple need can easily be flawed and not address the client's real needs.

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

The segments appear to be statistical constructs labelled with lists of the most prevalent current situation of those in the segment; they are not cohesive or history-sharing groups and their current similarity does not imply that their futures are destined to develop in parallel. Almost all segments include people whose ambitions and future situations will be diverse.

Thus the segmentation only reflects current behaviour and situation. It is a snapshot and may well be useful as a marketing tool for identifying populations who will respond in a similar manner to product offerings. However appropriate advice relates to planning for the future; and it is not at all clear that people in a particular segment will have futures that are similar and hence have similar advice needs. There is a great risk that such segmentation becomes the basis for stereotyping clients.

Even where segments are homogeneous a cross tabulation of advice complexity with threats and opportunities by segment reveals that there are complex requirements within almost every segment, making it implausible that there are segments in which the best outcomes can be achieved with only simple minimally-advised products.

While it too has limitations, particularly a temptation to generalise about the appropriate responses, a segmentation based on life events is more appropriate. It is not an accident that many of the specialised parts of the financial services industry focus on life events – buying a house, retiring with a pension, protecting wealth for inheritance. The advice challenge is that the steps taken to deal with life events frequently impact on, or can be impacted by, decisions taken in other contexts - and there was little incentive to consider the wider picture in approaches which based rewards on product sales.

Q7: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

The personal and social impact of poor financial decisions is greatest among those classed as low income (40% of the population according to the segment definitions). The focus should be on ensuring that efforts to increase financial literacy in these groups (e.g. by MAS) are matched by availability and accessibility of advice; failing to achieve this can breed cynicism.

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

Changes in income (upwards as well as down) are a significant trigger for felt need for advice. Actual explicit demand tends to come primarily from those whose incomes have increased and those who face severe financial hardship.

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

There are marketing and reputational benefits in being seen to be up to date by deploying new technology. However this can be inappropriate particularly in situations where professional judgement is called for. Assessments of how customers have been handled should include consideration of whether they were induced to rely on automated systems which lacked the sophistication to deal comprehensively with their situation.

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

Advice 'gaps' are of two main types: a) where the advice available is insufficiently deep or holistic and b) where advice that would be valuable is not given, whether because it is not sought or because it is not available.

Q19: Where do you consider there to be advice gaps?

As noted, the segmentation model is less useful than a life event model (which is to some extent reflected in the headings of the 'heat map'). Gaps of type a) (see Q17) occur largely where there is a specific type of product (mortgage, annuity, credit card) available to meet a perceived need. The reasons for gaps of type b) lie to some extent in consumer behaviour and to some extent in industry structure, but it is also worth noting that the seriousness of the gap varies from person to person because of their individual circumstances. This may be a criterion for enhanced focus – e.g. particularly those with few relatives, with illnesses or disabilities, with high housing costs.

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

See answers to Q7 and Q19

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?

Yes, provided this limitation is only for the initial work.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

No, the criterion of "some money" is misleading as it does not differentiate between savings out of after-tax income and money which is in pension funds. The focus should include those who have or are accumulating pension entitlements, irrespective of whether they currently have "some money" in an after-tax disposable form.

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

The failure of many, especially pensioners, to take up financial support to which they are entitled, despite occasional take-up campaigns, attests to the limited persuasive power of promised potential financial benefit. In 'Understanding the relationship between the barriers and triggers to claiming Pension Credit'. http://research.dwp.gov.uk/asd/asd5/rports2005-2006/rrep336.pdf three primary barriers that prevent older people from claiming Pension Credit are pointed out. These are:

- ¡ A belief that they are not eligible;
- ¡ A concern about how the receipt of Pension Credit would interact with other benefits they were currently receiving;
- A lack of awareness of Pension Credit.

However those same pensioners may well be motivated by opportunities to increase their ability to 'look after' their children and grandchildren and a feeling of responsibility to organise their lives well.

Attention should be given to mechanisms whereby consumers are prompted regularly and as a normal activity to review their financial situation and the financial aspects of their plans and prospects. The focus on "needs" as the counterpart to products militates against this.

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

Making the activity of reviewing one's financial situation and prospects a normal and regular occurrence would contribute substantially to engagement – with or without face-to-face contact. In other countries the need to declare assets as part of the annual tax return prompts reflection and could be the occasion for a prompt from the government to consider financial prospects and plans. In the UK there could at least be prompts to accompany regular updates on pension status and it could be made normal practice for mortgage lenders to conduct affordability 'stress tests' on a periodic basis rather than only at inception. Provisions could permit those with objections or fears to opt out; they would however still be invited to participate and hence prompted about the normality of financial planning and need for advice when in doubt.

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

Protection of consumers implies that those dealt with under the terms of the 'safe harbour' must – in the absence of linked compensation and correction mechanisms - be less able to rely on possible rights. Appropriate warnings would have to be given and those who consent to this inevitably constitute an unrepresentative group. This suggests that what is learnt from the safe harbour will be difficult to assess experiments is of more relevance to the technicalities of providing advice than to the acceptability of the process for wider roll-out – given that comparing the performance of investments recommended via the safe harbour systems with those recommended outside it is unlikely to be an acceptable or convincing basis for permitting less consumer protection.

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

The proposal to establish different longstop provisions for different products fails to allow for the interaction of products. For example a strategy of achieving an average risk profile by combining high risk and minimal risk products cannot be evaluated until the outcomes of both elements have become clear. Redress issues should include the strategy as well as the individual products and a time-based longstop will be inappropriate.

Where redress for consumers is based on advice being inappropriate for their circumstances – current or predictable – then the redress mechanism is also of value as a deterrent to poor practice by the advisers – though this deterrent is limited by the insurance provided and the FSCS.

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?

Consistent automated advice about net income after adjusting gross income in the light of benefits entitlements has been available for several decades from Ferret Information Systems (used by local government and other benefits advisers and available online through turn2us at *www.adviceuk.org.uk/**turn2us**-benefits-calculator/* and the basis of FINTAL which co-marketed to the Council of Mortgage Lenders to financial advisers for Equity Release) and other vendors such as Lisson Grove. Many entrants to this specialised area have, however, withdrawn from it or restricted the coverage of their systems when faced with the cost and complexity of maintenance to reflect frequent changes of benefits policy and judicial decisions on entitlements. No definitive and independent validation mechanism for such systems has been established and the Department of Work and Pensions has withdrawn its own entitlement calculator and now refers online enquirers to one of the independent systems.

These systems each clearly provide consistent results, but there have been instances where particular systems have embodied incorrect interpretations of the law or unjustified assumptions about client circumstances; thus even though such systems deal only with legally determinable matters the issue of validation remains. The validation of systems which are also based on judgement requires to be addressed – particularly when the judgements incorporated in the software include the decision that particular theoretically-relevant client characteristics can be ignored for practical purposes. Disclaimers in the 'small print' surrounding systems are not likely to avoid users being misled.

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

What should not be done is to permit an approach which stereotypes clients by allocating them to a small number of case types. Where particular characteristics are included in the datasets about clients there should be scope to include all variants and levels of these characteristics, not merely the average or most common.

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

It has been established since the 1970s that many consumers prefer the anonymity of interaction with a computer system when dealing with potentially embarrassing subjects and for many this will include matters of finance, particularly when they feel they are ignorant or lack understanding in the area. Automated advice may therefore add to the numbers who are prepared to engage. Others may be influenced if the costs are significantly lower than for face-to-face advice.

Adoption of automated advice systems – provided they increase the number of clients receiving advice – should favour a bandwagon effect with others also seeking advice and also a certain amount of diffusion of information through person-to-person discussion.

Where the automated systems include the recommendation of specific products rather than only the types of product there is a risk of systemic vulnerability. This is a particular risk if the assessment of client circumstances is superficial, resulting in large numbers of clients receiving the same advice and all investing in the same product.

I concur with the risks to consumers described in the European Supervisory Authorities' joint committee discussion paper on automation in financial advice (JC 2015 080, December 2015) pages 21-27.

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?

It is unclear whether "good consumer outcomes" relates to the financial performance of the products consumers invest in and actions they take after receiving advice, to their being shielded from products that are manifestly poor value, or to their being satisfied that they have been helped to make decisions that are best in the light of their ambitions and circumstances.

The financial advice arena is currently undergoing considerable change

- Among IFAs many are retiring and many firms are being acquired by consolidators; the back office systems and provider relationships of consolidators allow their participating advisers not only to be technically unrestricted but to have good information and easy access to a wide spectrum of products .
- Amongst other IFAs the use of investment platforms is extending, and several firms are offering platform like services direct to retail investors.

As a result of these two developments the consumer can easily access a wide range of potential investments; outside the restricted sector the challenges for the consumer who knows what type of investment (s)he wants are to avoid being overwhelmed by the choice and to ensure that regulatory and tax issues are in order.

The increased transparency and accessibility of the individual financial services products mean that the greatest value of an advisory function is in properly assessing client's circumstances and options on a holistic basis and pointing the client to the types of investment or action most likely achieve the client's wishes (which may have to be explored in discussion). The need for a financial adviser as intermediary is moot, though some clients may still seek help in organising and documenting options and taking on administrative tasks.

Given the evolving structure of the financial services market it is not clear how roles will settle down but it is likely that simpler needs will be met increasingly by discrete products purchased directly while more complex needs will require advice based on deeper knowledge of the customer. Re-acquiring this deeper knowledge each time a new need arises is costly and there is a strong case for establishing long-term relationships with customers, similar to that of the family solicitor or traditional banker.

A further driver for this arises from the visibility of fees. Competition-based downward pressure on fee levels can best be offset by the quality of the client relationship - sometimes enhanced by mystique that can be created around the adviser or his/her affiliation. Both the openness of the product offerings and the limitations arising from regulation mean that few advisers can survive on the basis of an 'inside track' to little-known investment opportunities.

This environment also has implications for product providers. In an era of comparison web-sites and price competition they will be under pressure to offer – directly or through restricted advisers – not only a good range of products but also a good level of client care. Treating customers fairly, know your customer and affordability monitoring obligations reinforce the need for deeper knowledge and understanding of the individual customer.

Maintaining awareness of developments in customers' lives has become less costly with the spread of automated systems and interconnected databases. Prompting customers to seek information or advice at appropriate intervals can often be automatic and stored data can be used to populate online calculators and advice tools mitigating the deterrent effect of the need to input large amounts of detail. This confers an advantage on those organisations – not necessarily current financial services providers – which have extensive knowledge of their customers. The involvement of retailers, social media platforms and comparison services will require clear differentiation between what is regulated and what is not, and possibly clearer accountability for providing selective or incorrect information.

While better knowledge of the customers has benefits in the quality of the advice that can be given there are distinct dangers. Cross-selling and cross-subsidisation are natural commercial responses. The initiative by Mondo bank to provide clients with a service in the recovery of overpayments to Transport for London, illustrates how extensive the engagement with customers' lives can become. Extension of the customer relationship into the provision of non-regulated products ranging from mobile phone services and utilities to IT support and information/directory services is quite feasible and cross-subsidisation from the profits of such activities could easily support offerings and services that distort the market.

Regulation should aim to strike a balance between deeper engagement with customers and market distorting exploitation of that relationship, particularly by dominant players, whether at provider, platform or consolidator level.

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1. **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?**

N/A

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

One of the biggest issues missing from how financial advice is categorised is the lack of promotion of the word 'regulated'. A financial adviser (FA) can be anyone, an accountant, a lawyer, the bloke down the pub, or a callous conman – either face to face or online. So many scams and 'hard-luck' stories are put down to miss-selling by a financial adviser, but most regulated FAs would run a mile from these schemes, or pay the regulatory penalty if they didn't. What financial services needs to do, from the regulator, the media and advisors is press the value of Regulated Financial Advice. We have seen cases of the public coming to us with terrible products, sold on UK soil, by firms that are not regulated in the UK and who receive enormous commissions (the largest I have seen was over £150,000 on a £1.7m QROPS). These clients had no idea someone transacting on UK soil would not be regulated by a UK regulator. We all get emotionally attached to advice v guidance and the likes, but meanwhile consumers are getting what they believe to be professional advice from non FCA regulated entities. That is one of the most damaging things that can happen, as they will be expecting 'trusted adviser' advice and will be less aware of how badly they could be hurt. One area where I think the regulator has done well is to clamp down and make clearer its stance and the legislation on UCIS. However, we are now even seeing adverts for these products on tube trains where I don't believe the investor would be aware of what they were buying. I think the efforts would be far better focused on sorting this.

3. **What comments do you have on consumer demand for professional financial advice?**

The demand for advice outstrips the ability of the FA sector to provide it. More and more complex products and legislation and less and less gold-plated risk free employer and state benefits have led to increases in demand. This combined with the demographics of people living so much longer has meant an unprecedented demand amongst those aware of the need for advice. Unfortunately, this has led to the dreadful 'categorisation by value' of consumers, where naturally, businesses (which ultimately FA firms are) have decided the metric to cull their clients as being their financial worth to their firms, nothing else. This means those lower down the wealth chain are not getting the help they need. This is almost as bad as those who have no idea that they need help, as although they sit in ignorant bliss right now, they won't do forever. No matter what other solutions are banded around, (many from those with vested interests) the only satisfactory solution to the problem is more advisers and those to be of a high quality, both technically and ethically.

4. **Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?**

I do feel that there should be a de minimis level put in place, for both advice fees charged and for levels of investments where a simpler process could be allowed, face to face though. The world is currently full of films of a dystopian nature where everything goes wrong due to over reliance on computers and technology. Rightly so in my opinion. To allow and promote robo-advice as a replacement will be a disaster at some stage in the future. History is littered with examples where something just 'can't go wrong', recent financial services examples have been the securitisation of junk debts (which suddenly became AAA rated due to fool proof computer algorithms) and of course the LTCM disaster in the 90's. All of which were proved to be perfectly unbreakable, right up to the moment they broke. I would think that anyone who wants to press for this route should be forced to read Nassim Taleb's turkey analogy, "Consider a turkey that is fed every day, every single feeding will firm up the bird's belief that it is the general rule of life to be fed every day by friendly members of the human race 'looking out for its best interests,'. On the afternoon of the Wednesday before Christmas, something *unexpected* will happen to the turkey. It will incur a revision of belief."

5. **Do you have any comments or evidence on the financial needs for which consumers may seek advice?**

Short term cash savings and short term unsecured loans are the domain of banking and does not need a regulated financial adviser to be involved as generally, that is not cost effective unless part of a bigger picture. The same applies for general insurance products. Debt management is unlikely to be referred through a professional financial adviser ordinarily, as the fees may be deemed inappropriate, so would best be served via CAB, maybe with the adviser community offering to assist at these centres as part of their pro bono efforts. But life assurance, pensions, mortgages and investments should be dealt with by a professional adviser. The regulator should introduce de minimis rules to allow the systems and processes at the lower scale of these areas to be in place, to allow advisers the opportunity to allow quality advice but at affordable prices, as they are not having to lay out so much in compliance and regulatory costs and having to add a risk premium for fear of future reprisals or expenses. The best solution to any of these areas is 'Adviser-Lite', way above any other alternatives.

6. **Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?**

N/A

7. **Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?**

Education of society should be aimed at all the younger groups in the community. Unfortunately all these groups are subject to the 'Darwinism' of the financial services sector, which mostly does not discriminate on any other grounds other than potential short term profitability – like every other business in the UK, (including those selling 'consumer advice'). So no particular sector other than those who haven't received any help before. Get professional bodies supplying advisers pro bono to teach in schools, but start rewarding those people who get involved, more carrot, less stick!

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

It is important that all levels of wealth are serviced by quality financial advice, just maybe different products and different regulation for different situations. The value of an adviser just explaining to a consumer with no money how bad a payday loan will be for their financial health is worth its weight in gold to that individual and ultimately to society as a whole

9. **Do you have any comments or evidence on why consumers do not seek advice?**

N/A

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

Proper regulated quality firms should be rewarded by way of a regulatory dividend of sorts (mentioned before by the regulator) for increasing their numbers in a quality and sustainable way. It is a big risk for any business to take on new staff, and one which is so expensive to enter and so hard to get in to / be allowed to trade should be encouraged. The best model is medium sized regional IFA offices, where they have resources to recruit but have controls in place and a suitable firm culture to ensure all new advisers are brought in to respect their position as trusted advisers, not abuse it (as we have seen in larger organisations such as banks, direct sales etc). Allowing a lower level of regulation for a suite of regulated products, (provided supplied by quality regulated firms) should be encouraged. Also bringing in a 'regulatory sand-box' for certain lower levels or a de-minimis amount e.g. regulation-lite and liability-lite for new pensions clients or new regular contribution ISA clients. **The regulator needs to make it harder to borrow money than to save money.** We have a system (and even worse now a culture) in the UK where someone can gamble or borrow money in minutes (or both!) from a smart phone from anywhere (bar, casino..) but if they wanted to commence a regular savings plan / pension, they are forced into a massively regulated and costly space. That should be turned on its head. Consumers will not look this space out and seek calculators and online tools, they need proper encouragement to spend their money on their future, rather than the current generations of 'have it all now'. The culture has been ingrained by many years of mistakes from the government, the regulators and the sector.

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

Supply and demand is the biggest factor, if we had twice as many regulated financial advisers, and they were allowed to transact certain elements in a fairer, cleaner way, we would have twice as many people getting quality regulated advice instead of a life of crippling debt repayments and eventually being supported by the state with the whole of society ultimately paying.

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

N/A

13. Do you have any comments on how we look at the economics of supplying advice?

Many quality firms like ours will take no risks, and therefore treats all consumers with the same regulatory and compliance overlay. This means many potentially simpler areas of advice still are expensive and onerous to the firm. This is down to a lack of trust from firms in the regulator and the ombudsman, and the ludicrous gap in between those two bodies. Until they both join together and made unequivocal statements that cannot be reversed allowing advice-lite products and services, this will always be the case. Also, items such as FCA - FSCS levies and PII are all percentage based fees, so those elements cost the same to the adviser, irrelevant of the risk. The structure of the FSCS and its inherent unfairness will destroy the advice sector (in its current format).

14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

We do undertake elements of pro-bono work, including 'subsidised' fees for low earners to allow them to get advice. The compliance advisers in the marketplace have always warned us against this as 'not TCF'. We believe that it is completely fair, so continue, but this would scare off many firms. The regular should make it clear their own view on this, not continually allow the rumour mill to decide. As for other revenue streams, completely impossible and the ridiculous confusion over 'inducements' has even meant we have to buy our own coffees, teas, lunch etc when attending CPD, which is of benefit to our clients to attend. Quality firms complete much more CPD than the minimum requirements. The regulator should allow the deep pockets of providers and product manufacturers to supplement the distribution sector, as it is a far more time consuming and difficult arena. Otherwise its simply more corporate profit for the manufacturers and no client benefit at all. Also the confusion adds cost to monitor.

15. Which consumer segments are economic to serve given the cost of supplying advice?

It is all down to those with the ability to pay the advice fees, initial and ongoing. Financial services firms have been encouraged to focus on being a profitable business, which is ok as long as it's **not** the only driver. They are also mistaken in thinking that building a proposition to look like a law firm is a good business model, they are wrong. Lawyers are transactional by nature, have no recurring income or value to their clients and are unprofitable in all but the real high end corporate markets. They also are not 'trusted advisers' but are in fact only called in when a necessity occurs, consumers should not treat financial advice in the same way, which is a long term process that needs to be tweaked and adapted and relies on complete trust and understanding from both parties.

16. Do you have any comments on the barriers faced by firms providing advice?

Barriers that exist and hurt are firstly the negativity around the sector. Financial Advisers are unique in that they are thought badly of as a collective, but consumers with their own FA would tell you how fantastic they are, they see themselves as lucky and not the 'norm' as they have negativity and bad press constantly rammed down their throats. We never get good news stories, we never get positive outcomes. British media has become lazy and uses the higher emotional reactions attributed to bad news rather than tell factual impartial stories. This is compounded due to the regulator never publicly standing up for the advice sector. As adviser firms tend to be at best a 'regional' SME, there is no budget or point in them trying to stand up for the marketplace as a whole. Rather than the nonsense (failed) adverts for MAS, Pension Wise and FSCS, the consumer would be far better served with a program of explaining the benefits of getting quality regulated advice. On TV, radio, press and online. That is something I would imagine less advisers would complain about 'another' levy being raised for. Also, the barriers to entry to being a financial adviser are huge, but that is not the only reason why new entrants don't join. We have entered a dangerous downwards spiral, as the advice gap grows, less and less people know what a proper financial adviser does, so less and less young people think about it as a career. Our firm has unilaterally decided on a program to inform local schools and colleges about the role of a financial adviser and the careers in financial services. This won't solve the problem though; the FCA needs to work with the education authorities and the professional bodies to get quality advisers in front of 16-18 year olds, and then again in front of University students. Finally, the cost of regulation and its related activities is a massive burden. Your estimates are reasonably accurate, I would think most firms sit in the 12-20% of gross income as a cost when you add in fees, licences, back office MI collators, compliance consultants, time spent, case checkers and all the other activities. That is a silly amount, which after all is actually paid for by the client.

17. What do you understand to be an advice gap?

The advice gap has two elements. The first one is the most obvious, the gap between the public wanting advice and not being able to get it, either selected against because of their wealth, or because of their ability to pay a fee. The second is much harder to quantify and arguably much more of a problem. That is the gap where consumers don't even understand they need advice, or even worse, simply don't care they do. These will all become issues for the whole of society and local communities to deal with at some stage in the future. Already too many think it's not worth saving etc as other people don't bother and 'the state won't let you starve'. That is an aspiration failing in the education of society as a whole. Too many now think they have their 'rights' which of course the state cannot afford to provide and feel no responsibility to their communities. This is a massive problem and needs to be rectified at grass roots levels.

18. To what extent does a lack of demand for advice reflect an advice gap?

I think that it is very hard to quantify the lack of demand, for the same points mentioned above. A generational failure to educate schoolchildren has been a missed opportunity, and is still occurring today. A whole generation has been lost to namby-pamby politics and had excuses made for them to compound this issue. (Do consumers understand the real cost of getting the latest mobile phone on contract at every new release? Is that not a loan from the phone providers? Should they not be made to separate the cost of buying the phone from the contract for example? Do they understand the effect of the compound interest lost on buying a fancy coffee every day on the way to the office for £3 or so?)

Because they have a student loan, they have a purpose built excuse to not 'have any spare money', whilst in actual fact, most will spend more on any of a mobile phone contract, a combination TV package, posh coffees or a single console game per month than they do repaying their student loan. (£25,000 earnings is a repayment of just £30 per month, large Starbucks Latte £2.60, IPhone 6 contract on Vodafone for 24 months, £39 per month, PS4 Call of Duty from Game, £43, interest on a £100 Wonga loan for 30 days, £24).

Poor education is responsible for the lack of demand for advice.

19. Where do you consider there to be advice gaps?

Agree with your thoughts on non in deposit / short term savings market. Also I believe no gap in a mostly price sensitive GI marketplace either. Loans I think are also served best by banking but I think that regulations should be in place to delay the access to pay day loans, either cooling off periods, only able to apply within normal working hours 9-5, need for a signature on a document (so postal delay) or some other method. A decision to borrow a few hundred pounds from a modern day licensed loan shark can have massive implications on an individual or a family's ability to save for the future. For the rest of the market place and your examples in the grid used, allow regulated professional advisers to do the job in filling that gap, with suitable regulation and tools, and the right numbers of advisers.

20. Do you have any evidence to support the existence of these gaps?

Although you have excluded the savings gap from this review, it is evidence of the advice gap. Nature abhors a vacuum and the lack of the old financial services 'industry' salesman has led to the space being filled with online casinos, betting shops and pay day loan providers. Any look at the Times Rich List gives us all the evidence we need to say which elements of dealing with money are making the most profit. (As does as a quick glance at premier league football shirt sponsors.) Consumers need to be inspired to visit regulated financial advisers to get them saving, once they see compound interest working in their favour and start working towards a goal – no matter how humble, they will think twice on frittering cash on the things they have defaulted towards today.

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

All gaps need reviewing and all are served with the same solutions, their need be no distinctions. This need not be over complicated, it is one of the reasons the gap has come about, get back to basics.

- More regulated financial advisers
- Less onerous regulation on de-minimis and/or simple products and services
- Better financial education at schools, colleges, universities
- Positive media
- Promotion of 'regulated' financial adviser and the benefits it has

22. 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?

Yes, I think that is a fair point, but a good financial adviser will also be pointing out that these consumers need to protect their ability to save with appropriate products and solutions. Forcing consumers to save in workplace pensions simply adds to the negativity around the products, as they have no understanding of the benefits of the products, simply the costs. The old 'salesmen' of the direct sales forces may not have had the right qualifications and skills or a proper regulatory environment, some certainly did not have the correct ethics and were in firms of very poor culture, but they did explain the benefits and consequences of products, services and solutions in a way that consumers ended up better protected. If this ability to empathise could be combined with better quality products, working in a firm with a positive TCF culture and a better qualified professional adviser, the gap would be closed. If regulated advisers were given the tools to allow them to properly use their treasured 'trusted adviser' status, like so many are lucky enough hold with our clients, the consumer outcomes would be far more positive for individual sand society as a whole. Order needs to be

- Stop unnecessary debt
- Understand household budgeting (stop unnecessary wastage)
- Protect the situation so it doesn't get worse
- Save
- Invest

A lot starts with education (which advisers can deliver at institutional levels or at individual level)

23. Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Not really, I fell the base should be broader and start with educating everybody. Your thoughts above on suggested limits / levels would obviously help, and allow some margins in the relationship for advisers to enable a form of pro-bono that doesn't financially disadvantage them too much. However if possible a much broader brush should be used.

As there were 26.7 million households recorded in the UK in 2014, whatever you do will need to be categorised, as with only around 22,000 advisers, many of whom would not be interested in helping consumers to becoming their new clients, it would still mean an average of a little over 1200 clients per adviser, unmanageable by a ratio of 3 or 4 times, on a conservative basis, some would say that is closer to 10x maximum numbers with current regulations!

24. 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?

A range of products and de-minimis limits that both the regulator and the Ombudsman agree FOREVER can have a simpler requirement. An (adviser driven) decision tree using a focused fact find for specific areas, not needing full expensive holistic planning and complicated (liable for the advisers lifetime) solutions. An educated consumer would also make the whole advice process simpler. The more advisers that become part of trusted regulated firms would mean less compromise with rules and regulations. Helping earmarked quality regional firms attract, authorise, regulate and develop quality new recruits would solve a lot of problems. One and two man bands cannot help, large national firms have a vested interest in their own manufactured products and even now, we still witness them being able to bend the rules and in some cases do what they want, so would return us to the bad old days. I do feel that is where we are heading right now though.

25. 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?

A broad brush pan European approach is ridiculous. I have been lucky enough to meet many foreign advisers (in some jurisdictions I use that word reluctantly). They are miles behind the UK regulatory system, and interestingly, all seem to pay a fraction in costs we pay for compliance related expenses. Their cultures, taxation, state benefits and regulations are not comparable to our own; therefore we cannot apply the same rulebook across the EEA/EU. We need to build rules and regulations that fit the UK consumer best and impose that on our EU counterparts, or make it a unilateral regulation. I understand that banking regulations etc are pan-Europe, but our standard retail clients have no bearing on any other jurisdiction and we are massively compromising them if we allow that to happen. It may be that products are regulated to EU standards, but advice needs to be specific and even a UK wide ruling ignores many aspects of the individual. Advice needs to be tailored; we can't apply rules in Milan, Berlin, Paris and Rome to the UK, let alone the needs of some of the new EU entrants. All very different situations. Imagine you as our regulator looking at one sets of advice across a whole firm's client bank? A recipe for disaster that you would not allow. Even at high level principles based regulation, the needs of the individuals outweigh anything else.

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

Very little, it makes no difference and just adds to the complication. CAT, Stakeholder were all massive flops as it was known by the quality advisers to be a 'compromise solution', usually only slightly cheaper but always giving up other benefits elsewhere. The RU64 rule is one of the most ridiculous rules and added burden that emphasise this point. Removing that today would save millions of lines of pointless typing in suitability reports across the country in one sweep of the FCA's pen. If anything, previous initiatives in the UK serve as a warning how a regulator should not conduct itself or interfere with the market. The regulator should simply be more helpful and less wishy-washy with process. They should also define simple products (by size of contributions or premiums and by caps on fee earnings). Then they should 'guarantee' this will remain in place forever, with no retrospective action (with the suitable caveats and warnings so no client is ever in doubt what they have). I think a new fee agreement signed every two years is acceptable, we already do something similar (but more robust). But how would that help the advice gap, the argument seems to have moved into creating more paperwork very quickly! Annual fee disclosures would do the same and add another level of complexity and paperwork for the adviser firm, something else to trip up on. Also, once more the regulator shows its obsession with cost over value. Some of the other suggestions seem behind RDR requirements. The US and Dutch advisers I have met and discussed financial services with are miles behind us, we should be innovating. The Australian model I felt was not as advanced as is often reported in the UK, the notable difference was their regulatory costs were only 10-20% of the levels we pay. Most advisers in Australia seemed to go for the low hanging fruit of the Australian version of AE (superannuation, introduced in 1992 at 9% contribution minimums), which led to large pension pots being transferred by advisers. That is no different to the UK with advisers categorising their clients and going for all the wealthiest members of society. They charged heavy fees and made huge profits. They did not care about serving the community and advice gaps, not a model we should be chasing.

27. Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

Not many; most are way behind the UK. I only envy their low, low compliance costs, direct and indirect. Can we copy that bit?

28. What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

Introduce media and education campaigns to promote the values of regulated advice. More reporting on good practice and good outcomes, less focus on poor outcomes on billboards on every street corner. Having 'trusted' regional firms who are allowed to do different and newer thing in confidence as the regulator understands they have high ethics, a TCF culture and qualifications and skills not to abuse them.

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

I think safe harbour is a very good idea, not for all firms though, only those who qualify (as mentioned above). Work closely with those firms who are progressive and interested and who will help develop new ways of better serving the needs of the consumer. Introduce de-minimis rules now (with certain parameters), that will make smaller ticket advice more attractive; it will also encourage firms to recruit new advisers with confidence, to fill this gap. Only include firms where a better consumer outcome is more likely initially (for example independent firms, chartered firms, those who are of a lower regulatory risk. **Don't allow those firms who will be restricted by provider to mass market substandard products that they also manufacture**. Allow the quality choice to be made by an independent professional, not the old 'company salesman' that you have allowed to remain still to this day. Quality restricted by product firms should also be allowed this safe harbour, provided they can be seen not to have restricted themselves by provider too. Don't allow this to turn into a free for all for manufacturers to peddle their rubbish wares and turn a tidy profit at the expense of the consumer. Cheapest is not best, cheapest is just cheapest, which may mean (as with many previous attempts – mentioned above), not fit for purpose.

You would also need to regulate the claims management companies, as they waste advisers time and cause bad press in their single minded desire to make themselves profit. These firms thrive as they are allowed to charge commissions of 30-50%. This should be stopped quickly, with a cap on commission, regulation on how they market themselves (are any other cold callers phoning you not claims management companies these days?). You may be confident in doing a deal with the Ombudsman and the Regulator, but if endless ambulance chasers are not culled, the situation will not differ for financial advice firms.

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

Low premium / contribution clients, start out consumers looking to build a relationship and begin to trust an adviser, at an affordable cost. Make sure no debt products are allowed in this category any more (stop the easy 'buyer beware' debt companies crippling regular consumers with extortionate appalling products at the press of a button)

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

De-minimis is a must, both on levels of investments and fees charged. Only award the rights to safe-harbour once a firm can demonstrate it will not abuse it. Have more events like the fantastic 'Positive Compliance' events in place to educate advisers. Make sure the culture of the firms you allow to do this are not those who will abuse it. If it becomes a free for all and restricted by provider firms (including the banks re-entering) then this could set the marketplace back even further.

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

100%. Even though much of the issue is one of perception apparently (from your own figures), it still is a hindrance to business expanding and developing and affects their decision making in engaging with new potential clients. "Is it worth the lifetime risk and liability for such a small margin?" is often answered negatively.

Your argument contradicts itself, I would say "if there are so few, why wouldn't you remove it immediately?" not your positioning of "there are so few why remove it?"

Many of your remarks in this review have been about perception of the market, what sort of perception does being the only market in the country without a long stop give? You say longer term products, but lawyers sell longer term products and services too, poor tenancy advice on property purchase, disgraceful management of trust money, incorrect calculations of divorce settlements, all washed away after a few years – not that it would matter with one of the most closed ranks of any profession anyway. Why would self-regulating lawyers get a better deal than heavily regulated financial advisers? Because they always have done and they control this country (and own the claims management firms and their cold callers). Not being treated as equally well as a lawyer or an accountant is giving ammunition to negative press and needs to be addressed. 15 years would be a start and is still a massive compromise. Unlike lawyers and accountants, good financial advisers regularly review their clients, giving far more opportunities to understand the products and services the consumer has paid for. Lawyers and accountants are transactional by nature, are unable to explain anything without the use of complicated jargon and do not give their clients regular reviews to test the competency of their recommendations.

33. 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?

Whist I cannot see how any empirical data could ever be collected on such a matter, many, many conversations I have with other advisers, in my role as a practice owner and as chairman of a professional body locally for many years centre around their concerns in this area and the knock on effects (PII, succession planning etc)

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

I would like to say to the consumer groups;

- Redress for long term advice will be no weaker than that offered by comparable self regulating profession, in fact it is much, much higher. And regulated advisers are all monitored by an independent regulator, as opposed to toothless self regulation of lawyers and accountants.
- The barrier to entry is causing less regulated advisers; not getting advice is far more costly than the unlikelihood of finding a bad apple adviser**.**
- Non regulated alternatives will spring up in the gaps and there will be poorer outcomes, with no redress at all.
- Financial advice is as much an evolving art-form across a long timeframe, as it is a science and needs to be judged in that way. Stop applying retrospective knowledge to decisions made in the past. Work with your trusted regulated adviser over a longer period and the likelihood of any outcome being unsuitable is massively reduced. Not everything will be the right thing once it comes out in the wash, nobody can predict the future. Get the risks of anything you do properly explained and ensure you are comfortable, if not, say so and adapt the plan.
- The glass is half full already (maybe even ¾!) when you visit a regulated financial adviser, work with them to achieve the best outcomes.
- Your advice costs will decrease with our compliance costs.

35. Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Yes. Once clients have had 10 annual reviews and had the plan / services explained every year for ten years and are happy with the ongoing situation and understand it and sign every time to say they understand it, no more liability. 10 opportunities, 10 years to wash out markets moves and watch ups and down (if investments). 10 annual opportunities – as opposed to none in most other professions.

36. 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?

None, I do not believe a scientific program can ever replace the experience and skills of a quality regulated adviser. It will be without doubt a massive nightmare in the making and who will then pay the redress? That is not to say that some online tools cannot take the strain out of parts of the process, but to leave an uneducated consumer to do themselves Is madness. For example, just regarding ATR online forms, we all know that when the markets are at the tops, clients are far more likely to want to take risks (even though more likely a correction will follow) and when markets are low, clients become far more risk averse (even though more likely some buying opportunities). If you can find a cure to behavioural fiancé issues first, automation has half a chance. If not, it's the next big miss-selling scandal.

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

The restricted by provider firms will invest heavily into this and barriers will not be an issue, as the only barrier ultimately is cost. They will manufacture a product that recoups that cost at the expense of the consumer. An extremely false economy. Only allow elements of automation, under the guidance of a highly trained and regulated adviser. It's why none of us will fly in unmanned planes, even though the technology has been around for ages. The pilot hardly ever touches the controls, but he always knows what's going on and can step in. You need to **add** the barrier of **not** allowing manufacturers to be distributors. No matter how deep their pockets.

38. What do you consider to be the main consumer considerations relating to automated advice?

We previously were at this point with all the decision trees that were introduced by previous regulators, with CAT standards / stakeholder products popping out the end of a simple process. Simply automating that online will have the same, if not worse effect.

This will result in either **no interest** or a **complete disaster**. Don't just amplify the mistakes of before, learn from them!

39. What are the main options to address the advice gaps you have identified?

The only satisfactory outcome for consumers is more quality, regulated financial advisers combined with ability to transact lower value business with confidence that reduced compliance requirements will not be retrospectively judged.

40. 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?

The regulator needs to control the situation, not let large providers run amok across consumers as we witnessed with the poor advice from the bank and some of the larger tied (now called restricted by provider) companies. These large firms with vertically integrated models have deeper pockets and accept regulatory fines as part of the business. These never go far enough to rectify the damage they do to individual consumers or larger society as a whole. A selection of trusted firms, well versed in the requirements with an independent culture should be encouraged and rewarded to pioneer programs to encourage those less inclined or able to enter the regulated financial advice arena, both as a consumer and also hopefully some as a career. This will be the closest to perfection we can get to deliver the best consumer outcomes, on individual and on societal levels. Hopefully these new entrants to the market will be younger, higher percentages of females (to address current imbalance) and also from some minority groups, as the public generally is more comfortable, accepting and trusting of people they feel are most like themselves.

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

If we will only accept utopian perfection in a model in an attempt to solve the solution, we must accept that we will fail. If it were that simple, we would already be doing it. It is no use to anyone if consumer groups (often with vested interest) and none of whom are personally affected by these issues, demand we find nirvana with an infallible outcome. What we must do is take steps that move us forward and give those we challenge to do that some comfort and confidence they won't be hung out to dry. We have to understand that, like everything else in the world, it won't be 100%. But the alternative is the downward spiral we are currently on, fewer advisers servicing fewer consumers, who end up getting no advice, because they are not profitable, who then make poorer and poorer decisions and become less and less likely to be advised. Whilst fewer and fewer members of the public understand the role of a qualified, regulated financial adviser as they aren't taught in schools and they don't see one in their homes, so adviser numbers decline further as they don't consider it as a viable career, as they don't even know it exists.

So we need to crack a few eggs (in a controlled environment), with the right firms charged with being honest and fair in their attempts, but being rewarded and lauded as pioneers and backed 100% by all parties in all circumstances where they have kept to their brief. Independent firms working with the regulator on independent projects will turn up the best outcomes in the end, which will then be replicated as they work. Mass solutions to such a diverse group will mean we end up with something that doesn't quite fit anything or anyone and result in another miss-selling scandal.

I hope that the regulator means this Financial Advice Market Review as it is a fantastic idea and something that needs consultation and consideration. I hope that they take on board the thoughts of those in financial services who have the confidence to engage with the regulator and don't judge us by those who still have an issue with trust and see replying to these invitations as 'sticking your head above the parapet'. I hope it wasn't an appeasement exercise, as it took me ages to answer these questions with my honest opinions.

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The Pensions Advisory Service Volunteer Adviser

Principal IFA Strategic Solutions Chartered Financial Planners

HYMANS ROBERTSON LLP

Financial Advice Market Review

Hymans Robertson LLP's response to the FCA and HM Treasury Call for Input on the Financial Advice Market Review

Hymans Robertson LLP is an independent consultancy specialising in pensions. We provide actuarial, benefits, investment and risk management consultancy to private and public sector clients across the UK. We also provide actuarial and investment advice to financial institutions.

Overview

Defined Contribution schemes are increasingly important to the welfare of the future generation of pensioners. These schemes will become the main source of retirement provision for nearly all of the UK's private sector workers. Our analysis shows that the majority of those saving in DC schemes are unlikely to achieve levels of retirement income that The Turner Commission would consider adequate.

The root of the problem is that DC savers need to make important decisions around how much to save, which funds to use and how long they will need to work for. Savers need support in making these decisions. The Retail Distribution Review and other market changes have reduced the availability of this support. Indeed, since the Retail Distribution Review, we have seen IFAs walk away from schemes where employers have been unwilling or unable to pay fees as a replacement for commission. Whilst we would certainly not advocate a return to commission, we believe changes are necessary.

Although DC pensions provide a challenge for individuals, they also provide an opportunity for policymakers. The costs of providing information and advice to individuals can be substantial and the workplace offers the more cost-effective prospect of communicating with groups of people. We would encourage the FCA to consider the workplace as specific opportunity to improve financial engagement for the 20 million savers who will rely on DC pensions.

Background / market context

We have been active in the DC space for over 15 years. We have worked closely with our clients to help them do the best for their DC members / employees over this period. Our client base comprises of large employers and trustees (typically over 2,000 employees) across a wide range of sectors (oil/energy, utilities, manufacturing, financial services, retail etc). Our work has covered scheme design, communication and governance initiatives. Typically most pension schemes have seen a lack of appetite from their members to engage with the DC world and to actively make the best decisions for their circumstances.

We work closely with scheme members – by way of presentations, focus groups, 1:1's etc. These enable us to gain a really good appreciation of what members understand, think and do. This helps us to gain a good understanding of how difficult members find taking decisions around pensions and why that is the case.

We work closely with pension providers (life companies, asset managers and third party administrators) to help clients select the optimal provider for their circumstances and manage them to deliver the best solution for members (e.g. lower charges, better product design, more tailored and engaging communications etc). This gives us a good understanding of the quality of the solutions available for clients and the challenges inherent in bespoking them to really meet member needs.

GO and research

Our work with clients and the experience of auto enrolment have confirmed our view that education alone isn't enough. We need to pro-actively help members in relation to pension saving.

Our research (Looming DC crisis – October 2013 (article available on Hymans Robertson LLP website) showed DC isn't working well:

- 57% of DC members are not confident that their pension will deliver an adequate income for them in retirement.
- Nearly a quarter of DC members said they do not know how much they need to save to deliver an adequate pension (and we don't see much evidence that the quarter who said they do know actually do).
- A quarter of employers think their workforce has no understanding of the pension income they might obtain, with 60% thinking they have little understanding.
- Over half of employers think the issue of employees being unable to afford to retire when they want to will become a reality in the next 10 years.

We used Pension Commission independent research of adequate replacement rates as a starting point for allocating a target pension for a member. We have analysed around 50 schemes and approximately 0.4m members and only 35% looked on track to meet their target.

Our research (Reality cheque – July 2014) (article available on Hymans Robertson LLP website) also showed people underestimate how long they will live. Women underestimate this by 8 years and men by 5 years, when compared against predicted longevity under our Club Vita data. (Club Vita LLP is a Hymans Robertson LLP subsidiary).

However, the news is perhaps not all bad. Our research also showed that 2 out of 5 people were prepared to work beyond state pension age in future (up from 1 in 10 today). They will in fact need to, but this could have an impact on employers with a less productive workforce (e.g. manufacturing, utilities etc).

Environment

Workplace savings

In recent years, many safeguards have been introduced to protect consumers who invest in workplace DC schemes. A charge cap of 0.75% pa now applies, Independent Governance Committees have been introduced and charging structures have been regulated (e.g. prohibition of Active Member Discounts). Given these unique safeguards, we believe a lighter conduct of business regime should apply to workplace schemes, potentially with some safe harbour provisions.

In many ways, this proposal is analogous to the Sandler product regime that was introduced over a decade ago: the tightly regulated Sandler products could be distributed under a lighter conduct regime. Many commentators believe that this regime was unsuccessful because the products were uneconomic to manufacture. By contrast, the regulation of workplace DC today has not rendered the market uneconomic for providers. Therefore, the opportunity now exists to introduce a Sandler-style conduct regime.

Auto-enrolment

The impact of auto-enrolment (AE) should not be underestimated. As well as extending the scope of workplace provision, it has increased take-up on existing schemes. Prior to AE, only around half of eligible employees joined their workplace arrangement. Even where employers were active in communicating the benefits of pensions and offered generous contributions, response from employees was often low. The introduction of AE has transformed participation so that it now exceeds 90%.

AE is now an accepted way of operating DC pensions but, even after allowing for AE, provision is still generally inadequate. We would encourage the FCA to consider whether AE principles should now be extended to top-up programmes. For example, auto-enrolling employees into a "SMART" (Save More And Retire Tomorrow") programme of auto-escalations or the Guided Outcomes programme could boost provision further. AE research has shown that employees have welcomed the "nudge" that AE has given them and so we expect an additional nudge may be appreciated. There is also appetite amongst our employer clients for this approach. However, lack of clarity around the regulatory position has prevented its adoption so far.

Our recent experience with the FCA/Innovation Hub

Our recent experience in dealing with the FCA/Innovation Hub in relation to our GO platform was overall a very positive experience. We believe that the Innovation Hub is very helpful, in particular, for firms with no dedicated FCA supervisor and it provides a much needed concentration of knowledge specific to the needs of innovators.

When we first approached the Innovation Hub in relation to GO, the Innovation Hub was very proactive and was in regular contact with us to try to understand our proposition and provide support. Through the Innovation Hub, we secured our retail advice permissions within 2 weeks of applying. This gave us the impression that the Innovation Hub was innovative itself and supportive of innovators.

Our next contact with the Innovation Hub was a few months later and we were appointed a different case handler. The service level that we experienced was very different – it felt less personalised and not as responsive. This latter experience left us feeling that the Innovation Hub had become less agile and perhaps more institutionalised.

Opportunities to improve member outcomes

NEST research shows that inertia driven retirement savings produces a better retirement landscape for those employees who are auto enrolled. Some pension schemes' preferred design approach is to have a similar mechanism to automatically increase contributions to the employer's pension scheme with the aim of achieving a higher pension. This means that more people will have more money in their DC scheme. A barrier to achieving that for pension schemes is contained within COBS 5.1 requiring the scheme to obtain explicit consent. We already know that people do not act on paperwork they receive regarding their pensions. We believe that obtaining explicit consent is a barrier to the overall good of the retirement population of the UK (who would complain if they had too much in their pension? Or workplace ISA?) and we believe there should be a mechanism for trialling such innovations without regulatory recourse.

There is a concern that members and clients will equate good consumer outcomes to some kind of expectation of receiving adequate pension on retirement and to an expectation that firms like our firm are responsible for making that happen. There is also a concern that if they then do not achieve an adequate pension on retirement, claims will ensue (particularly given that the general public is becoming increasingly more litigious). We believe that this is a barrier to innovation.

We would like to see exceptions granted to individual FCA rules to ensure that the greater good is served. For example, we would like to see exceptions or specific disclosures for a captive audience such as employees where the risks tend to be low.

We would welcome a proposal that would enable firms to trial innovations in a safe environment if the firm can provide a reasonable argument to explain why a particular FCA rule or rules may act, overall, against the best interest of consumers.

We are of the view that a long stop date for bringing claims of 15 years would provide a powerful incentive for firms to enter the market as they would be able to plan more confidently for the future. Certain disclosures applicable to workplace savings wrappers and vehicles (pension, workplace ISA, share schemes) could clearly explain the application of the long stop.

We would welcome further clarity around the definition of conduct risk and what it means within the scope of services and products for firms like our firm. Our primary client is the professional client but we are also keen to ensure good consumer outcomes for our clients' members/employees. Sometimes the interests of our clients and their employees/members diverge. Navigating a pathway through that protects good consumer outcomes and also the best interests of our clients can be extremely difficult and can be a potential barrier to innovation.

We are also of the view that doing nothing is also an impediment to good consumer outcomes. The regulators' focus to date has been around ensuring action leads to good consumer outcomes. However, inertia and lack of innovation is potentially more harmful to consumers in the long run – it can also lead to bad outcomes.

Impact on how we run our business

It can be very difficult for professional service firms and partnerships like ours to build supportable business cases for the investment required for innovative solutions given the uncertainty in the regulatory environment and the associated risk. There is also a risk of building a "gold-plated" solution which is so risk averse that it is either unattractive for consumers or uncommercial.

For us as a partnership, building innovative initiatives to help our clients and their pension members can represent a significant investment which will only start to break even after a number of years. There are therefore generational impacts of risk versus return. As noted above, it is possible for us to receive claims in future (+10-20 years) based on future outcomes and different regulatory / legal landscapes that we can't anticipate or plan for and at that future point in time, there will be a different group of owners of the firm. Even if we plan on the basis of best advice now there is a risk that at some point in the future, that that will be looked on in a different way by the regulator or by consumers. Companies would also face similar challenges. The reputational implications (in addition to the financial implications) could be significant and could act as a barrier to innovation.

Providing more certainty to advisory firms regarding the regulatory risk of different propositions will help encourage innovation and the delivery of better solutions for future generations of DC pension savers.

Enquiries

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ICAEW REPRESENTATION 175/15

ICAEW welcomes the opportunity to comment on H M Treasury Financial Advice Markets Review (FAMR) Call for Input published in conjunction with the Financial Conduct Authority on 12 October 2015, a copy of which is available from this link

This response of 18 December 2015 has been prepared on behalf of ICAEW by the Financial Services Faculty. As a leading centre for thought leadership on financial services, the Faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The Faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

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ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 144,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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RESPONDING TO THIS CONSULTATION

The UK demographic is experiencing fundamental change both in terms of numbers and ages. For example, young savers aged 18-34 years constitute about 18% (4.6 million households and 5% (£167 billion) of total investible assets. At the other end of the age spectrum, those aged 65-74 years constitute about 13% (3.5 million) of households and 20% (£700 billion) of total investible assets. One thing they and those in other age categories have in common is the need at key life stages for access to reliable and affordable financial advice, whether that is information, guidance or full financial advice including tax planning.

Following the introduction of Freedom and Choice in Pensions, greater numbers of individuals will need access to reliable guidance and advice on how to manage their personal finances so that they have a sustainable income in retirement. In addition, closing the savings gap and ensuring that individuals and families manage their finances efficiently and responsibly will be one of the most important public policy challenges of the modern age, particularly against the background of stretched public balance sheets. Future generations will increasingly need to understand the importance of saving for their later years and the need to take more responsibility for their financial health. However, for a number of reasons, including economic factors and regulatory intervention, the number of organisations and firms currently operating in the market for the provision of financial advice is at its lowest level for 20 years.

Rather than focussing on the specific questions referred to in this consultation, we believe that ICAEW is on this occasion better able to serve the public interest by submitting its response to FAMR in a generalised format. Our response has been structured to highlight the broader challenges, with suggestions we believe will improve the position.

Our general perspective of the financial advice market

In general terms ICAEW believe that more affluent individual and their families are generally well served post the Retail Distribution Review (RDR), insofar as they recognise the need for financial advice at certain life stages and they are prepared to pay a fee for that advice, following the removal of commissions. However, the financial advice market is increasingly turning away from serving the needs of less affluent customers, generally regarding as those with less than £100,000 investible (including pension) assets, but also those with limited or no investible assets. Anecdotal evidence from ICAEW members and other stakeholders suggest that the retail financial advice market is now approaching a tipping point. Complexity and constant legislative change in the area of pensions, the uncertainties associated with the absence of a liability long-stop for Financial Services Ombudsman (FOS) claims, and the resultant problematic nature of professional indemnity insurance in this area means the financial advice market, in terms of number and business model, can now only serve the needs of a very narrow segment of the population. ICAEW does not believe the current state of affairs is generally in the long-term public interest. We believe that FAMR presents an important opportunity to engage with stakeholders from across the sector to reassess the requirements to better achieve broader public policy goals in this increasingly important area.

Consumer disengagement and financial exclusion

Raising the general level of consumer engagement to encourage people to actively seek information, guidance and advice and so take more responsibility for their financial well-being is a long-term public policy objective that needs to be addressed from both the demand and supply sides.

It is generally acknowledged that a large proportion of the UK population does not seek advice on their personal finances, even at critical times such as when they reach their retirement. For these people the general level of trust in the financial services sector is relatively low (especially given recent and very high profile regulatory failures) and the value attached to personal financial advice is not high. These negative factors, when combined with a poor level of financial literacy, complexity and perpetually changing legislation in the area of pensions cause high levels of consumer disengagement with the financial advice market across the broader population. Further, a substantial number of individuals and their families have little or no surplus income and are in debt. This segment needs particular attention as simple economics dictate this cohort of the population is likely to be excluded from the traditional personal financial advice market. A dedicated financial guidance and advice channel therefore needs to be developed to accommodate the particular needs of this sector which will probably need to be delivered along the lines of a funded public service model. This could perhaps in part be funded from the regulatory fines that are levied on the financial services sector.

Build on existing research

To find effective ways to address the long-standing demand side problems a more detailed understanding of the different factors that affect in each segment is needed so that real and lasting improvements can be made. The segmentation model presented on page 11 of this Consultation seems to represent a sensible template. However, we suspect there is already a wealth of good quality research that can be used to create a coherent body of knowledge. Combining this body of knowledge with continuing dialogue between regulators and stakeholders should lead to building short, medium and long-term initiatives that are capable of addressing the key issues in each of the respective market segments.

Complexity and stability

The vast majority of consumers need straightforward solutions to a limited range of relatively simple everyday financial needs, (that occur at key life stages such as taking out a mortgage, childbirth, planning for retirement) and a stable environment so that they can put long-term personal financial planning strategies in place that they understand and feel they can rely on.

Complexity at all levels and constantly changing rules and regulations leads to disengagement and a lack of trust, whist adding considerably to the costs and potential risks for delivering financial advice and products. This is particularly the case in the area of pensions. For example, despite Pension Simplification back in 2006, legislation in the area of pensions is still very complicated so that delivering advice on a relatively straightforward concept has become very complex and therefore time consuming. Complexity discourages people from using pensions as a mechanism for long-term saving and raises the costs of advice beyond what is perceived as affordable by a significant proportion of the population. It also adds to the costs of products.

The perpetually changing and complex tax and regulatory regimes means that no one has the certainty to be able to plan for their financial future. To help address the low levels of consumer engagement, to lower the costs of accessing financial advice and to help build confidence and trust the twin issues of complexity and frequency of fundamental legislative change, particularly for pensions, needs to be regarded as a key public policy priority moving forward.

Regulation

Feedback from delegates at ICAEW Financial Services Faculty events, ICAEW committee meetings and anecdotal evidence from other stakeholders more generally has led us to conclude that in the current regulatory environment means it is now only economic for firms to deliver financial advice to relatively affluent customers. Reasons cited have focused on the themes of regulatory complexity and perceived uncertainty; risks associated with the lack of a regulatory long-stop on FOS claims; problematic issues in the professional indemnity insurance market; the relatively low value often attached to financial advice; and unwillingness of many consumers to pay for financial advice up-front. We have also received feedback that suggests there is limited understanding outside the sector of the changes introduced under the Retail Distribution Review (RDR) or indeed that consumers more generally even realise it happened. The combination of factors means only a limited segment of the population is able to access face-to-face advice.

To help address these issues we believe the approach to the regulation of the sector in certain respects needs to be modified to make it more attractive for new entrants to enter the market and to help lower the costs of existing players. These suggestions include: simplification and consolidation of the FCA Conduct of Business Sourcebook ; greater clarity and simplicity around where the boundaries of responsibility fall; a revision of the regulatory position on long-stop on FOS claims; simplification around the difference between the concept of ‘ restricted ‘ and ‘ independent ‘ advice; and steps to address perceptions in the market around the consistency and / or tendency for FOS to apply today’s higher standards to advice generally considered satisfactory by historical at the time the advice was provided. Anecdotal evidence also suggests that the Financial Services Compensation Scheme levy is creating problems for smaller and mid-tier firms, serving to limit the supply of financial advice and raise costs to customers. There is of course no easy solution to this thorny problem but we believe more work is needed to find ways of delivering some sort of regulatory dividend to firms that have a track record of high professional standards. It may be that some of the revenue generated from regulatory fines paid by the financial services sector could be used to help address this important issue. The higher professional standards and removal of the commission system under the RDR should serve to protect consumers.

The regulatory environment in respect of the provision of debt advice has become much more challenging since the FCA took over responsibility for consumer credit from the OFT. Insolvency practitioners who are highly qualified specialists, regulated by recognised professional bodies including ICAEW, are now severely restricted in their ability to offer holistic debt advice because of the FCA’s interpretation of the insolvency exclusion (article 72H of the The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended)). This narrows the pool of suitable advisors, particularly for those in financial difficulties and places an increasing burden on the not for profit sector. This could be resolved through a change of approach by the FCA or by clarifying the wording in the legislation. This issue is also relevant in the context of the Treasury consultation Public Financial Guidance, which is seeking views on coordination of debt advice provision. Insolvency practitioners could play an important role in the provision of debt advice if it were not for the restrictions placed on them by the legislation.

ICAEW has also received feedback which suggests that oversight from a single regulator and consistent minimum standards in the area of workplace pensions would be beneficial for all stakeholders. These measures should help reduce business costs and increase the number of market participants, which would be in the public interest.

Straightforward products and simplified advice models

We believe the creation of simplified products and the better use of guided advice process and decision trees will improve consumer outcomes. The FCA and stakeholders need to revisit this area to create a workable proposition for the broader market. However, to make this viable product providers and financial advisers will need firm assurance from the FCA and from the FOS that if products and advice are delivered in compliance with pre-approved standards businesses will operate in a “safe harbour” immune from retrospective criticism.

Technology

The increased use of technology clearly has an increasing role to play moving forward, both in terms of the more efficient delivery of products and services and also ways to access information and guidance and, possibly, financial advice. The usefulness of technology in this area will vary considerably from one segment of the market to another and so technology does not of itself provide a complete solution. Furthermore, conversations with members and other stakeholders suggest that digital delivery will need to incorporate personalised support by telephone, on-line conversations or face-to-face meetings. To enable this area to develop increasing use of “sand box” research sites will be required.

Financial education and communications

The levels of financial literacy are still relatively low. Although the benefits of improved financial literacy take time to materialise, and arguably need to be supported by other more personalised long-term support programmes, we believe more can still be done in this area; such as practical support in universities, the workplace and local communicates in addition to programmes in schools. ICAEW and its members support a range of initiatives to help raise levels of financial literacy in local communities, schools and in the workplace. Link

To help drive this area forwards it may be beneficial if the objectives raising standards of financial literacy and improving levels of consumer engagement are included in the broader objectives of the FCA. Getting to grips with personal finance and financial literacy training also needs to be firmly embedded in the national curriculum. More also needs to be done to raise awareness of legislated adviser professionalism amongst the general population and to explain the benefits it is intended to deliver, although we do not necessarily believe that this burden should fall exclusively to the regulator. We therefore believe that a long-term public education programme is needed to encourage people to take a more positive approach to maintaining their financial health. It would also help if the format for regulatory disclosures and communications consumers receive is simplified, with better use of diagrams rather than reams of text.

Conclusions

There has and will always be a need for financial advice for the vast majority of any population at key life stages. However, the UK population varies considerably in terms of age, financial literacy, wealth and attitude towards understanding and taking control of their financial circumstances. This is against a backdrop whereby the availability and accessibility of advice that is capable of delivering to this market has significantly reduced, and in some cases ceased to exist. The financial decisions that people make, or fail to make, has a profound long-term impact on their own lives and on other generations. ICAEW welcomes this Consultation which it regards as a fundamental opportunity to improve the availability and quality of financial advice in a UK market where over the past 20 years a signification proportion of the population has become disinclined to take responsibility for their financial requirements and when access to any form of guidance and advice has eroded. Given a growing and ageing population and short and long term economic factors, including the rise in interest rates, the current gaps between the financial advice that consumers want, need and can afford, and the availability of that advice must be closed in a manner that can be sustained, economically, socially, commercially and regulatory. Past experience has shown that there is no one-stop solution as different parts of society will have different needs and expectations.

Financial Advice Market Review: Call for Input

RESPONSE FROM ICAS TO HM TREASURY AND THE FCA

18 December 2015

CA House 21 Haymarket Yards Edinburgh EH12 5BH

Introduction

The ICAS Pensions Committee welcomes the opportunity to respond to the joint call for input, from HM Treasury and the Financial Conduct Authority, to their Financial Advice Market Review (FAMR) (October 2015).

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Our response to the review is focused on the market for independent financial advice on pension decumulation options: we also highlight that consumers may require advice on pensions taxation in circumstances where they do not require financial advice.

We believe the concurrent reviews of the provision of independent financial advice and public financial guidance are timely. We acknowledge that the reviews are broad in scope; however, with the pensions freedoms recently implemented, these reviews are particularly welcome.

Now that major reforms to our pensions system have been implemented, we believe it is an appropriate time for the government to consider setting up an independent pensions/retirement savings commission as a standing advisory body which seeks to achieve long-term stability for the UK pensions system and cross-party consensus. Long-term stability in pensions policy is relevant to the provision of independent financial advice and public financial guidance as it would help to build consumer confidence in these services.

We have not responded directly to the review questions but rather set out our detailed comments below.

Any enquiries should be addressed to Christine Scott, Assistant Director, Charities and Pensions, at cs

Detailed comments on the review

The advice gap

While the majority of consumers are likely to seek public financial guidance about their pension options, rather than advice, the extension of pension freedoms from April 2015 has increased the likelihood that consumers will also seek independent financial advice. However, following the implementation of the Retail Distribution Review (RDR), there has been consolidation in the advice market, with the number of firms with the capacity to give advice on pensions expected to continue to reduce further.

We believe that the combination of increased demand and market consolidation has created an advice gap in respect of pension decumulation. The recent announcement that the tax restrictions on the sale of annuities belonging to individuals will be removed from 6 April 2017, will likely add to this gap.

We have the following suggestions which could help reduce the advice gap:

- Demand could be reduced by expanding the definition of guidance, and therefore the scope of public financial guidance, to a point which falls just short of recommending a particular decumulation product. This would involve publically supported guidance setting out the options available to the consumer in more detail along with the pros and cons of each option.

  In addition to creating a demand for guidance and advice, the pension freedoms create a need for consumer knowledge and also a better understanding of risk. Extending the definition of guidance would inevitably involve conversations with consumers about risk and probability.

The private sector is producing stochastic models and their use could be incorporated into guidance services. These models provide consumers with information at a point in time about the probability of achieving a particular outcome. The assumptions used in these models can change daily, therefore an understanding of risk is vital.

In our response to HMT on the provision of public financial guidance, we recommend extending the availability of the pension guidance guarantee to consumers at the start of their working life and mid-career. If the guidance could include information on probable outcomes; this could encourage further pension saving by confronting consumers at an early stage with how much they realistically need to save for retirement.

- Independent financial advice is perceived by consumers as being too expensive and therefore not providing value for money. If advice is not priced correctly then advisors will continue to leave the market. We therefore believe that the government needs to revisit the advice model created by the RDR. We recommend that consideration is given to permitting providers to give advice on their own products, rather than consumers having to receive a whole of market review. This model would require the regulation of price, the conduct of advisors as well as of the advice itself. While we fully appreciate that developing effective regulation around an advice model with these features would be challenging, such a model could encourage financial advisors into the market.

  Retiring entirely on a defined contribution (DC) pension pot is not yet common but it will become increasingly so. Therefore, demand for both guidance and advice will grow and it is essential that the government has a long-term plan to ensure that this demand can be met.

  With auto-enrolment, there are more pension savers than at any time in the past and ever growing master-trusts. However, master-trust providers may not have the appetite for providing continuity between pension accumulation and decumulation. This may be another area which will increase pressure on the provision of guidance and advice in the long-term. We support the concept of collective defined contribution and believe that if this model of pension provision could be taken forward, it would go some way to easing future demand for financial advice by providing continuity between pension accumulation and decumulation.

Advice on pension taxation

We have a concern that insufficient attention has been given by government to how consumers access advice on pensions taxation in tandem with accessing public financial guidance, prior to making a decision on how to approach pension decumulation. We understand that pension providers have to give their customers risk warnings but we are not convinced these will be sufficiently timely in a person's decision-making process or well enough understood.

The tax implications of decisions about pension decumulation are taken into account by Independent Financial Advisors (IFAs) in the advice they give. However, the freedom and choice reforms mean that those accessing guidance only, may not fully recognise when they need to seek advice on the tax aspects of their decumulation decision. In our response to HM Treasury on public financial guidance we highlight the need for guidance services to sign-post consumers to the appropriate tax advice.

It may not be necessary to seek pensions tax advice along with independent financial advice and it is important that consumers understand this.

Tax advice is not a regulated activity and therefore can be delivered by unregulated advisors. Therefore, care will need to be taken if pension guidance services of the future sign-post consumers to tax advice. If sign-posting occurs, we recommend that consumers are directed to tax advisors who have signed up to the Professional Conduct in Relation to Tax guidance published in May 2015 by ICAS, the Association of Accounting Technicians, the Association of Chartered Certified Accountants, the Association of Taxation Technicians, the Chartered Institute of Tax, the Institute of Chartered Accountants in England and Wales and the Society of Trust and Estate Practitioners.

Advice on DB to DC transfers
At present there is a requirement for individuals to receive appropriate independent financial advice on DB to DC transfers, where safeguarded benefits have a cash equivalent transfer value of £30,000 or less, but this advice can be ignored. The responsibility of pension scheme trustees or LGPS board members is to check that the advice has been received before releasing funds from the pension scheme: however, the content of that advice is not made available to the trustees. We are not proposing a change in these arrangements but there is a risk that at some point in the future, perhaps having ignored the advice received, individuals may conclude that they have made the wrong decision and seek recompense. Consequently, we believe this is an area where regulatory arrangements surrounding advice must be sufficient to ensure that both the advice itself and accompanying risk warnings are of sufficiently high quality. Without advisor confidence in both the advice structure and regulatory arrangements, there will be an increased reluctance to provide advice and an upward pressure on the cost of advice reflecting the perceptions of risk held by advisors and their insurers.

In our response to the HM Treasury consultation on “Freedom and choice in pensions” (June 2014), we set out our reasons for supporting the flexibility of DB to DC transfers in respect of private sector DB schemes and the challenges for advisors operating in this space:

“This is a difficult issue given the potential for damage to private sector defined benefit schemes. However, we believe that it would be untenable to prohibit DB to DC transfers as doing so may be discriminatory and could be challenged from a human rights’ perspective. Therefore, we would support leaving the existing flexibilities in place.

There are circumstances where a DB to DC transfer is the most appropriate option for an individual, for example, for someone who is terminally ill and/or has no dependents. Therefore, making transfers subject to trustee approval could have consequences for the trustee body or the PPF. For example, if a transfer was refused by the trustees, what would happen if the scheme entered the PPF and the individual’s retirement income was reduced as a result? Would there be a potential liability arising in relation to any loss suffered and where would it lie?

The complex rules around transfers mean that it is already difficult for individuals to find an independent financial advisor who is willing to recommend that an offer is accepted on the basis that it is difficult to assess whether the cash transfer value represents a good offer.”

Use of technology
Greater use of technology, ‘robo’ advice, has the potential to make financial advice more accessible and may also fill part of the advice gap. Technology can be used to deliver information through different media and could sign-post the consumer to more tailored on-line resources or to face-to-face advice. As the consumer journeys through the technology, he or she would need to indicate after each section that they have understood the information received.

The interaction of the consumer with the technology will create a verifiable audit trail which the advisor can rely on to demonstrate what has been delivered to the consumer. This approach could reduce the risk of miss-selling, although we recognise a cultural shift towards greater personal responsibility for decisions taken would need to occur.

We are still in the early days of pensions freedom in the UK and as products develop there may be scope for technology to deliver market comparisons which consumers are sufficiently confident to rely on.

However, both technological change and cultural change will take time with perhaps cultural change taking longer. The existence of new pension freedoms could provide an impetus for cultural change but the complexity of pensions does not favour the individual consumer, especially as the quality of the outcome may not be assessed for a considerable period of time. In monitoring the impact of pension reform on levels of pension saving and pension outcomes, the government will need to consider at regular intervals whether public financial guidance and independent financial advice are meeting consumer needs. A failure to do so could ultimately undermine the pension reform agenda.

In conclusion

We have recommended that the definition of guidance is extended so that the scope of public financial guidance can be extended to address the advice gap. Also, we recognise that our views on the use of technology by advisors would involve their relationship with consumers beginning with guidance and ending in advice. This would likely mean that there is some unavoidable duplication of provision even in an environment where demand is high and resources are scarce. We see duplication as unavoidable as seamless provision between guidance and advice would in practical terms be difficult to implement and may not always be in the interests of the consumer.

From:
Sent: 11 December 2015 11:52
To: FAMRSecretariat
Cc: Sharon Maher
Subject: I-FACT Services Limited

Dear Sir/Madam

Background

The author of this note joined the Financial Services industry in 1968, early days of unit linked savings contracts and the heyday of the industrial branch companies who collectively boasted some 300,000 salesmen knocking on doors selling insurance. I joined a Specialist broker who sold unit linked contracts and I had an extensive bank of connections that I could approach for my own sales figures but, when I became the Sales Manager, new recruits didn't have the connections, so I had to teach them to cold canvas.

My experience moves from Sales Manager, Trainer, Sales Director onto running and owning my own composite brokerage. I moved into regulation at the very beginning of regulation with the Foster Green papers in 1984 and the FCA is the 10th Regulator with whom I have worked. Currently Chairman of an International business and Regulatory Consultancy, I-FACT Services Limited, and we have been graced with a FCA recognition number as we are deemed to be a friend of yours and that number is 750 0084.

To answer your questions:

- What do consumers want from financial advice?

  1. Comfort and trust in the person/firm that is offering to provide advice.

  2. Confidence in the person, particularly the fact that they thoroughly understand the consumer's current situation, objectives and requirements.

  3. Confidence that they will not be humiliated by their lack of knowledge.

  4. A written report, suitability letter or similar, in clear language that they can understand which will be accompanied or followed by a verbal Q&A. (A suitability letter, post presentation or sale, does nothing for the consumer but allows the monitor/supervisor to check easily. Useless from the consumers point of view).

  5. Following the consumers understanding of the written report and verbal Q&A instructions to the adviser are carried out to the letter and confirmed in writing and verbally if required.

  6. Ongoing annual reviews, or more frequently upon request. Communications initiated by the adviser, the average consumer is not motivated or organised.

- What are the advice gaps?

  1. Individuals with sufficient wealth understand their need for advice and also know where to find that advice. IFAs and Wealth Managers have been refining their client data list for the last 25 years. Those that cannot afford decent premiums are being dropped off the list, those with moderate or more wealth are contacted regularly.

2. Consumers that really need advice, particularly for protection purposes are largely unaware that there is an advice service and 100% of these consumers need to be motivated to buy protection and consider investment. They do not wake up first thing in the morning with a burning ambition to go out and buy life insurance, however important it may be to protect their families. Consumers need to be motivated to buy, only the wealthy volunteer.

3. Those that have the demand know where to get the supply. Although there is some merit in IFAs charging fees, it has eliminated the majority of the consumers from getting independent or meaningful advice. A Robo adviser can only respond to a volunteer. It will never motivate the average consumer to seek advice for protection or savings management. Please see the Wilson report (he with a pipe and the ex-Prime Minister) which was commissioned by Sun Life to look at the industrial branch industry, I believe early '70s. The conclusion was that industrial branch is unbelievably expensive, but it does make millions of people aware that protection is necessary, savings are necessary and everybody had at least one life policy and some savings.

   Wilson also concluded that the tax relief allowed on qualifying policies was a good investment for the government as consumers were buying their own protection and this reduced the burden on the Exchequer from more payouts to widows and orphans. Gordon Brown removed this tax relief and it is rumoured that he was he was mis-sold a life insurance policy while he was at University. He thought he had bought an endowment with profits as a tax efficient savings plan, when in fact he bought whole of life non-profits, which at the time paid out 2% on the sum assured in commission.

4. The current market is absolutely excellent for the top 5% of the earning population. The rest are doing well if they have a mortgage protection policy or a mis-sold PPI policy.

- What can be done to close the advice gaps?

  Somewhere somehow the average consumer needs to be motivated to seek information and advice. Controversially, paying commission to advisers, so that advice is seen to be "free" to the consumer, motivates sales people to approach the market. I was one of thousands of sales people that was extremely concerned about our incomes and jobs when it was first announced that we would have to declare the commission to our clients but, in practice, when clients were provided with a choice of paying fees or allowing us to receive commission, they always went for the commission, even though that could be substantially more than a fee paid upfront. The psychology of consumers can be difficult to understand.

  The current market has certainly got rid of the vast majority of commission cowboys, so that is to be applauded, but that has come at an enormous cost of excluding the majority of the population from the protection and savings advice market.

Many thanks for the opportunity for input. If I can be of any further service, my contact details are below.

John Derry-Collins

John Derry-Collins
FInst SM AMITD FCol MInstD
Director
I-FACT Services Limited

Member Firm of the Association of Professional Compliance Consultants

Awarded Best Specialised Regulatory Consultants – UK in the 2015 Alternative Investment Awards

I-FACT Services Limited

From:
Sent: 22 December 2015 14:05
To: FAMRSecretariat
Cc: Nick Bamford
Subject: Informed Choice Ltd

Dear Sirs

Please see below our response to the call for evidence for the Financial Advice Market Review.

1 - 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?

Vulnerable customers often have a greater need for financial advice and might find it more difficult to obtain advice which is truly independent, impartial and in their best interests. We believe that vulnerable customers need advice and financial planning, rather than product sales. This is best delivered by suitably qualified and experienced independent financial advisers who understand the distinction between advice and product sales, do not face the pressure of achieving sales targets and can provide service via an ongoing trusted relationship with the vulnerable customer.

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

The current system of independent and restricted financial advice provides a clear distinction between advice which is truly in the best interest of customers and a sales distribution channel. We would like to see better enforcement of disclosure, both verbal and written, so customers understand the nature of the advice they receive, especially where restrictions apply.

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

Consumer demand for professional financial advice continues to grow, driven currently by an ageing population, with retiring post-war baby boomers reaching retirement age in growing numbers and requiring advice on complex planning matters. We expect to experience a continued growth in demand for professional financial advice as wealthy baby boomers continue to enter retirement over the next 10-15 years and then managing their complex financial affairs throughout longer retirements. There will be dramatically rising demand for professional financial advice on the payment of long-term care fees, as result of the UK population living longer but not necessarily healthier lives.

4 - Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

We expect to see rising demand for advice from other sources, especially from millennials who are digital natives and often prefer an advice service delivered on their own terms, rather than traditional face-to-face advice. Current technology is better positioned to deliver online product sales, rather than online advice or 'robo-advice' as it is sometimes misleadingly called. It is important that consumers understand the service they are receiving and not lead to believe an online product sale delivered with information or guidance constitutes professional advice tailored to their personal objectives. Where online services such as these are delivered, we believe they should be available at a significantly lower cost than professional advice.

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

In our experience, consumers typically require specific advice as a result of a life event such as retirement, inheritance, the sale of a business, redundancy or moving into a residential care home. The need for professional advice tends to increase with age, as advice needs becoming more complex and involve larger sums of wealth. There is a need for professional advice at all stages of the journey through life, although complexity and value often dictates it is more often sought by older consumers who have already accumulated assets or earn higher incomes. That said, we do believe professional advice can add a great deal of value for younger consumers too, although it is often unaffordable due to the high burden of regulation and associated costs. Reducing the cost of direct and indirect regulation, whilst maintaining high standards, would be an excellent outcome from this year if it meant more professional advisers could better serve younger consumers.

6 - Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs? N/A

7 - Do you have any observations on the segments and whether any should be the subject of particular focus in the Review? N/A

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

In our experience, demand for advice tends to be greatest from those with household wealth exceeding £100,000 and/or household income before tax of £50,000 or more. Professional advice often serves the wealthiest segments of society as a result of the cost of advice, driven higher in recent years by falling supply and rising direct and indirect regulatory fees, and the complexity of delivering advice in the UK market which limits the number of consumers to whom professional advisers can effectively deliver advisory services.

9 - Do you have any comments or evidence on why consumers do not seek advice?

Consumers often fail to seek advice because they perceive it as unaffordable or have not been educated as to the value of the advice. We find that consumers once engaged with the advice process always appreciate its value, but those who have never engaged with a professional financial adviser or financial planner rely instead on generic opinions from friends, family or the media.

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

In our local area, we have witnessed a steady supply of financial advice since the introduction of the Retail Distribution Review in 2012. We have found that older advisers tend to work for much longer than in comparable professions, deferring retirement until later in life. Whilst there is a real and alarming shortage of younger advisers entering the profession, this does not yet seem to have reduced the supply of advice, although we expect it to do so in the future.

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

There has been a shift from product sales based on the identification and solving of a specific need to the construction and monitoring of comprehensive financial plans. This can still result in a product sale, to implement the actions identified by the Financial Planner, but does represent a cultural shift away from product sales. This is not necessarily symptomatic of a growing advice gap in the UK, although High Street banks have largely exited the advice market in recent years as a result of higher standards for qualification and fee disclosure. We believe this shift from sales to professional financial planning is beneficial for consumers and the reputation of the UK advice market.

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

We believe new and emerging technology can best support the delivery of advice where it is deployed by the professional adviser, rather than offered for use directly to the end consumer. New technology has an important role to play in making advice more efficient and therefore affordable, as well as more engaging for tech savvy consumers.

13 - Do you have any comments on how we look at the economics of supplying advice?

The greatest impact on the economics of supplying advice is the high and rising cost of direct and indirect regulation. We are particularly concerned about the high levels of FSCS levies in recent years, with their seemingly unfair and unpredictable allocation to professional advisers. There is currently duplication of consumer protection through prudential requirements, mandatory professional indemnity insurance and funding the FSCS to compensate the customers of failed financial firms. Better segmentation of advisers and distinction from those responsible for product manufacturing and distribution would result in a lower cost for supplying advice. It is also important to address the supply side of the equation, encouraging more younger people to pursue a career in professional advice and supporting firms which widen access to the advice market.

14 - Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on
the nature and levels of costs and revenues associated with different advice models? N/A

15 - : Which consumer segments are economic to serve given the cost of supplying advice?

Those consumer segments with higher levels of accumulated wealth and higher incomes are the most economic to serve with professional advice.

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

As indicated in our response to question 13, the regulatory cost of providing advice currently represents the greatest barrier.

17 - What do you understand to be an advice gap?

Our definition of an advice gap is a lack of supply to meet rising demand for professional face-to-face advice. This is not however the commonly accepted definition of an advice gap, which appears to be more focused on the sale of financial products to consumers through banking and insurance company channels.

18 - To what extent does a lack of demand for advice reflect an advice gap?

We do not recognise a lack of demand for advice and continue to experience a growing demand.

19 - Where do you consider there to be advice gaps?

Advice gaps currently exist in earlier stages of life, where consumers are accumulating assets. Fewer advice gaps exist for busy achievers onwards.

20 - Do you have any evidence to support the existence of these gaps?

Our opinion of these advice gaps is based solely on our experience as professional advisers for the past 21 years and the growing cost of delivering advice to consumers in those lower wealth segments.

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

Access to affordable advice (not product sales) for younger people who are accumulating assets.

22 - 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?

No, we believe these advice areas are currently well served, albeit with a need to attract more advisers into the market to address the supply side of the equation and also tackle the rising and unpredictable cost of regulation. Instead, we believe the Review should address access to advice for those consumers accumulating wealth.

23 - Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

Yes, as consumers with significant wealth have good access to advice which represents good value for money. Referring to your household income and wealth tables, we believe you should focus on consumers with less than £50,000 of household income before tax and less than £100,000 of household wealth.

24- 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? N/A

25 - 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? N/A

26 - What can be learned from previous initiatives to improve consumer engagement with financial services? N/A

27 - Are there any approaches to the regulation of advice in other jurisdictions from which we could learn? N/A

28 - What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice? N/A

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

Safe harbours could reduce risks and uncertainty for firms, and as a result reduce the cost of providing advice for firms. We support the idea of a regulatory dividend for firms which demonstrate higher standards of delivering advice and avoid higher risk, esoteric products. Firms should always be liable for the provision of poor advice, but those firms which deliver excellent advice should not pay the same high share of compensating the customers of failed firms.

30 - Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address? N/A

31 - What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection? N/A

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

No, we believe support for the introduction of a longstop is a red herring.

33 - 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?

No, as long as suitable advice is delivered which is in the best interest of consumers.

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

Consumers who pay for long-term advice have a right to expect that advice to be suitable and tailored to their needs. It can often take a significant amount of time for unsuitable advice to be discovered, which makes the introduction of a long-stop for advice potentially detrimental to consumers.

35 - Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Consumers are already very well protected by the UK regulatory regime, with advice firms required to meet prudential standards, hold professional indemnity insurance and participate in the FSCS (albeit with an urgent need to address the funding of this compensation). It would be better to focus on unregulated advice and products, to ensure that consumers are always well protected by the regulatory regime. We would support a move to make illegal all cold calling in respect of pensions and investments, and to ban the sale of any unregulated investment product to UK consumers.

36 - 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?

We have not to date witnessed any firms able to provide consistent automated advice at low cost.

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

38 - What do you consider to be the main consumer considerations relating to automated advice?

Consumers need to clearly understand the difference between information, guidance and advice, with the limitations of each approach clearly explained. Where information or guidance is being delivered, rather than professional advice, the cost of delivery should be substantially lower.

39 - What are the main options to address the advice gaps you have identified?

Reduce the cost of delivering advice by reducing and making more predictable all regulatory costs, especially with regards to FSCS levies.

40 - 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? N/A

41 - What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes? N/A

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Institute and Faculty of Actuaries

Financial Advice and Market Review

IFoA response to HM Treasury and the FCA

22 December 2015

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

Institute and Faculty of Actuaries

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22 December 2015

Dear Sirs

IFoA response to HMT/FCA consultation on Financial Advice Market Review (FAMR)

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this consultation on the Financial Advice Market Review (FAMR). Members of the IFoA, who work in either the pensions or life insurance industries, have contributed to this response.

2. The actuarial profession has extensive and long-standing experience in both the design and management of insurance and pension savings products, together with advising sponsors and trustees of pension schemes. Accordingly, we believe the profession has an important role to play in this process, and we would welcome the opportunity to discuss our response and further research with HMT. The value of advice in long term and complex decision making is important, but not always recognized.

General comments

3. The IFoA welcomes the recognition of the need for a review of financial advice, particularly in the light of the changes in the pension environment. Different products in financial services have developed in different ways; therefore, there may be some variation in how best to consider advice in life insurance, general insurance, savings, investment, pensions accumulation and pensions decumulation.

4. We note that within the revised pension freedom environment, there is a need to recognise that decision making is likely to increase in complexity for more people. Such decision making will require a framework of information and advice that meets policyholders' needs.

5. The flexibility in the use of pension assets is also likely to bring into sharper focus the ways in which people will use other assets in meeting retirement needs. Having complete information that allows individuals to make better decisions using all assets will become more important. The advice framework will need to be easily accessible where individuals have already made full use of the general information services that are available.

6. The current environment, in which advisors are reluctant to service clients other than high net worth individuals and where hindsight may question advice given, has contributed to an advice gap. In turn, this has been a factor in slowing development of new products to meet new needs.

7. IFoA members have deep experience of understanding and managing long-term assets and liabilities: our response, therefore, concentrates on those areas of expertise.

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

7. Yes. Older people may not have access to advice despite their needs for protection and income products, as a compliance view may regard them as higher risk.

8. The changes to pension legislation are likely to mean that fewer people will buy annuities at the point of retirement. Indeed, initial experience would indicate that there has been an increase in the use of drawdown products at retirement. Consequently, many decisions taken to extinguish pension assets (e.g. buy an annuity) will be at older ages (than historically has been the case) when assets may also be required for social care. It is possible that, beyond a certain age, individuals will be less capable in making complex decisions, or could be subject to more intense pressure to take specific decisions that may not be in their best interests.

9. Some older clients may face challenges in proving their identities and may face challenges in clearing money laundering rules. Older clients may also effect transactions that may be subject to scrutiny if hindsight suggested alternative outcomes could have been better

10. We welcome HMT and the FCA's focus on this group, given the challenge arising from recent changes to pension legislation. It is worth noting that, even at younger ages, individuals in poor health may struggle to make the decisions required.

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

11. The FCA's responsibility in regulating firms and individuals will lead to a set of requirements that meet that responsibility. The challenge is the extent to which the categorisation of different levels of advice will meet the needs and expectations of customers. Customers will have an expectation of what advice is and what information they would expect to receive. The dividing lines between the different forms of financial advice are unclear. Even an answer to a basic question about a booklet could be regarded as advice in the fullest sense.

12. Within the framework, the key question is whether or not customers will understand the limits of particular types of advice. The test of this would be in asking customers if they understood the different terms as set out in paragraph 11 of the Appendix. Our suggestion is to introduce different terms that offer greater clarity to customers. This could be considered in the following ways:

- "Information" – would identify that the customer will receive no more than basic information that may, or may not, include information about potential options;
- "Guidance" – would be a useful term for many customers across the full range of financial products. However, there may be confusion around the Pension Wise offering in relation to retirement guidance, so an alternative word may be required. Customers may consider Pension Wise to offer advice despite many contrary notifications.
- "Financial Plan" – this could be a means of receiving more generic advice and could be one step to automation;
- "Advice" – many customers are likely to expect this to amount to "this is what I would do if I were you". Recognising the need for appropriate regulation around this expectation,

the term could be sub-divided, provided the sub-division was self-explanatory to the customer. One example of a sub-division would be "Complete financial needs advice", which could suggest a broad assessment of all needs and develop a prioritised plan to meet them. It will be vital to ensure that customers understand that neither "Information" nor "Guidance" constitutes Advice.

13. In essence, any re-classification should be simple to understand for the customer. Industry participants, providers and advisors, will almost always understand re-categorisation of the terminology. We would encourage the FCA to conduct further research in this area.

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

14. There is a perception that financial advice is expensive for all, even though many people will take up advice in other areas of life (e.g. legal advice) without consideration of the cost. Challenging that perception would be helpful in increasing the take up of financial advice. Such encouragement may lead to more people confronting financial challenges by obtaining advice rather than deferring decision making until it is too late to find a solution.

15. The comments in the previous paragraph can only apply to those who take advice. There is a challenge in relation to those on lower incomes taking advice and, consequently, not necessarily having the right financial solutions in place. Any review requiring an extensive fact find, face-to-face meetings and extensive documentation may be beyond a limited budget. The IFoA considers that this review, alongside the review of public financial guidance, needs to produce an overall framework that can point lower income consumers to the right place for basic information, as a starting point.

Other forms of advice

Q4 Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

16. Increasing sales by introducers and on non-advised sales from IFA firms suggests that such sales are filling an advice gap. This implies there is a growing demand for some form of advice that does not meet the same professional standards as required by RDR. We would suggest research of customer needs and outcomes in this area as a priority.

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

17. All types of financial products require some form of advice or guidance: from income protection (how much should my cover be and what are the tax consequences), through life cover (how much does my family need to cover immediate needs and a few years' income) to complex trust planning. On motor insurance needs, advice can cover the balance between cost, service at claims stage and whether the insurer will sell details of claims to claims management companies, car rental firms and new car sales teams.

18. We would encourage regulation of markets that allowed customers to find the right level of advice that is likely, in the majority of cases, to arrive at the right level of cover and the right product sold. We would encourage research that considers the balance between the quality of the adviser and the needs of the customer.

Consumer segmentation

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

19. The question is framed around those who recognise the need for some form of advice and who will approach an advisor. However, there are many individuals who would benefit from advice, but who will not seek it, for whatever reason. This segment, which is potentially large, should be included within the overall market structure. The IFoA recognises that some members of this group will take advantage of information services, but will not seek advice, even if there was merit in doing so.

20. Market segmentation, whilst always useful, has limitations. Recognising the limitations of the structure is important, eg some customers will straddle the definitions used in the consultation. As advice may become more tailored for many people, reflecting their circumstances, these subtle differences may become more important.

Q7 Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

21. As commented in our response to the previous question, the segments are a useful starting point. It would also be useful to identify those groups that would benefit from regular advice rather than needing advice on one issue at one point in time.

22. The segments should also reflect the needs of those obtaining information from the public financial information services. This category would not be covered by the FCA's regulation. This category is, potentially, a large group of people who may require future information.

What stops people seeking advice?

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

23. The IFoA has identified the following as barriers to seeking advice. For any one person a number of these may apply:

- Individuals are unaware they would benefit from taking advice or will not confront financial challenges
- Those who are aware of requiring advice may view the cost as prohibitive, in some cases this may be in comparison to the benefit obtained
- Those who may wish to take advice are unaware of how to obtain it
- Individuals may just prefer to take a decision based on basic information received
- The reputation of financial services may deter individuals from seeking advice, particularly if there is no means of testing the advice
- Industry jargon may be regarded as inaccessible to the potential customer

WHERE ARE THE ADVICE GAPS?

The supply of financial advice

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?

24. There has been a lower level of trust in financial services since 2008. It is possible that this lack of trust is a contributing factor in not seeking advice. The introduction of pension freedoms has also seen a move towards individuals making their own decisions e.g. unadvised drawdown products. These changes may have been at the expense of customers taking better decisions.

25. Product providers and banks have moved away from providing advice due to the perceived risks associated with advice. There is a perception that hindsight will judge advice based on actual experience that can only be unknown at the time of advice. Eg investment risks within a drawdown.

26. Advisers will only participate in a market if their business is profitable. If customers remain unwilling to pay for "expensive" advice and advisers are unable to cross-subsidise lower amounts of products sales, there will be a shift away from advice. There may be merit in researching any differences in customer attitudes of those paying commission to introducers or on non-advised IFA sales, particularly if customers view commission as an insurer payment rather than a customer payment.

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

27. As information has become more readily available, more customers appear to have been willing to use information services to take their own decisions, even if the provision of advice could have made the decision making better. Capitalising on this willingness may enable customers to develop personalised planning tools from standard tool kits.

28. As with other sectors, technological advances have enabled providers of financial services to better target the provision of information. The use of widely accessible data, combined with firms' own understanding of its customers from its own data, means information can be provided at appropriate times to the many people who would benefit from receiving it. This can be achieved at a low cost to firms.

29. We would encourage the FCA to increase testing and reviewing services on software development. This may remove some concerns that firms may have around "incorrect" advice leading to redress costs and reputational damage.

Q15 Which consumer segments are economic to serve given the cost of supplying advice?

30. Economics will lead advice for customers who understand and accept the risks of financial products; understand the advice provided and understand the fee is reasonable for the service provided. This inevitably means the top 10% of the population by wealth and income capability.

Barriers to firms providing advice

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

31. The IFoA agrees with the reasons given.

What is an advice gap?

Q17 What do you understand to be an advice gap?

32. The nature of an advice gap will be where there is a market failure. This could either be where there is insufficient demand for advice where it would be useful (see our response to question 9); alternatively, it could be as a result of insufficient advisors causing a lack of supply.

33. Given the focus of this consultation, the advice gap could be best described as one where potential customers would have better capacity to take good financial decisions if they had received advice. Many individuals could benefit from an awareness of the benefits of taking advice. Lower income customers may have simpler, but possibly, more important unmet needs. This may result in poorer outcomes for the individuals and for society as a whole.

34. There are other ways of evaluating an advice gap. One example of the Value of Advice is the value of saving over a working lifetime for a pension compared to immediate consumption. An example of the Societal Value of Advice would be the cost of paying benefits to dependents on the death of the breadwinner, who had no life insurance.

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

35. As commented in our response to the previous question, the existence of an advice gap may depend on demand. Improving awareness of the benefits of advice would be one approach to close the gap. Understanding why fewer advisors exist will also help ensure that appropriate remedies are available in overcoming any supply-side issues in the market. The demand-side is harder to fix without a re-design of financial advice and guidance.

Where are the advice gaps?

Q19 Where do you consider there to be advice gaps?

36. The IFoA believes that the changes to the pension environment will potentially widen the advice gap as individuals take more financial decisions. We would welcome any measures that would improve individuals' awareness of their long-term financial needs and desires. In terms of specific product areas, we would identify pensions and long term investments as the areas that will require additional approaches to advice.

37. There appears to be a gap in advice about the consequences of not obtaining insurance, which is evidenced in low life insurance and income protection sales.

Q20 Do you have any evidence to support the existence of these gaps?

38. The two areas of evidence have been the marked increase in non-advised product sales since RDR and the unfilled gap left by banks withdrawing from the advice market.

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

39. We would re-emphasise our comments that longer term needs are important and should take precedence in this Review. An example of the type of person who would benefit from advice is a couple with a combined income greater than the median, but with needs for a mortgage, long term savings, protection and providing for children.

Where we plan to focus our work

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?

40. Yes. We would especially welcome consideration of the interaction between pensions and other assets, particularly assets that customers hold for longer durations. We recognise that the results of HMT's consultation into the pensions tax framework will influence what this means in practice; therefore, any changes to the long-term advice framework should reflect the impact of any tax changes on the pensions market.

41. There has been significant focus in recent years on the accumulation side of pensions (through Automatic Enrolment (AE)). However, the introduction of pension freedoms increases the importance of individuals being aware of the risks at and throughout retirement. More individuals will bear longevity, investment and inflation risks post retirement, if they exercise flexibility in taking retirement benefits. To be effective, advice provision must reflect those changes in who bears risk. The current AE contribution rates may offer false security, which some advice, even if limited, could correct.

Q23 Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

42. Yes. Individuals with sizeable assets will have taken advice previously and will continue to do so. Increasing the amount of advice given to more consumers will provide the most benefit to society as a whole, particularly if that advice prevented individuals from making poor decisions.

43. The public financial guidance review ought to ensure that the lowest income groups will benefit from having basic information. Such information should include the appropriate signposts to advice, if that is required.

44. In developing a long-term framework, the impact of AE should be considered. More people over the next decade will reach retirement with small, but increasing, amounts of pension assets. It is likely that additional advice will be required to meet the needs of this group, who may also have other pension income from Defined Benefit (DB) schemes. However, the number and amount of pensions from DB schemes will continue to reduce over time. This will make the discussions around what to do with Defined Contribution (DC) pots more important.

45. Case studies of typical customers within each segment may offer some insight into the costs of providing limited and full advice. This may offer a starting point, or a pilot scheme, to removing some of the barriers to cheaper advice.

WHAT OPTIONS ARE THERE TO CLOSE THE ADVICE GAP?

The regulation of advice

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?

46. If the focus is on the end customer, the regulatory framework is not likely to be of significant interest. The customer's objective in seeking advice will be to have the right product available at the conclusion of the process. Simplifying the process will not have a direct impact on how the customer views it.

47. Where the framework will have an impact is through secondary measures. As an example, simplification of the framework could lead to lower costs for firms. If those lower costs lead to reduced charges to customers for advice, the framework changes could be viewed as having reduced/removed one of the advice gap barriers.

48. The customer may expect that, if something were to go wrong within the advice framework, the FCA would be able to take appropriate measures for redress. Presenting this information aimed at the customer's understanding would be preferable to presenting it from the firm's view. Using the language of the customer will be preferable to using the language of the industry.

Previous initiatives to improve consumer engagement

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

49. The most successful change in consumer attitudes towards financial services in recent years has been the introduction of AE. Recognising customer inertia and the benefits of employer communications have contributed to greater than expected take-up of AE membership. However, whether the approach will be as successful with smaller employers remains to be seen.

50. Recognising that information, guidance and advice are linked, we would encourage the FCA to consider how providing basic information via employers could develop a greater interest in financial education. That information may be available from on-line tools.

Q28 What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

51. We would refer you to our response to question 26 in how employers may supply basic information about what is available.

Limiting certain liabilities

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?

52. In an environment that encourages individuals to implement their own solutions to financial problems, it is challenging to establish a structure that can allow the complete range of appropriate solutions. As such, there will be a requirement for a detailed rules based

framework to protect customers. However, a safe harbour would benefit from a more principles based approach that allows the supply of advice to increase. We recognise there is a conflict that is challenging to resolve, but any steps that encourage the increase of advice would be welcome.

53. We would also encourage the FCA to set out clearly that a safe harbour would not be subject to future challenge as a result of hindsight. Poor advice can lead to good outcomes as well as poor outcomes, but good outcomes will not lead to complaints. We would also encourage the use of reviews, if systemic failures had occurred. This may contribute to more efficient redress arrangements for affected customers.

54. In terms of practical measures, it is unclear the extent to which firms would be willing to further change their business models even with the safe harbour.

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

55. The IFoA considers there would be two obvious benefits from a safe harbour, applied for the:

- simplest type of consumer interaction, which would be the provision of the most basic information; and
- most basic products.

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

56. Communication of the limitations around the use of a safe harbour is essential. Again, such communication should be in the language of the customer rather than the firm.

57. The communication should also explain what the customer should find in a safe harbour. This would also meet the need of indicating when the customer needs more than what may be offered within a safe harbour. Communication should refer to the limitations of the safe harbour, while referencing where additional information may be available.

The longstop review

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

58. The evidence offered in the consultation paper suggests that the impact of the longstop is minimal and there may not be any benefit altering the framework. It would seem unlikely, given most customers' time horizon, that a longstop would impact the demand for advice. However, this may create more flexibility in the market and offer comfort to PI insurers.

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

59. We consider that redress is most appropriate when the correct selling process is ignored. Within that range of possibilities, we would view the addressing of long-term risks for long-term products as being the most important in the advice process.

Automated Advice

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?

60. While not commenting on the current state of this market, the most important development that will take place is innovation, which could thrive in this area. Firms will develop new ideas to meet this new opportunity. Innovation will drive competition within the market to the extent that the "new" will soon become the "norm" in providing automated advice. The FCA may be able to provide practical assistance by reviewing software and recognising potential drivers in compliance failures.

61. The use of the segments identified in the consultation paper will assist the development of the better approaches and may encourage a minimum standard.

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

62. Regulation is a constraint on pure innovation. However, if automated advice provided standardised information on charges, limitations and risks, innovation could flourish. Indeed, the automated advice could come from firms with no links to providers. Standardisation could produce a more competitive market with fewer barriers to entry.

63. Within any innovative environment, the initial models will not be the best. Further refinements would be likely to push regulatory barriers further. Greater awareness of Project Innovate may encourage the market to change its approach that may allow the best tools to develop.

64. As new technology enables the advice market to develop, we would encourage the adoption of regulation that is proportionate and targeted.

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

65. At a high level, the main customer considerations will be whether the availability of the new tools will bridge the advice gap. Specifically, if the automated advice is at a low price, we would consider that there will be greater interest, if not ultimate take-up.

Considering the options to bridge gaps

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

66. We would welcome greater co-ordination between the public financial guidance and the advice market. We recognise that the onus on this co-ordination may lie with the statutory bodies; however, we would encourage the FCA to work as closely as possible with all industry participants to assist this work.

67. Greater awareness of the need for, and of, advice and reduced costs would be the two biggest influences to increase demand for advice. Without an increase in demand, it is unlikely that firms would expand, or develop, their approaches in making improvements on the supply side.

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?

68. We welcome this paper in recognising that the market is changing and will change further. As noted in our response to the previous question, a greater demand for advice will encourage the supply side.

69. We would also encourage further work around communicating the benefits of advice with a strong focus on longer-term needs.

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

70. The IFoA believes that the most significant development would be the continual monitoring of new advice tools. Promoting the outcome of such monitoring would also raise the standard for new entrants into the market, while emphasising that new developments are welcome.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager in the first instance.

Yours sincerely,

Fiona Morrison
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International Financial Data Services

21 December 2015

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Dear Sir/Madam

Financial Advice Market Review – Call for input

International Financial Data Services (IFDS) is recognised as a leading provider of outsourced administration and technology solutions to the financial services industry. IFDS services are provided to a wide range of asset managers, wealth managers, platform providers, product manufacturers, insurers, and life companies on a business process outsourcing (BPO) and application service provision (ASP) basis. We support more than 11 million investor and policy holder accounts for over 40 financial organisations in the United Kingdom.

Given our position in the market, IFDS is pleased to comment on the Financial Advice Market Review – Call for input.

Should you wish to discuss any of our responses further please call me on 01268 444989. Alternatively please call Scott Sullivan in the Compliance Team on 01268 447239.

Yours faithfully,

Claire Shelton

C J Shelton Chartered FCSI
Group Compliance Director

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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?

No comment

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

IFDS would like to see a clear differentiation between what constitutes financial guidance and what constitutes financial advice. Consumers do not perceive financial advice as the regulated activity industry participants understand it to be and there needs to be much greater clarity that financial guidance is information that is generic and comes with no recommendation, while financial advice is a recommendation that is tailored to their specific needs.

IFDS would also support TISA's view that a 'kite-marked' guidance framework should be developed and adopted by financial services firms as well as independent information organisations and government backed bodies. IFDS also supports TISA's view that the guidance definition should accommodate human support so people are not just limited to online guidance.

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

No comment

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

No comment

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

No comment

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

Yes

Q7: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

IFDS believes that the focus of the review should be on households with more limited means. This would include (but not be limited to) Hard Pressed, Striving and Supporting, Living for Now and Retired on a Budget. IFDS also supports TISA's view that households on low to middle incomes and with non-pension savings of less than £50k should be given high priority.

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

IFDS believes that individuals on lower incomes and with more modest savings are less likely to seek professional advice. This is supported by research conducted by BlackRock and cited in TISA's response to this call for input.

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

No comment

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

No comment

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?

No comment

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

IFDS agrees with TISA's view that "robo advice" presents an opportunity to provide the mass market and mass affluent with a solution that is effectively a low cost discretionary management service. The private banking and wealth management industry has progressively been moving towards discretionary services that are based on model portfolios aligned to risk profiles for investment and income objectives, so many aspects of robo advice are not new.

IFDS thinks this development could sit alongside full advice as an option for accessing portfolio management at a lower cost and has the potential to address a number of the issues raised in this review. However, there should be a clear distinction between what constitutes advice and what constitutes guidance. The regulator should also work with the industry to develop appropriate training and qualifications to support these policy decisions.

Q13: Do you have any comments on how we look at the economics of supplying advice?

No comment

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Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

No comment

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

No comment

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

IFDS agrees with TISA's view that financial services firms are currently reluctant to provide basic financial guidance to people as this can be deemed as advice. Key barriers include the way that the interpretation is defined on a case by case basis and that the industry cannot use terms such as "people like you" or rule of thumb principles around savings objectives. IFDS would therefore welcome a clear definition for a regulated guidance framework that will enable financial services firms to provide a breadth of guidance such as that already provided by MAS. This would help to allay fears and concerns from financial services firms over the potential for retrospective regulatory action.

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

IFDS agrees with the definition given in the FAMR consultation that an advice gap is "any situation where consumers cannot get the form of advice they want, on a need they have, at a price they are prepared to pay" but would add the following to this:

- Consumers who are unconvinced by the relevance or quality of existing advice services.
- Consumers who would benefit from advice but fail to understand the need to manage their financial affairs.
- The cost of regulatory compliance has created a gap because firms are forced to segment customers - as they can't otherwise afford to provide advice.

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

Based on the research carried out by TISA in their response to this call for input, IFDS believes there is a demand for advice that is not currently being met. While some of the reasons for this are clearly economic IFDS also believes that many people are not sufficiently aware of the need to take action or of the benefits of taking professional advice. IFDS believes this is as an awareness/educational issue that needs addressing with the same (if not higher) urgency as the advice gap. A much greater emphasis on financial education and developing financial literacy across the UK population is required. While the industry has various initiatives to support this, these are generally fragmented and require government co-ordination and lead.

Q19: Where do you consider there to be advice gaps?

IFDS agrees with the stated views in the consultation (of the FCA and HMT) that the market is working better for some consumer segments than others, with those without significant wealth being less well served.

Q20: Do you have any evidence to support the existence of these gaps?

No comment

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

As stated in our response to question 7, IFDS believes the focus should be on low to medium income households with more limited means that recognise a need for support in making financial decisions, as well as those that are in the middle income bracket who have the capacity but may not have understood the benefits of better money management.

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?

Yes, plus IFDS believes this should be extended to include guidance. IFDS reiterates its support of TISA's view that a 'kite-marked' guidance framework should be developed and adopted by financial services firms as well as independent information organisations and government backed bodies.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Yes

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?

See response to question 16

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?

No comment

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

IFDS' view is that there is scope for better financial education for UK citizens. This is the foundation from which people can understand both the need and the benefits of saving and investing. IFDS believes that creating the demand for financial advice begins with education of all age groups and that this should start at an early age, continue into the workplace and be provided for those in retirement. For example, there are 6 million children in the UK with CTFs and one can walk into a class of 12 year olds most of whom would have one. This represents a significant opportunity to make financial education both relevant and personal.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

No comment.

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

No comment.

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?

No comment

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

No comment

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

No comment

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

No comment

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?

No comment

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

No comment

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

No comment

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?

We agree with TISA's conclusion, based on its research in this area, that there is already a demonstrated capability for firms to provide robo advice. Some firms have now been offering these services for over six years, with growth particularly strong in the US market.

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

No comment

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

No comment

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

No comment

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?

No comment

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

No comment

Financial Advice Market Review

A response from the International Longevity Centre-UK

Dec 2015

The International Longevity Centre - UK (ILC-UK) is an independent, non-partisan think-tank dedicated to addressing issues of longevity, ageing and population change. It develops ideas, undertakes research and creates a forum for debate.

The ILC-UK is a registered charity (no. 1080496) incorporated with limited liability in England and Wales (company no. 3798902).

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International Longevity Centre (ILC-UK) Comments

Key findings

- Approximately 18.2 million people took out a financial product between 2010 and 2012, with nearly 3.1 million investing in risky assets.
- In making decisions about financial products, consumers reported being influenced by a number of sources:
    - 6.1 million people were influenced by "Best buy information, comparison website or shopped around a lot of different sources";
    - Approximately 2 million were influenced by an "Independent Financial Adviser" (IFA);
    - Roughly 3.9 million were influenced by "Information collected from providers or providers websites";
    - About 1.7 million were influenced by friends or family;
    - Most worryingly, 2.7 million people took out a financial product in the last two years without collecting any information at all.
- The general perception that women do not seek financial advice may be incorrect. When women do take out financial products, their choices are as likely to be influenced by an adviser as any men's choice.
    - However, women are also less likely to use best buy websites and shop around, while they are more likely to rely on friends and family they or to avoid collecting any information.
- The demand for independent financial advice is mainly driven by trust.
- Older (age 55+) consumers are significantly more likely to be influenced by IFAs or providers, than best buy information on websites.
- The oldest consumers (aged 75+) are less likely to collect any information than any other age group.
- Advice may only partly benefit those who need it the most: while consumers who report "saving for retirement" as their primary financial need are more likely to seek advice, those who are burdened by debt do not reach out.
- Financially capable consumers are less likely to let their financial choices be influenced by friends and relatives, information received by post, or adverts. Conversely, they are more likely to use best buy information websites and shop around than rely on IFAs and providers.
- Homeowners are more likely to be influenced by IFAs than by their own product provider.

Background

While some financial decisions, such as saving for a short term goal, may be seen as relatively simple, others, such as saving for retirement or using pensions, savings, investments or home equity to provide an income in retirement, are incredibly complex and require a level of financial sophistication that most consumers simply do not have. When faced with such complex choices, consumers need the right help from the financial services industry. And yet for many years, financial advice has been the preserve of the few not the many.

Arguably, the need for financial advice has become even more pronounced in the wake of the recent pension freedoms. Individuals on the verge of retirement have been given more flexibility in how they use their defined contribution pension savings, but as evidence from other countries where similar freedoms are in place has shown, this kind of freedom can lead to worse outcomes. In failing to annuitise some individuals may spend their savings too early facing income shortfalls in later life, while others, who are afraid of using up all their savings, under-consume during retirement. Retirement planning is not easy. Financial guidance may help to avoid the worst outcomes, but generic information online, over the phone or face to face may not be enough.

The ILC-UK has been leading the way in understanding the challenges of retirement planning in the wake of the new pension freedoms. We have used a mixture of research methods to explore what consumers want their pension wealth to deliver, how consumption patterns and daily activities change over the course of retirement, the risks facing different consumer segments who have DC pension pots and some useful rules of thumb that could help individuals plan for the long-term.

Which consultation questions are we responding to?

The Financial Advice Market Review (FAMR) launched a call for evidence “to improve the availability of advice to people, particularly those who do not have significant wealth or income”.

In particular, the FAMR is gathering input on:

- the extent and causes of the advice gap for those people who do not have significant wealth or income
- the regulatory or other barriers firms may face in giving advice and how to overcome them
- how to give firms the regulatory clarity and create the right environment for them to innovate and grow
- the opportunities and challenges presented by new and emerging technologies to provide cost-effective, efficient and user-friendly advice services
- how to encourage a healthy demand side for financial advice, including addressing barriers which put consumers off seeking advice

Our contribution will focus on providing detailed input on a few questions where we can add significant value. We provide some original, hard evidence, gathered from robust analysis of the largest existing dataset on financial wealth in the UK – the Wealth and Assets Survey.

In particular, we respond to the following questions:

- ***Q3: What comments do you have on consumer demand for professional financial advice?***
- ***Q4: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?”***

Data and methodology

Data

To answer the above questions, we take advantage of the largest and most comprehensive source of information on income, wealth and assets in Great Britain, the Wealth and Assets Survey (WAS). The WAS is a longitudinal survey, which means that the same individuals are followed over time, and it is representative of all private households in Great Britain. For the purpose of our analyses, we focus on data from the 2010 to 2012 Wave and we keep only individuals aged 16+ who completed the entire interview. We are, therefore, left with a remarkably large sample of **37,601** observations.

Methodology for answering the questions

Demand for professional financial advice: The empirical strategy we adopted to answer **Q3** is not straightforward, since the relevant question was only asked to “savers”, i.e. to consumers who had bought at least one financial product[1] in the two years preceding the release of the survey, which makes it a non-random sample. For this reason, we had to use a particular statistical technique to correct for sample selection bias[2].

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[1] Products are: Investments; Mortgage; Insurance (Life insurance, payment or income protection insurance, critical illness insurance); A credit card; Loan, other type credit agreement; General insurance; A savings account; A current account.

[2] Heckman J (1979) Sample selection bias as a specification error, *Econometrica*, 47, pp. 153-61. Note: Heckman got the Nobel Prize for this paper.

Demand for sources other than financial advisers: As per **Q4**, we bring evidence on why people choose different sources of financial advice by using another statistical technique, specifically designed to model nominal outcome variables.[3]

Our responses to the questions

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

How many people have been influenced by a financial adviser?

When considering the demand for financial advice, we decided to look at consumers whose financial choices have been influenced by an Independent Financial Adviser (IFA) rather than by other sources, as opposed to the potential market size based on assessed needs.

According to our analysis of WAS data, more than half of the consumers in our sample (56.5%) have not "personally taken out a financial product in the last two years".

Among the 43.5% who have taken out a financial product in the last two years, approximately 1 in 10 (11.2%) have been influenced by an Independent Financial Adviser (including relatives who are IFAs).

In terms of overall population, this is **equivalent to approximately 2 million people**.

Table 1: Source of information that most influenced decision about product taken out in the last two years.

	Proportions	Population
Influenced by IFA	11.25%	2,054,297
Influenced by other sources/ no sources	88.75%	16,200,000
Total	100%	18,254,297

Source: own estimates from Wealth and Assets Survey 2010/12. Data weighted using cross sectional weights.
Base: only those who took out a financial product in last two years.

What are the main drivers of consumer demand for financial advice?

We focus on the following socio-demographic factors and estimate their impact on how likely it is that a consumer has both taken out a financial product in the last two years and that this choice was influenced by an IFA (**see Appendix A for full results**).

- Gender
- Age categories
- Income (natural logarithm)
- Proxy for financial ability (how accurately consumers know their balance)[4]
- Impatience (prefer £1,000 today to £1,100 next year)
- Being burdened by debt
- Considering IFAs as the most trustworthy source of advice for retirement
- Being a homeowner
- Risk aversion (only for selected sample)

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[3] Multinomial logit: the log odds of the outcomes are modelled as a linear combination of the predictor variables. It is equivalent to estimating the ratio of the probability of choosing one outcome category over the probability of choosing the baseline category, or the "relative risk".

[4] To measure financial ability we use a simple proxy, i.e. how accurately respondents know their balance. The underlying idea is that those who know exactly how much they have as opposed to those who have no idea or only a rough idea are also more financially capable.

After controlling for this range of factors, our results suggest that **age, trust and homeownership are key.**

- Gender does not matter: we find that women are as likely to be influenced by IFAs as men.
- Age has a significant positive impact: consumers aged 55+ are more likely to be influenced by IFAs. The impact is strong and large for consumers aged 55-74, but decreases after age 75 (albeit remaining positive).
- Despite the conventional wisdom, after correcting for sample selection bias, income does not really matter.
- Surprisingly, consumers with higher financial ability, captured by how accurately they say they know their balance, are equally as likely as the less able to report being influenced by an IFA.
- Impatience does not seem to matter.
- Consumers who feel heavily burdened by debt are less likely to be influenced by an IFA when taking out a financial product, but the impact is not statistically significant.
- Unsurprisingly, trust in IFAs is the highest predictor of being influenced by an IFA when choosing to take out a financial product, with the probability almost doubling – from approximately 11% to about 22%. In other words, if we pick at random among consumers who took out a financial product in the last two years, we are likely to find that 1 in were influenced by an IFA. However, if we pick at random among those who indicated IFAs as the most trustworthy source of advice for retirement, then approximately 1 in 4/1 in 5 would have taken out a financial product under the influence of an IFA.
- Homeowners are significantly more likely to be influenced by and IFA when choosing to take out a financial product. In other words, while only 1 in 16 renters (who have taken out a financial product) are likely to be influenced by an IFA, the proportion rises to 1 in 8 for homeowners.

In addition to this original analysis, we offer some relevant facts from the literature on financial advice:

- **Advice does not reach those who need it the most**: investors who are at the highest risk of making investment mistakes (least competent/least financially literate) are less likely to seek help from professional advisers. [5]
- **Overconfidence is an impediment to getting advice:** investors who are more optimistic/confident about their ability are less likely to ask for advice.[5]
- **It's all about trust:** investors trust their advisers as they would trust their doctors and are happy to pay their "money doctors" even when their advice is costly, generic, and occasionally self-serving.[6] The Retail Distribution Review has already raised the required qualifications in the industry; however, current levels of professionalisation may still not be high enough if we consider the level of trust some investors put in their advisers.
- **Making financial advice mandatory may not have good results:** experimental evidence from the US showed that unsolicited advice has no effect on investment behaviour – only those who want advice and ask for it will act accordingly.[7]

[5] Bachmann and Hens, 2015. Investment Competence and Advice Seeking, Journal of Behavioural and Experimental Finance, 6: 27-41.
Calcagno and Monticone, 2015. Financial literacy and the demand for financial advice, Journal of Banking & Finance 50: 363–380
[6] Gennaioli, Shleifer and Vichny, 2015. Money Doctors, The Journal of Finance, 70:
[7] Hung and Yoong, 2010. Asking for Help. Survey and Experimental Evidence on Financial Advice and Behavior Change. RAND WR-714-1.

Q4: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

The WAS contains detailed information on the **different sources of advice**.

- Which ONE source of information or advice did you feel most influenced your decision about which [product] to take out?
    a. Best buy information, comparison website or shopped around a lot of different sources
    b. Independent Financial Adviser (including relatives who are IFAs)
    c. Independent information in newspapers, magazines, radio or TV programmes, etc.
    d. Information collected from providers or providers websites
    e. Information about specific products received in the post, or seen or heard on adverts
    f. Friends or family
    g. No information collected at all

Our preliminary results show that **best buy comparison websites are the most popular choice,** followed by information from providers. Approximately 1 in 7 investors did not collect any information and only about 1 in 10 spoke with an IFA, with the proportion 1.7 percentage points higher among women than men (see Table 2).

Table 2: Main source of information that most influenced decision about which product to take out.

	Male	Female	All
Best buy information comparison website or shopped around a lot of different sources	35.6%	31.0%	33.4%
Information from providers	21.9%	21.1%	21.5%
No information collected	14.0%	15.7%	14.8%
Independent Financial adviser	10.8%	11.7%	11.2%
Friends or family	7.6%	11.5%	9.5%
Information received by post	4.8%	5.4%	5.0%
Independent information in newspapers, magazines, radio or TV	5.2%	3.6%	4.4%
Don't know	0.1%	0.2%	0.1%
No answer	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%
Number of observations	8,407	7,972	16,379

Source: own estimates from Wealth and Assets Survey 2010/12. Data weighted using cross sectional weights.
Base: only those who took out a financial product in last two years.

Honing in on those with risky investments

When we focus on a more selected group of consumers, i.e. individuals who have risky investments[8], we see that the proportion of people influenced by IFAs doubles, reaching nearly one in four among women who have investments. By contrast, the proportion of people who rely on best buy information falls (from 35.6% to 24.1% for men and from 31% to 17.9% of women).

The fact that men are more likely than women to use best buy information could be due to two opposing reasons: on the one hand, men are more likely to be financially literate and therefore may feel that they do not need professional advice; on the other, men tend to be overconfident, and overestimate their level of knowledge, and this can also lead to a lower propensity to use advisers.

[8] By investments we mean an equity ISA, PEP, unit trust or investment trust, investment bond, stocks and shares or an endowment policy that was not linked to a mortgage.

Table 3: Main source of information that most influenced decision about which product to take out. (Only consumers who have risky assets)

	Male	Female	All
Independent Financial adviser	22.2%	24.6%	23.3%
Information from providers	21.6%	22.4%	22.0%
Best buy information comparison website or shopped around a lot of different sources	24.1%	17.9%	21.1%
Friends or family	9.1%	14.6%	11.8%
Independent information in newspapers, magazines, radio or TV	13.2%	8.7%	11.1%
No information collected	7.0%	8.3%	7.6%
Information received by post	2.6%	3.3%	3.0%
Don't know	0.1%	0.2%	0.2%
Total	100.0%	100.0%	100.0%
Number of observations	1,791	1,619	3,410

Source: own estimates from Wealth and Assets Survey 2010/12. Data weighted using cross sectional weights.
Base: only those who invested in equity ISA, PEP, unit trust or investment trust, investment bond, stocks and shares or an endowment policy that was not linked to a mortgage in last two years.

What consumer characteristics determine the choice between sources of financial advice?

Best buy information websites appear to be the main source of advice for the majority of people in the UK. However, not all consumers rely on best buy websites when taking out a financial product, and we can identify some individual characteristics that predict different choices.

We focus on the following socio-demographic factors and estimate their impact on the probability of choosing the baseline category, in this case "best buy information", versus the probability of choosing another source (IFAs, providers, friends or family, etc.):

- Gender;
- Age categories;
- Income (natural logarithm);
- Proxy for financial ability (how accurately consumers know their balance);[9]
- Impatience (prefer £1,000 today to £1,100 next year);
- Being burdened by debt;
- Considering IFAs as the most trustworthy source of advice for retirement;
- Being a homeowner;
- Risk aversion;

Our results show that:

1. When choosing between best buy comparison websites, providers information and IFAs, women are more likely to be influenced by IFAs. However (and possibly worryingly), women often responded either "friends or family" or "no information collected" as the source which influenced the choice of a financial product.
2. Consumers aged 55+ are significantly less likely to be influenced by best buy comparison websites, and to a certain extent less likely to be influenced by providers, than IFAs.

[9] To measure financial ability we use a simple proxy, i.e. how accurately respondents know their balance. The underlying idea is that those who know exactly how much they have as opposed to those who have no idea or only a rough idea are also more financially capable.

3. Consumers aged 75+ are the least likely to rely on best buy comparison websites and the most likely to be influenced by information received by post and by friends and family.
4. Consumers with higher income are less likely to be influenced by friends or family, but equally as likely to be influenced by best buy information, IFAs or providers.
5. Consumers with higher financial ability are significantly more likely to consult best buy comparison websites and less likely to consult friends or family.
6. Impatient consumers – those who would rather have £1,000 today than £1,100 next year – are significantly more likely to report that they collected no information at all.
7. Similarly, consumers who feel burdened by debt are more likely to report that they collected no information.

Please see **Appendix B** for a full breakdown of our results.

It is also worth pointing out that, among consumers who felt burdened by debt (approximately 17% of the sample), only about 1 in 8 (or 12.7%) received any advice at all to help them deal with their debts. Among those who sought for advice, 3 in 5 received advice from a free agency, such as Citizens Advice Bureau, money advice centre, debt advice agency, law centre, consumer credit counselling service, and National Debtline.

Who needs financial advice (but isn't getting it)?

In light of our results, we would like to emphasise the following issues:

IFAs are influential, but not as much as best buy websites

Independent financial advisers are an influential source of information for a large number of consumers - approximately 2 million people. However, the influence of best buy comparison websites is three times as large, with over 6.1 million people referring to them when taking out a financial product. The good news is that those people shop around, and may therefore get better deals. The bad news is that information on best buy websites tends to be generic and may not be appropriate for consumers with complex needs.

Financial ability or overconfidence?

Consumers who are most financially able, i.e. those who report that they know exactly how much they have in their bank account, are also more likely to choose DIY financial solutions, by surfing best buy websites or shopping around. For these consumers, technological innovations, such as robo-advice, may be the best solution.

Targeting women and older consumers

The number of people not collecting any information or relying on friends and family before taking out a financial product is large – about 4.4 million. Among them, older consumers (aged 75 plus) tend to be over-represented. Older consumers are also more likely to be influenced by product related information received by post or by adverts, which makes them particularly vulnerable to scams.

Independent Financial Advice may only partly be used by those who need it the most.

Saving for retirement and managing debt are particularly complex financial tasks, for which consumers may need professional help. However, while consumers who aim to save for retirement may be more aware of the complexity of their needs and reach out to financial advisers, those who are burdened by debt try to manage on their own and do not reach out. Indeed, despite the broad availability of free debt counselling, only 1 in 8 consumers burdened by debt seek any advice at all.

Appendix A: Drivers of consumer demand for IFAs

VARIABLES	(1) Influenced by IFA	(2) Selection: taken out financial product in last 2 yrs
Female	0.008	-0.205***
	(0.008)	(0.015)
Age group (35-54= baseline)		
16 to 34	0.004	0.026
	(0.008)	(0.023)
55 to 74	0.030***	0.025
	(0.006)	(0.018)
75 and over	0.017*	-0.097***
	(0.010)	(0.025)
Log Income	0.005	0.105***
	(0.004)	(0.005)
Proxy for financial ability		
How accurately know balance: I have a rough idea	0.012	0.363***
	(0.016)	(0.031)
How accurately know balance: I know exactly	0.013	0.420***
	(0.017)	(0.031)
Impatient	-0.011	-0.130***
	(0.007)	(0.017)
Burdened by debt	-0.011	0.103***
	(0.007)	(0.019)
Trust in IFA	0.112***	0.169***
	(0.007)	(0.016)
Homeowner	0.055***	0.322***
	(0.012)	(0.018)
Risk aversion (risk neutral= baseline)		
Take risks to get good return = Agree Strongly		0.128***
		(0.030)
Take risks to get good return = Agree		0.199***
		(0.019)
Take risks to get good return = Disagree		0.278***
		(0.023)
Take risks to get good return = Disagree strongly		0.074
		(0.048)
Constant	-0.052	-1.586***
	(0.080)	(0.061)
Observations	30,648	30,648
Censored observations	14,838	14,838
Uncensored observation	15,810	15,810
Wald (χ^2)	425.9	425.9
λ		0.025
		(0.043)

Standard errors in parentheses
**** p<0.01, ** p<0.05, * p<0.1*

Appendix B: Drivers of consumer choice between sources of financial advice

Baseline outcome = Best buy info	IFAs	Media	Providers	Post/ adverts	Friends and family	No info collected
Female	0.254***	-0.083	0.139***	0.226***	0.629***	0.230***
	(0.055)	(0.077)	(0.046)	(0.078)	(0.065)	(0.052)
Age group (35-54=baseline)						
16 to 34	0.007	-0.884***	-0.119*	-0.264*	0.585***	-0.177**
	(0.090)	(0.192)	(0.070)	(0.138)	(0.090)	(0.083)
55 to 74	0.530***	0.922***	0.277***	0.678***	0.399***	0.404***
	(0.064)	(0.092)	(0.053)	(0.095)	(0.079)	(0.062)
75 and over	1.124***	1.638***	0.906***	1.636***	1.542***	1.601***
	(0.106)	(0.130)	(0.090)	(0.131)	(0.110)	(0.091)
Log income	0.019	0.015	0.014	-0.087***	-0.076***	-0.036**
	(0.024)	(0.035)	(0.017)	(0.022)	(0.018)	(0.017)
Financial ability						
How accurately know balance = I have a rough idea	-0.200	0.163	-0.185	-0.411**	-0.945***	-0.453***
	(0.141)	(0.217)	(0.116)	(0.179)	(0.128)	(0.121)
How accurately know balance = I know exactly	-0.243*	0.264	-0.206*	-0.474***	-1.154***	-0.554***
	(0.141)	(0.217)	(0.117)	(0.179)	(0.130)	(0.121)
Impatient	-0.035	-0.261***	0.015	0.160*	0.073	0.203***
	(0.059)	(0.080)	(0.051)	(0.092)	(0.073)	(0.061)
Burdened by debt	-0.081	-0.071	0.117**	0.078	-0.079	0.125*
	(0.071)	(0.106)	(0.056)	(0.100)	(0.080)	(0.064)
Trust in IFA	0.935***	-0.059	0.008	-0.107	-0.281***	-0.101*
	(0.057)	(0.078)	(0.046)	(0.082)	(0.066)	(0.054)
Homeowner	0.325***	0.062	-0.215***	-0.592***	-0.541***	-0.636***
	(0.089)	(0.117)	(0.061)	(0.095)	(0.077)	(0.065)
Risk aversion						
Take risks to get good return = Agree Strongly	0.209**	0.146	-0.233**	-0.391**	-0.330**	-0.220**
	(0.107)	(0.146)	(0.093)	(0.175)	(0.134)	(0.108)
Take risks to get good return = Agree	0.124*	0.032	-0.043	-0.054	-0.123	-0.097
	(0.074)	(0.103)	(0.060)	(0.101)	(0.081)	(0.068)
Take risks to get good return = Disagree	0.021	-0.007	-0.010	0.076	-0.024	0.041
	(0.090)	(0.123)	(0.071)	(0.117)	(0.094)	(0.079)
Take risks to get good return = Disagree strongly	0.242	0.129	0.071	0.324	0.257	0.450***
	(0.212)	(0.276)	(0.168)	(0.253)	(0.209)	(0.170)
Constant	-2.154***	-2.471***	-0.399*	-0.700**	0.235	0.046
	(0.296)	(0.427)	(0.220)	(0.305)	(0.246)	(0.227)
Observations	15,810					
Pseudo R^2	0.034					

Robust standard errors in parentheses
**** p<0.01, ** p<0.05, * p<0.1*

About the International Longevity Centre – UK (ILC-UK)

The International Longevity Centre – UK (ILC-UK) is an independent, research led, think-tank dedicated to addressing issues of longevity, ageing and demographic change. We develop ideas, undertake research and create a forum for action and debate.

The ILC-UK was established in 2000 to explore and address the new longevity revolution and its impact on the life-course and society. It provides the visionary approach needed for individual and societal planning to ensure a progressive, economically viable and socially inclusive tomorrow for all.

Based in Westminster, much of our work is directed at the highest levels of government and the civil service, in London, local government and Brussels. We have a reputation as a respected think-tank which works, often with key partner organisations, to inform important decision-making processes. We are aided in this work by our Chief Executive, Baroness Sally Greengross, former director-general of Age Concern and now a cross-bench peer.

Our policy and research remit is broad, and covers everything from pensions and financial planning, to health and social care, housing design, and age discrimination. We work primarily with central government, but also actively build relationships with local government, the private sector and relevant professional and academic associations.

ILAG

Investment and Life Assurance Group
The Practitioner Voice

FAMR Secretariat
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

22 December 2015

Dear Sirs,

Financial Advice Market Review: Call for Input

ILAG is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

We would be happy to discuss our comments in more detail.

A list of ILAG members is at the end of this submission.

Yours faithfully,

Theresa Brooks
ILAG Management Team

Introduction

We welcome this joint Review by HM Treasury and FCA which focuses on how financial advice could work better for consumers. As the Review acknowledges, it has a wide scope, and aims to look across the financial services market as a whole to improve the availability of advice to people, particularly those who do not have significant wealth or income.

Improving and increasing access to financial advice is a key priority and, if delivered, will result in people and their families being better off, and an improvement in the wider economy.

We fully support the aims of the Review.

In our response there are some key themes:

- The need for a fundamental shift in consumer understanding and awareness to stimulate demand across the millions of people who do not yet seek advice.
- The need for continued evolution of the regulatory environment in order to allow current and future suppliers of advice, guidance and information models to do so with confidence and in a cost effective manner.
- The need for the availability of a wider range of methods for accessing advice and guidance without diluting the availability and quality of full personalised financial advice for those who require this.

To achieve a significant shift in this area, the Review must focus on those areas which can make a major difference to the accessing of advice and information, to scenarios where advice is required the most, and on those individuals whose need is greatest (in addition to ensuring that people already accessing advice continue to receive a high quality service).

We believe that the key priorities are:

- Continuing to encourage the widest possible availability of advice for retirement which is both timely and at an acceptable price (particularly urgent given the new pensions freedoms)
- Stimulating and incentivising the demand for information and financial advice, supported by a competitive and accessible advice and information market
- Clarifying and promoting the meaning and value of advice
- Ensuring the highest levels of consumer protection for those who take advice, whilst providing a regulatory framework which facilitates the necessary growth in the availability and take up of advice to meet developing consumer needs.
- Maximising the opportunity that the workplace provides both in terms of prompting greater awareness amongst those individuals who are approaching retirement, of the importance of seeking guidance/ advice, and also helping to provide a delivery mechanism in which guidance/advice can be provided more efficiently.

The FAMR paper, rightly, makes regular reference to consumer demand and, in particular, the challenges around this. This is a crucial point but, to expand the access to advice, we must first ensure there is a much more widespread understanding of the need for, and benefit from, financial advice and information, particularly amongst those consumers who do not generally participate in the market.

Advice for Retirement

The changing nature of retirement, auto-enrolment and greater freedom to access pensions mean that cost effective advice and information services, to improve retirement income decisions is key to this Review.

The introduction of automatic enrolment now means that more than five million people are newly saving into a private pension through their workplace. By 2020, Government expects to see eight to nine million people newly saving, or saving more, generating an additional £11 billion a year in workplace pension saving[1]. Allowing flexibility and freedom of choice has brought with it complexity and challenges.

Many people are still not taking active control of their choices, or accessing the assistance they need. They defer, self-serve (with uncertain consequences depending on their knowledge and expertise), or take a default position. Affordable, convenient and engaging advice services are needed, which will in turn highlight the considerable benefits of accessing information and taking advice.

Stimulating Demand

For people not already accessing financial advice, the risks of taking or not taking financial decisions are considerable. In question 4 of the FAMR paper, comments are sought on the demand for advice from sources other than professional advisers.

Many people only seek advice on financial decisions either when they have a specific need and where it is already generally accepted they need to take advice (eg a mortgage), or when taking a lead from informal sources, for example, family, friends, colleagues, or from something they have read.

In the latter example, whether they take the right decision and at the right time is a matter of chance. Moreover, equally significant is the risk that people are entirely unaware that they should take certain financial decisions which may result in a better financial position.

Increasingly people will seek financial information online. Affordable, technology enabled advice solutions, built within the current regulatory framework, will be an increasingly important part of the supply solution to the advice gap.

For the present, there is still considerable nervousness across the industry around technology and other mass market solutions. This is partly due to the lack of regulatory clarity. Despite this new supply solutions will emerge and significant action should be taken to stimulate demand and to advocate the benefits of seeking advice and to overcome consumer inertia.

This could include investigating the opportunity that the workplace provides in terms of prompting greater awareness amongst those individuals nearing retirement, of the importance of seeking guidance/ advice.

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/442159/Strengthening_the_incentive_to_save_consultation__print_.pdf (page 8)

Clarifying and promoting the value of advice

Research indicates that consumers do not understand what financial advice is, or recognise the value it can offer. The current regulatory definitions are complicated and the subtleties are not understood by consumers. We support the Call for Input paper's suggestion that the levels of help customers can access are simplified, for example into three simple categories of 'information' 'guidance' and 'regulated financial advice'.

Consumer Protection

To ensure maximum take up and value to consumers, any new regulatory model must enhance the perceived value of advice, and so create greater confidence amongst consumers. At the same time, it will be important to facilitate and encourage innovation, acknowledging the commercial risk for businesses looking to introduce new ways of making advice available to more people. As mentioned in the Call for Input paper, the regulatory sandbox development can help achieve this and alleviate some of the fears that currently constrain innovation.

Further points in relation to some of the specific consultation questions

The following detailed responses to some of the specific questions raised in the Call for Input should be read in conjunction with the general points raised above. .

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?

As the population ages and as the funding model for the care system changes, there is a risk that future demand for advice services at the point of need will outstrip supply. Many people needing advice are likely to be asset rich but cash poor.

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

There is a wealth of research and evidence to suggest significant consumer confusion around the different definitions of advice and guidance. Descriptions should be simplified to ensure consumers at retirement in particular, understand the value and protection advice can offer them. We see this as a priority and key outcome for the FAMR review.

Consumer research carried out by Aegon[2] in November 2015 suggests that 76% of consumers do not know the difference between financial advice and guidance and would like clearer communication about the different types available to them. The research further showed that 27% believe that a recommendation from a friend can be financial advice, 26% view information on online forums as advice, and 22% count information in their morning paper as advice.

There is confusion about what advice is, and the potential for a blurred boundary around advice and guidance. We believe information, guidance and advice could be simply differentiated as follows:

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[2] http://www.portfolio-adviser.com/news/1025834/quarter-consumers-clarity-financial-advice-survey

Information	Factual information – with no recommendation of a course of action, specific products or providers – but explanations and features based on the enquiry a person has made, with the choice of the next step held with the consumer. The information provided may be personalised to match the circumstances or request of the individual.
Guidance	Like information, guidance does not include a recommendation for specific products or providers, but does use information provided by the customer to help him or her understand the general options available, based on the information and objectives that have been provided. The information will be personalised to the specific circumstances of the individual, and can signpost to the customer how they can further consider any generic options discussed, and will always include in that signposting appropriate direction of the individual towards taking financial advice
Regulated Financial Advice	Financial advice that is supported by an appropriate review of circumstances and results in a personalised recommendation for provider(s) and product(s) if appropriate. This could cover the gamut of full financial review to smaller scope specific need

Q3 – Q4: Consumer demand for professional financial advice and the level of demand for advice from sources other than professional financial advisers

As set out earlier, many people only seek advice in certain, generally accepted, circumstances: mortgage, loan and retirement for example. Other financial decisions may be taken too late, or not at all.

We support the Review's intention to stimulate recognition of the need to seek advice and to incentivise demand, not just in the few instances mentioned above, but at every key financial decision where the provision of advice could have a positive financial impact.

Many bodies, providers and advisers have already created forms of best practice that people should consider throughout their life stages – in essence financial health-check based timelines. Promotion of this kind of initiative could be part of a greater campaign on financial wellbeing, helping to increase demand for advice amongst the wider population.

People will also increasingly expect to find answers to financial questions online. In meeting demand the industry should be empowered to provide solutions across a wide range of equally acceptable media.

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

We broadly agree with the common financial issues for which consumers may seek advice and the order in which they have been set out. We also agree that 'using pensions, savings, investments or home equity to provide an income in retirement' is a key area.

Deciding how to structure income in what may be a lengthy retirement is one of the biggest and potentially most complex financial decisions someone will make.

The self employed do not automatically benefit from some of the arrangements and benefits afforded to an employee and may need to form a separate category.

Market data suggest that product or need complexity is an important factor. For instance, when compared to those who buy life insurance, relatively few people purchase income protection products without advice despite a significant need. There are many other issues to consider including the availability or not of state benefits. Which makes consideration of the need for such a solution difficult for the non-expert necessitating advice

Published data[3] estimates that the UK has a Disability Protection Gap totalling £200billion pa, which is the largest in Europe. Nevertheless, there is a continued but erroneous assumption that, in the event of disability, an individual's employer, if they have one or the State will provide.

The reality is very different, and more should be done, via public information services to educate the public in this regard.

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

The FCA's segmentation model is useful for exploring consumers' advice needs. While there is no perfect segmentation model, this broadly identifies the right consumer segments and is a reasonable starting point. We believe such a model should be reviewed regularly, particularly in the context of the changing demographics of an ageing population. Firms can use this as a starting point, building upon this to create their own bespoke segmentation models for the individual characteristics of their customers and product base.

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

Whilst it is undeniable that consumer wealth and income has a significant impact on demand for advice, there are much wider attitudinal factors which need to be understood given their impact on demand for advice

Financial advice is, of course, of value to consumers with a wide range of wealth and income. Low cost online automated advice solutions are emerging in some areas which can represent good value even for those with small budgets.

Development in this area will be greatly facilitated by a robust regulatory framework.

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

Price

Previous consumer research, including some undertaken by one of our member firms earlier this year, showed that those people without a financial adviser were surprised how much advice would cost. Expectations from this group appear to be around £150 for a single advice process.

This position seems to be as much about the perception of the value of advice as it is the specific cost, hence the need to show – in tangible ways – the significant and positive impact good financial advice can have on a person's long-term financial well-being.

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[3] European Insurance Report 2015, Next Generation Insurance , Swiss Re, 2015

These issues and the need to address them were amplified by the results of research published last month by AEGON, indicating for instance that consumers are reluctant to pay for advice until they have a pension pot worth nearly £121,000 and even with a pot of £250,000 people are only willing to spend £314 on advice.[4]

Lack of trust

Aside from previous and current known issues relating to the sale of certain products, a key challenge in this area is around the consumer finding it hard to quantify the value of advice. As previously discussed better communication about the benefits of seeking advice in the right circumstances and at the right time could do much to reinforce its value.

Lack of knowledge and inertia

People only seek advice when they have a specific known need and would not think to seek help to proactively arrange their financial affairs outside of these times, being largely unaware of the benefits of doing so.

There is much to lose from inertia and under-utilising the benefits of pensions freedoms now available.

'Mis-buying' has the potential to emerge as a future 'mis-selling'. Unless interventions are made quickly and boldly to address the asymmetry between the value (and complexity) of product choice and the knowledge of the consumer, there is real danger of a 'clock ticking' on customer dissatisfaction. This, in turn, could serve to undermine consumer confidence and the benefits of long term savings and retirement provision.

Overconfidence

We agree this is a key feature. Some consumers feel (rightly or wrongly) confident to go it alone. Whilst this may appear to be fine in some areas where product comparisons can be more straightforward such as mortgages and protection, overconfidence is likely to prevent consumers from considering advice or certain products believing that their own knowledge is sufficient or that adverse circumstances will not affect them. One example is that advisers will be able to recommend suitable trust wordings to make sure claim payments are made promptly to the appropriate person. Other areas such as investments, pensions and retirement require specialist information, not least to ensure people understand the wide variety of options, impact of choices and taxation treatment. Any advice design should consider the likely impact of overconfidence on consumer demand for advice.

Access to face-to-face advice

As discussed earlier.

Access to the internet and concerns with sharing data online

Recent events will no doubt mean some people are concerned about personal data online, and we agree this needs to be recognised as an area where confidence is key.

[4] https://www.aegon.co.uk/news/media-centre/pressreleases/cost-of-advice-is-major-sticking-point-for-consumers.html

Q10 – Q12 Supply of financial advice; shift away from professional advice; emerging technology

We believe that for the majority of people, ie those not already accessing advice, the primary issue lies in stimulating demand for advice, at the same time ensuring advice options are clear and simple, and available in a variety of formats.

It is important that innovation is encouraged, given the commercial risk businesses take in building new models for advice. We welcome the regulatory sandbox development and hope that this can help to encourage experimentation and reduce some of the concerns that could constrain innovation.

Whilst full, face to face advice will always have a place and provides a ‘gold standard’, it may be unaffordable or unnecessary for some. The most effective way for the industry to stimulate demand may be through developing engaging automated/digital systems (generally referred to as ‘robo-advice’). The auditable trail an online process exhibits, along with the crowd-audit, should make this a straightforward process to regulate.

Q13: Do you have any comments on how we look at the economics of supplying advice?

The economics of supplying advice to wider audiences could be assisted in a number of ways, including:

- Technological innovation to deliver on-line based robust advice solutions whilst retaining a high quality customer experience that meets existing UK regulation and industry standards.
- Increasing consumer demand for advice to reduce acquisition costs - acquiring new customers into the advice market is expensive, but can be reduced once demand is increased, and as mentioned earlier, we believe a joined up approach across the government, the regulators and the industry to stimulate demand is required.
- Reducing the inherent costs of product fulfilment – whilst, for instance, the industry has made progress in digitalising the transfer of pension funds from accumulation to retirement income, as with other product areas the process can often rely on costly and time consuming manual processes. Greater streamlining of fulfilment work would reduce cost for any business offering financial advice.
- Using the workplace to help to provide a delivery mechanism in which guidance/advice can be provided more efficiently.
- Public information services have an important role to play in creating and raising awareness of sources of advice and when they might be relevant to the consumer

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

The restrictions on who can advise on long-term care insurance, requiring COBS authorisation and a CF8 or equivalent qualification, mean that advisers who could safely advise on pre-funded products as part of a wider discussion about health needs are unable to do so. If this restriction was removed, by amendments to the COBS and ICOBS Rules, it could encourage more products and propositions to meet this need which will grow.

Q17-18: Advice gap

Much of this has been covered earlier, but we would emphasise that we believe the advice gap is not just about people not accessing advice for particular needs of they are already aware , but also the more fundamental gap where people are unaware that financial advice could help address other, as yet unconsidered, financial issues.

Public information services can help here by creating broader awareness of when and how advice services should be used.

Q19: Where do you consider there to be advice gaps?

There will be a wide variety of views on this and research has indicated that the gap for life cover is greatest around ages 25-40, married and single, with dependants, up to around national average earnings.

We believe the biggest gaps, using the categories set out in the Call for Input papers (and not necessarily in order of priority), are:

Taking income in retirement for:

- people retiring on a budget
- stretched but resourceful

Saving into a pension for:

- Stretched but resourceful
- Busy achievers

Saving for short term needs for:

- Living for now
- Hard pressed
- Striving and Supporting

Investing for:

- Stretched but resourceful
- Busy achievers.

Retail general insurance for:

- Hard pressed
- Striving and supporting
- Stretched but resourceful

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?

Yes, although we believe it is important to consider it in the broader context of the life cycle: unless enough financial knowledge and action is built in early on, people will still be faced with a challenge of not having enough to invest (whether in pensions or elsewhere) in order to generate the right levels of income later in life.

Recommendations from the Review should take into account the importance of advice in the wider context and provide a framework that can be applied to information, guidance and advice at all stages of life.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?

Yes, and we believe this will address a key population that is not seeking advice, yet will need to take important financial actions.

24. 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?

We have already mentioned the overall complexity of terminology and concepts and strongly support a simplification of these. It would be helpful for the Review to consider the extent to which the concept of regulated advice outside personal recommendations is necessary for consumer protection, where it requires regulatory permission for very simple but potentially useful guidance that firms may be reluctant to provide if it involves taking on regulated activity.

By way of brief example, a suggestion in a workplace scenario that a consumer pays more into a pension, with the knowledge of the actual pension product available to that consumer is likely to be regulated advice. However, the same advice given outside of the workplace scenario, where the pension product is not known, will most likely not be regulated advice. In the context of the benefits of pension savings, this appears to create a barrier to the provision of some simple helpful guidance.

It is also our contention that the kind of regime envisaged is not going to work without amendments to FISMA.

Successive regulators have said that such a regime can be accommodated within the current provisions of FISMA but this is doubtful and carries an inherent risk. Were there to be a future mis-selling (or perhaps more likely mis-buying) scandal there could be political and consumerist pressure to identify scapegoats and under such pressure the regulators could feel themselves obliged take action against product providers for breaches of FISMA.

In order to give confidence to product providers who are thinking of innovating along the lines discussed in FAMR that such an outcome will not happen, there needs to be a clear statement if no advice has been given and the non-advisory material that has been provided is clear, fair and not misleading, there is no redress to the consumer.

In that connection, the role of FOS needs to be clarified. Without it, many would-be innovators will be unwilling to take the risk of losing expensive FOS cases some time in the future.

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?

As the requirements of these directives are finalised, it will be important to make sure that implementation in the UK does not include any additional requirements or ‘gold-plating’ of the European legislation.

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

Consumer confidence in the financial services needs to be addressed and improved but the fear that the Ombudsman will favour the consumer and innovation-stifling regulation can lead to worse consumer outcomes. We suggest that regulators apply a reasonable adviser test to any determinations that they make.

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

There is still a strong desire for many people to have access to face to face advice, while others are / will be happy with online and telephone services. Most of those who prefer face to face advice are happy for the follow-up to be done by telephone and online. All channels of advice should be made available to consumers and healthy competition coupled with greater demand will help to make this cost effective.

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

FAMR can be viewed as an opportunity to make enduring changes which will improve knowledge of the benefits of advice, and help enable easy access to it in a variety of forms, whilst still ensuring strong protections are in place.

There have been several other major changes and initiatives in recent years (eg RDR, auto-enrolment, pensions freedom). These have brought about positive changes, but the frequency of change has created challenges in some areas.

Ideally the end result of the Review would be consistent rules that take into account the variety of different media through which information, guidance and advice can be provided and with flexibility to allow that a perfect result for every customer is not a requirement for sufficient consumer protection.

FAMR should aim to ensure that any change it brings takes account of the need to create a stable environment for consumers and the Industry for many years, rather than anticipation of further significant regulatory or legislative changes in its wake.

Finally, as covered earlier, the Government, regulators and the market must all work closely together to ensure that the result of FAMR ensures that more people seek help in taking good financial decisions at the right times, and that the Industry is given encouragement and assistance to be able to serve a much wider population.

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Stephen Gore	Gordon Sills
Philip Govan	Dennis Smith
David Gulland	Phil Smallwood
Colin Gunney	David Wells
Tony Horn	Brian Wood

Affiliate Members (2)
AFM AMPS

From:
Sent: 22 December 2015 15:33
To: FAMRSecretariat
Cc: Katherine Spink
Subject: Ipswich Building Society

Dear Sirs,

Please find below the Ipswich Building Society response to the Financial Advice Market Review. Please note we have not provided a response to all questions asked and this indicated where appropriate.

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

There are no specific needs relating to vulnerable customers seeking financial advice other than the requirement for staff training on order to identify them and offer assistance, as with any other vulnerable customer.

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

There is a lack of clarity as to what constitutes advice, as many customers interpret guidance and assistance as advice and do not understand the formal requirements of the term. Similarly, some customers believe that advice is something that must be paid for and involves complex financial transactions such as dealing in shares. This is complicated by the terminology used in the "Money Advice Service" which does not actually offer advice!

It could be useful consumers to have categories relating to risk or whether the product is in cash, or stocks and shares. Similarly, a "kite mark" for specific simple products could offer reassurance.

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

Customers who have significant levels of wealth typically are engaged in managing that wealth either personally, or via an adviser. There is a segment of savers however who may not perceive themselves as having enough money, or sufficiently complex needs to justify advice. Those with savings of between £20 -£50,000 often do not seek advice, but could benefit from it. Therefore there is a segment of consumers who do not demand advise, but would benefit if prompted or were more informed about it.

The Society has a branch network in which we do not see high levels of demand from our members, either because their needs are met elsewhere ,they do not have the needs for advice or because they chose to invest in cash and low risk savings products due to mistrust and/or misunderstanding of more complex products.

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

There is a great deal of information available via price and product comparison sites. These sites can lead customers to become focussed on a particular product or feature, and can overlook other aspects of the product which may make it unsuitable. There is a perception that price comparison sites are independent and that they review the whole of the market, which is not true.
As per question 2, there is a lack of understanding between what constitutes advice, and people may interpret public figures such as "Money Savings Expert" as advising a product rather than simply highlighting it.

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

Where customers require interaction with a third party- such a law firm in purchasing a house, or accessing pension records, they perceive a need to appoint an “expert” to handle affairs on their behalf. Where they can deal with a firm directly, i.e. arranging car insurance, or switching mortgage products, customers are typically happy to handle the activity themselves.

There are misconceptions about financial advice – it is too costly, complicated or risky- which result in customers not seeking out financial advice. In retail banking networks members of staff can identify where a customer could benefit, through asking appropriate questions and knowing their customer. These members of staff often prompt customers to consider seeking financial advice. This is declining however, as fewer banks and building societies are making introductions to financial advisers. This is a result of the post mis-selling crisis and financial downturn where the risks of offering advice could potentially outweigh the benefits. Firms are understandably concerned about their reputation should any complaints or mis-selling from a tied third party occur.

The building society sector has high levels of trust amongst consumer groups and are well placed to champion financial advice, but the costs of offering independent advice, and the risks of offering products via a third party are a real challenge.

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

The model is potentially very useful. In responding to this Consultation Paper the Society has used it in its branch network to map our branch visitors against the segments. We would welcome this being made more accessible to firms.

Q7: Do you have any observations on the segments and whether any should be the subject of a particular focus in the Review?

It appears most likely that the Affluent and Ambitious category would be likely to access advice independently. Therefore the focus should be on those who are least likely to access financial advice, but would be most greatly benefit form it, in order to meet a knowledge and exposure gap.

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

Whilst it largely correlates that those with larger incomes/wealth are more likely to seek out advice, there are many customers who do not trust more complex investments and prefer to invest in cash savings accounts. These customers would certainly benefit from considering professional advice.

Similarly, those with small savings pots may perceive themselves as not needing financial advice, or that they cannot afford it. In order to sweat their assets and have the opportunity to develop their savings pot into a more substantial sum, or a more tax efficient

Q9. Do you have any comments or evidence as to why consumers do not seek out advice?

Often the barriers (perceived or real) are cost, mistrust and not recognising the benefits. There is a real lack of understanding amongst customers about what constitutes advice, what costs there are and how complex investments are (or indeed aren’t). Typically in branch networks employees who meet face to face with customers or speak with them over the phone could via a series of questions, completing a questionnaire or simply by identifying an action such as a large deposit, could identify the need for financial advice. However, the new conduct rules and fear of future conduct/mis-selling scandals may leave many members of staff reluctant to act.

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

The lack of demand is based on misconceptions about financial advice, and is therefore not a true reflection of the need.

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

The introduction of RDR, mis-selling scandals and a lack of trust in financial service firms have all played their part in reducing the demand for financial advice. The changes in accessing pension funds have stimulated a great deal of interest in very specific financial advice, but there is again a great deal of uncertainty from consumers. Equally, some financial services firms are keen not to become involved in complex pensions advice and are limiting the products and services they offer.

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

Many consumers trust price comparison sites to be “advising” them hen they are only offering information. Similarly, many consumers believe they are independent when they are not. There is a risk of consumers becoming over reliant on technology and seeing it as a substitute for advice.

Customers have also commented that when visiting a high street bank they have been instructed to watch a video via a tablet which explains a products terms and conditions. Eliminating the opportunity to ask questions about basic saving products will do little to instil trust in a firm, or for the consumer to feel as though that firm is interested in understanding the customers needs. This de-personalisation via technology is a dangerous path.

However, technology when used in the right way, can be of considerable benefit to customers i.e. video calls with financial advisers for those who are less able to visit a branch. It is important that technology is used to enhance a customers’ experience, not to replace it.

Q13. Do you have any comments on how we look at the economics of supplying advice?

The Society does not currently offer advice, as it was not economically viable and the Society chose to focus on its core business model. With ever increasing regulation, and the demands of keeping apace with technology, there would have to be considerable benefit to the Society and its members to warrant such activity. The possibility of offering facilities as a shared solution with other like-minded firms is a possibility which could be explored.

Q14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

The Society has not reviewed the possibility of offering advice for sometime- in our previous investigations we found there was insufficient demand and benefits to consumers although depending on future activity and the findings of the review this is something we could reconsider.
Please see the answer to Q13.

Q15. Which consumer segments are economic to serve given the cost of supplying advice?

The high net worth segments are likely to be the best option in terms of generating revenue. That being said, the Society does not operate to maximise its profits but to meet the needs of its members. If there was considerable benefit to our membership which producing sufficient income to support the provision of advice this could constitute an argument to reconsider such an offering.

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

The barriers are costs, potential of future conduct issues (i.e. if the offering the products of a third party, to what extend is an “introducer” liable for any future mis-selling or complaints?), and the complexities around incentives, performance related pay etc. Another significant barrier is breaking down the misconceptions and fears of consumers in order to generate sufficient interest in meeting with a financial adviser.

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

There is an advice gap for customers with lower levels of income and savings but who have potential to grow their money into something more substantial. There is a lack of understanding in the cost of advice, and the complexity of products. Risk averse customers fear stocks and shares for example, perhaps not understanding there are varying levels of risk that can be made.

There is also an advice gap for some of our wealthier but extremely risk averse customers. By choosing to hold all of their funds in cash they feel it is accessible and safe. However, they do not consider the risk of their capital being eroded by inflation over time.

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

As detailed above, lack of demand does not equate to a lack of need. The advice gap is created by those customers who do not perceive they have a need.

Q*19: Where do you consider there to be advice gaps?*

There are advice gaps amongst those with savings of between £30-£100,000 and in the segments of retired customers. Similarly, there is an advice gap for people on very low incomes or with debt problems. There are numerous charities and organisations but no "one stop shop". The Money Advice Service tends to reiterate information found elsewhere- such as product calculators and signposting to other organisations, rather than offering step by step guides.

Q20: Do you have any evidence to support the existence of these gaps?

The evidence is anecdotal based on feedback in our branches.

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

In order to create demand, the Review needs to examine the barriers to seeking advice more generally, and look at de-bunking some of the misconceptions amongst the public. From this it will then be possible to ascertain who has the greatest untapped appetite for advice.

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?

The introduction of the new pensions freedoms which will massively increase the need for professional advice, and the Society has heard from financial advisers that there are firms leaving this market due to the influx of enquiries which they cannot manage, and the complexity of options available.

Taking an income into retirement is another pertinent issue due to the changes in the segment- as longevity increases, and with more people working into retirement this is again becoming a more complex area.

The Society exists to offer prospective borrowers the opportunity to own a home of there own. There is an element of a moral imperative in this, which goes back to our mutual beginnings over 160 years ago. Therefore we would like a review to take into account the desire to help people save for a better future, and to act as a conduit for social mobility for those on lower incomes and with smaller savings pots.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?
Yes. Please see the answer to Q3, 8 and 23.

As noted earlier, building societies have continued to serve those on lower incomes needs and it is important that the FAMR does not neglect this important group. We would reiterate that the advice needs of those with lower levels of wealth are at least as great as their wealthier counterparts.

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?

Regulation needs to be framed such that it is not necessary to personalise advice to the degree that is required under existing regulatory arrangements. Greater use of decision trees and algorithms that lead to consumer outcomes which are not unsuitable should be acceptable to the regulator; and to FOS. This would be particularly effective in assisting those who do not have particularly complicated financial needs.

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? *– No Response*

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

There needs to be a very clear understanding about the ownership products and advice. There were cases of products which offered a cash based savings account with a bank or building society, which was tied to an investment product. This blurring of boundaries is not helpful and does not enable the customer to fully understand the product. Similarly, the use of CAT standards did not work, but this does not mean that a "kite mark" or grading of product would be not be of benefit in the future.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn? – *No Response*
Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?- *No Response*
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? – *No Response*
Q30: Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?- *No Response*
Q31: What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?- *No Response*
Q32: Do you have evidence that absence of a longstop is leading to an advice gap?- *No Response*
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*?- No Response*

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

There is undoubtedly a need for consumers to seek redress, and this should be protected. However, the number of spurious and vexatious claims of PPI mis-selling and the number of claims management firms which act unscrupulously mean that care should be taken in the provision of redress. It is important that customers observe "caveat emptor" and take responsibility and accountability for the decisions they make.

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers? *– No Response*
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?- *No Response*

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

The Society would need to see more information as to the benefits and drawbacks of automated models before making comments. The Society prides itself on providing a personalised service in its mortgage advising and underwriting, and to use automated models would be in stark contrast to this.

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

There is a risk that creating an automated system will lead consumers to specific elements of the product such as fees or prices, rather than understanding their own needs. It is important that consumers are actively involved in assessing their own needs rather than taking a "tick box" approach.

Rebecca Newman
Society Secretary
Ipswich Building Society | PO Box 547, Ipswich IP3 9WZ

Response to FAMR

December 2015

www.iress.com

Introduction

IRESS is a principal supplier of share market and wealth management systems in Australia, Asia, New Zealand, Canada, South Africa and the United Kingdom.

In the UK we are the leading suppliers of:-

- **Product sourcing systems**. Our flagship systems are The Exchange (for Protection, Pension, Savings & Investment products) and Trigold Prospector (for mortgages).
- **Wealth Management Systems** for advisers. Our Wealth Management solutions, XPLAN, Adviser Office and Momentum, help wealth managers, investment advice firms and mortgage brokers to operate efficiently, profitably and compliantly in the post-RDR world.
- **Point of Sale solutions** for financial adviser networks and national adviser firms.
- **Mortgage Sales & Originations Systems** for lenders including some of the UK's largest banks and building societies.

This document sets out our response to the questions posed within the FAMR.

All enquiries regarding this document should be addressed to:

Christopher Pitt
Head of Market Analysis
1 Kingmaker Court
Gallows Hill,
Warwick,
Warwickshire
CV34 6DY

Response to questions

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?

We have no comments to make on this question.

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

The terms “independent” and “restricted” are not helpful when used to describe financial advice. They only serve to inform the consumer about the range of products (and providers) that an adviser may select from when recommending products. In reality most “independent” advisers will work from centrally created and managed product panels meaning that the individual consumer experience is not that much different whether they are being serviced by an “independent” or a “restricted” adviser, i.e. they will be recommended products from a pre-determined list.

More broadly the terms “independent” and “restricted” do nothing to help the consumer determine the quality of the financial planning advice itself and whether there are any factors that would influence the adviser to recommend one type or class of investment rather than another (It’s irrelevant worrying about which ISA providers can be recommended if the consumer shouldn’t be advised to buy an ISA in the first place!). We would suggest that it would be better if the primary categorisation of financial advice could be focused on the quality of the advice and the professionalism of the adviser themselves. A secondary categorisation could then be used to describe the way in which the adviser determines their product and provider recommendations at an individual client level. So, the primary categorisations might be:-

- **Chartered Financial Planner** (level 6 qualified)
- **Financial Planner** (level 4 qualified)

And the secondary categorisations might be:-

- **Independent - Bespoke**, i.e. the adviser reviews the whole of the market for each individual client engagement;
- **Independent - Pre-selected**, i.e. the adviser firm reviews the whole of the market periodically (e.g. bi-annually) to select a number of panels from which to make their individual client recommendations;

- **Tied - Pre-selected**, i.e. the adviser firm has reviewed the market and decided to only recommend the products of a specific range of providers and products.

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

IRESS agrees with the observations that there is greater demand from consumers for regulated financial advice around more complex matters such as investments and retirement planning. We also recognise that there is greater demand from consumers where they have greater sums to invest, however, we do not believe that this is driven by logical conscious choices made by consumers. Rather, we believe that there are a significant number of consumers that would access regulated advice if they were able to do so at a lower price-point and in a quicker, more engaging manner. Consumers with smaller sums to invest frequently have the same questions about their finances as those with more to invest but the less well-off often have less financial capability, i.e. they sometime feel intimidated by the process, language and perception of dealing with financial matters. So, in this context we believe that there is considerable latent demand for professional financial advice.

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

We agree with the view that there is strong demand from consumers for different types and sources of financial advice, guidance and support. Consumers vary in their financial capability, their education levels and their ways of learning. They also have different life experiences and face different financial situations. So, if the UK is to achieve its' goal of having a more financially literate society that saves more, then there has to be a variety of ways in which consumers can access financial advice, guidance and information.

IRESS recently conducted a consumer research exercise on the role of technology within financial services distribution and advice (a copy of the output from this study has been included as a separate document to this response). Our research showed that **only 5% of consumers said that they didn't wish to receive any financial advice at all.** However, their understanding and interpretation of the word 'advice' is considerably broader than the current regulatory, definition. For example, many consumers would welcome occasional prompts via email or website notifications presented at the most appropriate time. Such notifications might make specific recommendations or flag situations where the consumer might need to seek fuller (regulated) advice.

Our research also showed that when purchasing financial products 39% would discuss their intended purchase with friends and family. This confirms our view that many consumers do want some kind of support / re-assurance (advice) and that that are happy to use a variety of sources other than regulated financial advisers.

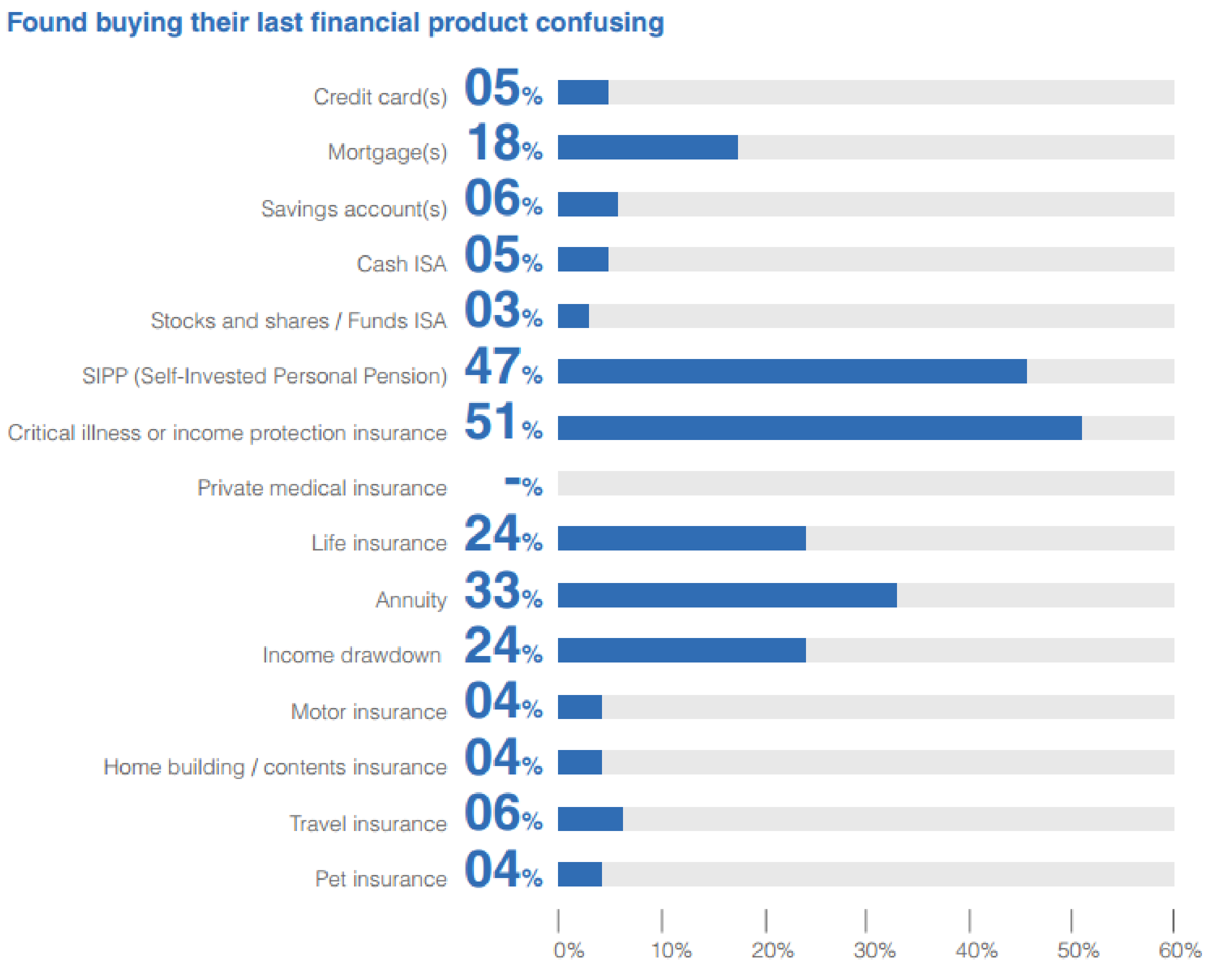
Q5: Do you have any comments or evidence on the financial needs for which consumers may seek advice?

Whilst it is certainly common for consumers to have ‘needs’ based advice requirements it is not uncommon for consumers to seek advice around other less well defined circumstances, e.g.

- Many consumers have no specific savings goal in mind; they just want their money to work a bit harder, e.g. because their money is currently invested in a deposit account offering a very low rate of interest;
- Sometimes consumers seek advice purely around the choice of product provider or fund manager, i.e. they know what type of product they wish to purchase and how much they are going to invest but they just want input around the particular product provider or fund manager to use, i.e. their advice requirement is very narrow and limited.

It is also quite common for consumers to seek advice on a holistic basis, i.e. they are seeking a general review across all of their financial affairs. This often extends into an on-going relationship with a financial adviser or wealth manager. This type of on-going, holistic financial advice is typically bought by wealthier consumers – as it is an expensive service. Some mass-market consumers would also purchase such services if they could be delivered at a more affordable price-point.

In terms of the specific financial needs where consumers need support the most the IRESS consumer research study provides some insight. The graphic below shows which products consumers found most confusing to purchase and, by implication, these are the areas where they are most likely to want advice.



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

Yes.

Q7: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

Whilst it is important that all segments are considered and catered for under the review the needs of some segments are clearly greater than others. Specifically, IRESS believes that there is very limited availability of advice at an affordable price-point for the following segments:-

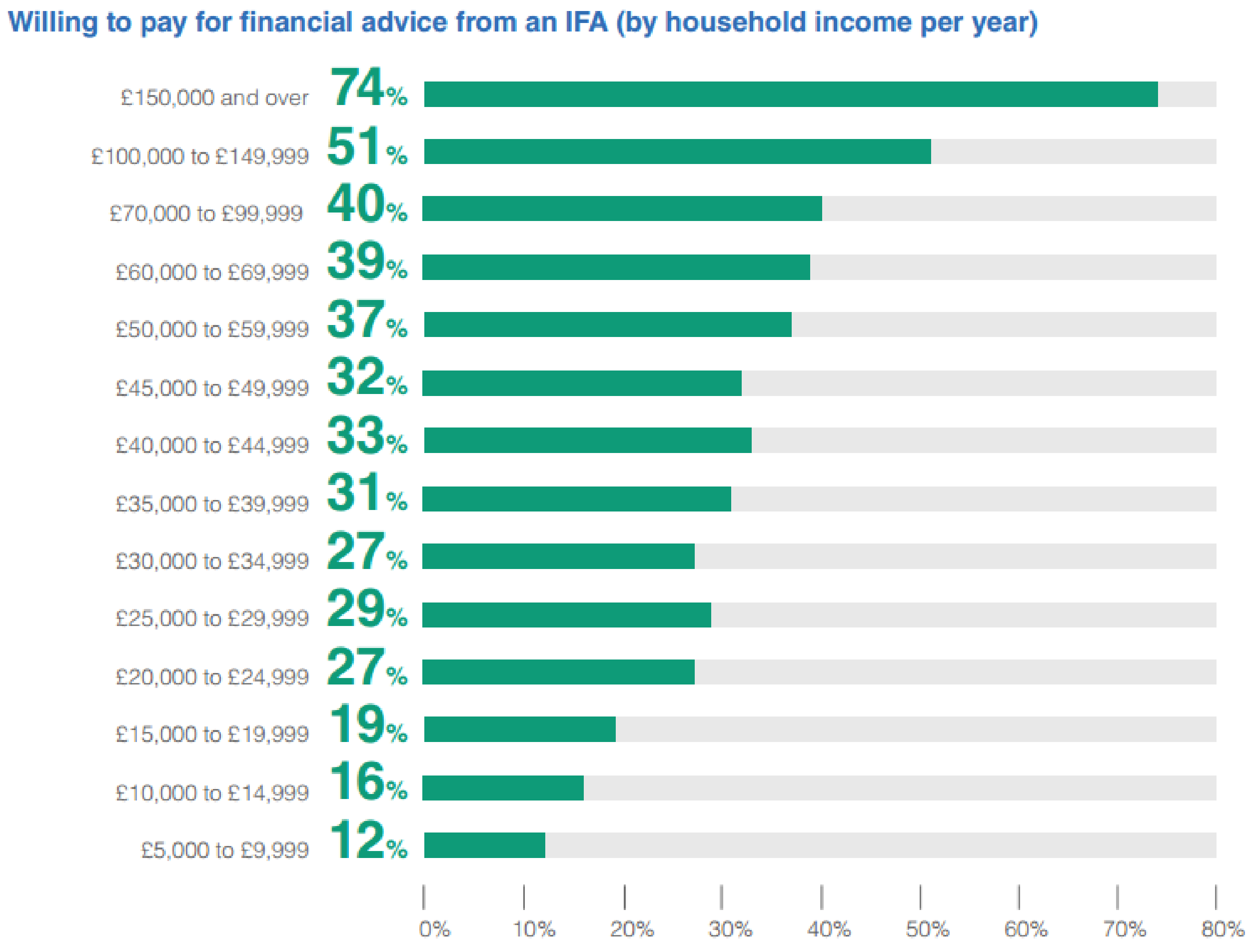
- Starting out;
- Living for now;
- Hard pressed;
- Striving and supporting;

- Stretched but resourceful;
- Retired on a budget.

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

Given our position of supplying software systems to the financial adviser community globally we have a significant level of engagement with a broad variety of adviser firms. From this it is evident that many investment adviser firms apply a minimum level of assets that consumers must have if they are to become clients. The figure varies but £50,000 to £100,000 of investible assets is not uncommon. Similarly, other adviser firms will apply minimum charge levels that make it uneconomic for consumers with smaller amounts to invest to become clients.

The willingness to pay for regulated financial advice from a financial adviser was covered within the IRESS consumer research. The results are shown in the graphic below.



These findings clearly support the view that demand for regulated financial advice is correlated to consumer wealth.

Overall, our view of the market is that demand is constrained by supply, i.e. the supply side is, generally speaking, only willing (and able?) to provide regulated financial advice to those with significant wealth (i.e. those who can afford it).

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

Price is clearly a significant factor within the UK investment advice market. However, other factors are also important. Many less financially literate consumers are put off accessing the regulated financial advice for fear of embarrassment, i.e. revealing their lack of numeracy and general understanding about even the most basic of financial concepts. Similarly, it is not uncommon for those on lower incomes to state that "*financial advice isn't for the likes of me*", i.e. using a financial adviser is not something that their peer group typically does. This is something that has been exacerbated over the last twenty years as the 'Home Service' (Man from the Pru) model has disappeared from the UK financial services distribution landscape.

The perception of value is also frequently an issue, i.e. most consumers don't fully appreciate the value that a financial adviser can add. Financial advice might typically cost several hundreds or thousands of pounds but the amounts saved in terms of tax, or by avoiding inappropriate investment strategies are often worth considerably more.

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

Clearly the number of regulated advisers is a matter of fact and is a number well known to the FCA. However, it is our understanding that the number of qualified investment advisers has fallen slightly over the last five years. This was primarily due to the banks stepping back from the investment advice market although there does now seem to be some signs that the banks will return to the market in some form.

Overall, there doesn't appear to be any significant underlying factors that would drive adviser numbers higher; if anything the numbers are likely to drift down as technology replaces some of the functions currently performed by advisers and their support staff.

However, what is significant is the level of consolidation within the adviser firm market. Not only are there a number of 'consolidator' firms that are acquiring adviser businesses to create scaled operations there is also a general trend towards creating larger businesses and associated umbrella groups. IRESS believes that this trend will continue and perhaps accelerate.

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?

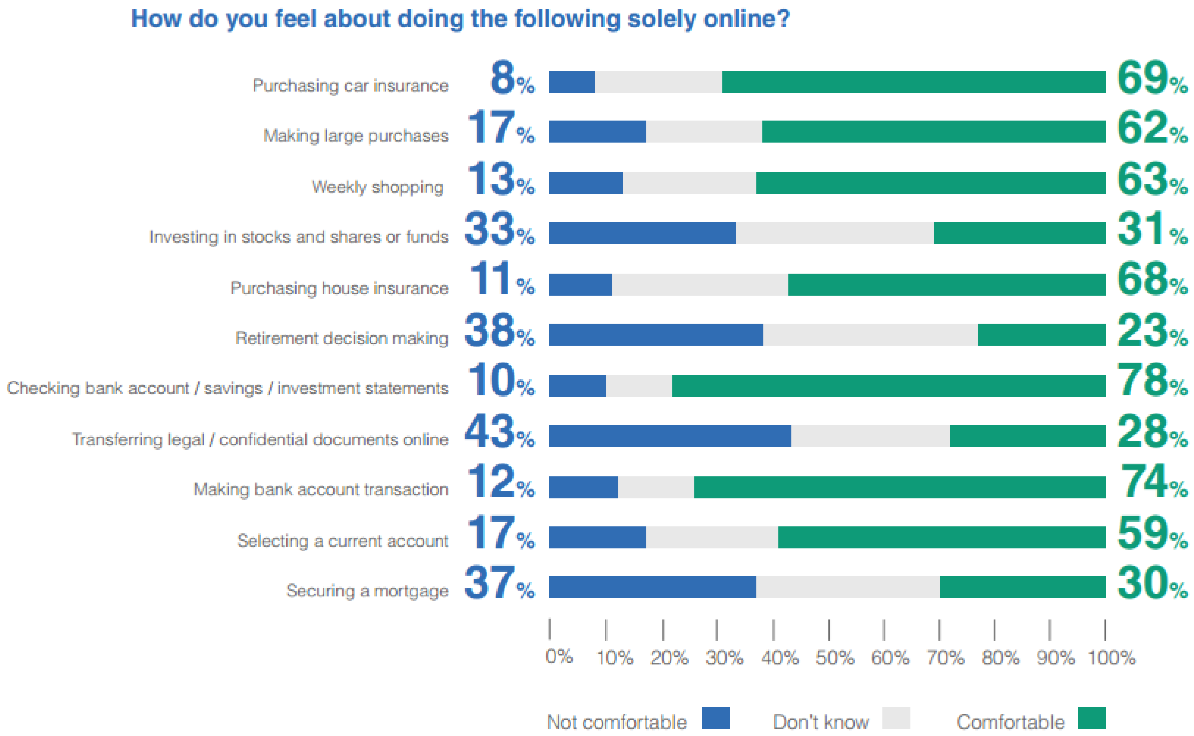
IRESS believes that there are a number of underlying reasons behind the shift in channel preference, i.e.

- Developments in technology have enabled new, on-line services to be developed; services that are often cheaper, more consistent and more available;
- Consumers are becoming increasingly comfortable in using the internet across all aspects of their lives;
- The RDR has made adviser firms more professional, better qualified and less influenced by commission payments but, it has also increased their costs and encouraged them to move increasingly up-market, i.e. focusing their services on the wealthiest segments of society;

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

Given the number of technology based start-ups and the amounts being invested by established players in creating new technology enabled solutions, it's clear that emerging technologies are already changing the face of financial advice and financial product distribution. A number of distributors / adviser firms have already proved that it is possible for regulated advice to be delivered through fully automated means and it seems inevitable that more players will follow in their footsteps.

Similarly there can be little doubt that the majority of UK consumers are now very confident in using (web-based) technology across all aspects of their daily lives. In fact, it has probably reached a point where consumer willingness and expectations around the use of technology are running ahead of most adviser firms' ability to deliver. Again, this was something that was specifically considered within the IRESS consumer research as shown in the graphic below.



Overall, IRESS believes that if the UK wants to achieve its goal of becoming the world's leading centre for 'Fintech' development then it needs to foster and encourage even more activity in this arena.

Q13: Do you have any comments on how we look at the economics of supplying advice?

Clearly there is an issue with the cost of supplying regulated financial advice in that it is unaffordable for many segments of society, and especially the mass-market. Post RDR the quality and consistency of financial advice has improved. However, the level of controls, processes, procedures, risk management required to deliver financial advice have possibly swung too far towards consumer protection, i.e. to the point of negatively impact sales and access. People sometimes quip that "the best way to manage the compliance risk is not to sell anything at all!" Clearly, this is said in jest but it does highlight the point that compliance liability is a significant factor. And, the fact that there is no time limit on when a client might seek redress for faulty advice introduces a significant element of uncertainty. In this context introducing a 15 year long-stop would be helpful.

On the subject of cross-subsidisation it is certainly true that many adviser firms used to set their charges on an aggregated basis, i.e. as long as the business was making sufficient returns they were not so concerned with individual client profitability. However, over recent years this approach has changed with most adviser firms now segmenting their client base and using technology to monitor individual client profitability. They have also been required to become much more specific around defining and informing their clients of the specific services that will be delivered and the charges involved. As such, the extent of cross-subsidisation has reduced quite significantly – probably to the detriment of consumers with smaller pots.

Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

In our experience the majority of adviser firms charge their clients in relation to the size of the investment portfolio being managed rather than the time taken to construct and deliver the advice. Many adviser firms also seek on-going relationships with their clients where their clients' financial position is reviewed on a regular basis. These kinds of charging structures don't relate back to the cost of delivering specific pieces of advice but they do have the effect of raising the 'cost of entry' for the consumer, i.e. many adviser firms are not interested in providing small, one-off pieces of advice to clients with smaller pots / less complex financial needs. Whilst such charging models are perfectly understandable from the adviser firm perspective (and were aligned with the pre-RDR context within which most adviser businesses were established) they aren't in line with the way in which consumers generally pay for other professional services, e.g. solicitors and accountants where an hourly rate is more common.

Of course, adviser firms that do charge an hourly rate don't deter clients with smaller pots in quite the same way. However, the scale of their hourly rate, and the way in which they advertise their services, often has the same effect, i.e. they advertise and recruit new clients in places where wealthier consumers congregate.

By way of comparison, in Australia there has been a strong movement away from asset based charging models to fixed fees. In fact, in the year after FOFA (the Australian equivalent of the RDR) was introduced the proportion of financial planners' practice revenue generated from fixed price fees increased from 49% in 2102 to 64% in 2013.

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

Adviser firms employ highly qualified (and expensive) staff and, due to the way in which most adviser firms currently construct their advice, these staff spend considerable amounts of time talking directly to their clients, analysing their clients financial needs, researching solutions and then executing any agreed courses of action, i.e. it is a highly tailored (personalised) service, executed using an often lengthy process, delivered by professionally qualified staff. Covering the costs involved in delivering this service (and making a profit) demands that adviser firms generate a significant amount revenue from every client they serve. Frequently adviser firms will set a minimum of say, £50,000 to £100,000 of investible assets as a minimum threshold for any new clients, i.e. clients without this level of investible assets do not generate sufficient revenues to cover the adviser firms costs. Fundamentally, using the traditional adviser business model, it is only economic to serve the high net-worth and mass-affluent consumer segments.

It is only through the use of technology some adviser firms are starting to develop business models that can address the other consumer segments through lower-cost services.

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

There are many organisations that are keen to provide financial advice however, they are deterred from doing so by the regulatory framework. Specifically, there is still a nervousness around:-

- The distinction between regulated advice and guidance;
- The possibility of retrospective compliance reviews and actions;
- The role of the FOS and its' perceived (rather than real?) readiness to find in favour of the consumer over the adviser, or provider, firm;
- The use of technology enabled delivery mechanisms (as they introduce systemic risk).

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

We understand an advice gap as being a difference between firstly, the demand (manifest and latent) for some kind of expert support when making financial decisions and secondly, the supply of services that can effectively satisfy that demand. Expressed like this an advice gap is far broader than the simple difference between manifest demand for regulated financial advice and its supply. There are many consumers that would benefit from (and do want) some kind of support when making financial decisions but there simply aren't enough suppliers that can offer them the kind of support that they might need at a price they can afford and at a time and place that is convenient to them.

We would suggest that the term "advice gap" could, in itself be misleading, i.e. if we define "advice" in its currently regulatory sense then the demand would be significantly smaller than if we used a definition that the "man in the street" might use. It might be better to use the term "financial guidance, support and advice gap".

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

We disagree with the view that there is a lack of demand. There is "limited" demand for the current advisory services because they are perceived as being expensive and inefficient. However, we believe that there is very significant latent demand which needs to be met through a much broader range of advice propositions, i.e. offering different levels and types of service at different and (lower) price-points.

Q19: Where do you consider there to be advice gaps?

The most obvious “financial guidance, support and advice gaps” are to be found amongst the lower income groups within society. However, that’s not to say that there aren’t gaps within other segments of society. We believe that there are significant numbers of higher income consumers that don’t engage with the current financial advisory services for a variety of reasons, e.g.

- Expense – they don’t believe it offers value for money;
- Reputation – they don’t trust financial advisers and product providers;
- Perception – they don’t believe such services are used by people within their peer group;
- Process – they find the process time-consuming and complicated (i.e. off-putting).

Q20: Do you have any evidence to support the existence of these gaps?

Our opinions and views are based upon our position in the market, i.e. providing software solutions across the full breadth of the retail financial service distribution market. We are also actively engaged with many trade bodies and actively monitor market developments on a daily basis. We have also commissioned a piece of consumer research around the role of technology within the distribution of financial service products. The output from this study is included as a separate document and forms part of our overall response.

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

We believe that the Review should focus on addressing the “financial guidance, support and advice gaps” amongst the lower income groups within society. We would also suggest that helping mass-market consumers to save more for their retirement and to use whatever pension pots they do manage to accumulate to best effect are the two most critical areas to address.

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?

Yes.

Q23: Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?

Yes.

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?

Yes. The divide between regulated advice and guidance is perhaps the area where the Review could have the biggest impact, i.e. creating a clear (hard-edge) distinction between the two. We appreciate the lengths to which the FCA has already gone to address this issue and, from a purely academic perspective, we agree with the distinctions that they have made. However, from a practical perspective the FCA's highly nuanced approached has proved difficult for the market to work with. We believe that a much simpler, black-and-white, distinction would be more appropriate, i.e. it might be imperfect but, it would be more workable and clear.

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?

We have no comments to make on this question.

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

The evidence would suggest that 'simple' product initiatives have been tried before and, on their own, have largely failed. However, auto-enrolment (thus far) seems to have been a significant success and, the lesson to be learned is related to the power of behavioural economics. Specifically, most consumers do appreciate the need to save for their retirement, take out insurances, etc. However, they are often deterred by the processes involved, the complexity of the concepts and calculations involved, the variety and range of products and the scale of downside risk. When confronted with these circumstances it's common human behaviour to defer or avoid taking action. Auto-enrolment has been a success because it makes "doing the right thing" simple; in fact it requires thought and effort to opt out!

So, the Review should consider how it might encourage adviser firms to develop solutions that make it quick and easy for consumers to make good (better) choices. And, the product governance requirements contained within MIFID II might help in this respect, i.e. there should be greater up-front emphasis on defining (in detail) the target audience for financial products and less emphasis on lengthy, complex analysis required to establish whether these products are suitable for particular clients. The current advisory process is akin to making “bespoke, made-to-measure” solutions rather delivering than “off-the-peg” products – which is fine if the consumer can afford it but, the reality is that most can’t.

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

IRESS is an Australian headquartered technology firm supplying both the Financial Markets and the retail adviser communities. As such we have a strong understanding of the Australian market and the impact that regulatory changes, such as FOFA, have had.

In many ways FOFA and the RDR had very similar agendas (and outcomes). Both aimed to improve the quality of investment advice and remove the influence of commissions and/or other conflicted payments over the recommendations made to consumers. And, whilst the specifics of how the RDR and FOFA rules have been implemented do, of course, differ, by and large, the outcomes have been broadly similar and positive, i.e. advisers are generally better educated and qualified, the advice process is better documented, the content and costs of advisory services are better defined and the consistency of advice has increased. However, both the RDR and FOFA have largely failed in terms of increasing access to advice, i.e. enabling significantly more (mass-market) consumers to receive some kind of financial advice or guidance. As has been the case in the UK, the number of Australian financial advisers has not changed much compared to pre FOFA levels. Similarly, whilst there has been some downward pressure on the price of advice it has not dropped to a level where it has made a material impact. ‘Scaled-advice’ has been deployed to greater extent in Australia than its UK equivalent, i.e. ‘simplified advice’. And, whilst most of the major players have (or are) deploying ‘Scaled-Advice’ solutions the impact on consumer access has not (yet, at least) been overly significant. Fundamentally, persuading mass-market consumers to engage with their finances and save more remains as large an issue as it was pre-FOFA.

So, we believe that the lessons from the Australian experience are:-

1. Whilst changing the regulations applied to the current advice processes have had a positive impact on quality they have had little real impact on the availability of advice, the number of advisers or the price-point at which it is delivered;
2. Whilst creating simplified advice regimes (‘Scaled-Advice’ in Australia) are well intentioned and helpful, the reality of the consumer protection regime means that delivery costs have not reduced to such an extent that advice can be delivered at a substantially lower price-point;

3. There are two real ‘elephants-in-the-room’ i.e.
    a. Engagement, i.e. getting mass-market consumers to a point where they actually want to save / invest / purchase insurance rather having to be convinced by an adviser that they really should!
    b. Simplicity, i.e. making it truly quick and easy to get some help (advice) and then take action. Many mass-market consumers fail to act simply because they feel threatened by the process itself (embarrassed by their own lack of understanding).

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

It has long been held that the majority of consumers will not actively make provisions for their retirement, save for a rainy day or take out insurance unless they are persuaded through some form of face-to-face interaction. However, more recent understanding of behavioural economics might suggest that there is a more subtle rationale for this reticence. For example, the experience of auto-enrolment has been very favourable, i.e. the level of opting out has been lower than forecast. This suggests that the majority of consumers (employees) do, in fact, understand and appreciate the general need to save for their old age and they are happy to accept the solutions being enacted for them, i.e. it is the time, effort and complexity of “opting in” or purchasing their own pension policies that really leads to inaction rather than a lack of desire.

In summary, the current modus operandi requires consumers to either acquire extensive financial capability and understanding themselves or, to pay for the services of a highly qualified financial adviser. Somehow, the industry needs to make “the line of least effort” the one that leads to a (broadly) good consumer outcome. Doing the “right thing” should be easier than doing nothing.

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

It would not be desirable for any ‘safe harbour’ to result in a two-tier level of protection for the consumer, i.e. a situation where those of more modest means have an inferior level of consumer protection. However, we do believe that the creation of a ‘safe harbour’ would give many more providers the courage and confidence to create and deliver advisory / guidance services for the mass-market. Therefore any ‘safe harbour’ should be constructed around the regulation of particular types of advice, or specific products rather than diluting the quality of advice or level of consumer protection for lower value sales. As suggested, we believe that, for example, liability could be reduced in the cases of focused advice, or advice without a personal recommendation (especially where the products being recommended are relatively simple and a specified set of actions to determine suitability have been taken pre-sale).

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

We believe that the areas where most benefit could be derived are:-

- All forms of ISAs;
- Simple collective investments;
- Personal pensions, especially for the self-employed (.i.e. sole-traders and micro firms).

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

As described in our response to Q29 we believe it is important not to create a two-tier consumer protection regime. This is best achieved by limiting the scope of the 'safe harbour' to areas of simple advice and simple, well-designed and well-managed, products where common guidelines and 'rules of thumb' can be universally accepted and applied. One way of achieving this would be to restrict the products sold in this way to those carrying the soon to be launched 'Fair Life' kitemark.

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

IRESS is not is a position to comment on this question.

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?

IRESS is not is a position to comment on this question.

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

IRESS is not is a position to comment on this question.

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

IRESS is not is a position to comment on this question.

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?

We are aware of a number of low-cost automated advice services that have recently come to market, e.g. Money-on-Toast, Ask CORA (LV=) and Wealth Wizards. We are also aware of a number of other new services that are in the course of development (as, indeed, we're sure the FCA must also be aware of these developments). These initiatives prove that it is possible for regulated advice to be delivered to consumers in a consistent, lower cost manner.

We are also aware of a number of 'Scaled Advice' developments in Australia, i.e. one-off, focused advice services aimed at the mass-market consumer. In fact, IRESS has been engaged by one of Australia's largest banks to develop and deploy a 'scaled advice' technology solution. Initially the solution will be used by the bank's branch staff to deliver advice across a small range of specifically defined financial needs. It will then be followed by a 'self-serve' version of the software.

Whilst 'scaled advice' has been permitted within the Australian market for many years it was brought to prominence by the recent FOFA regulatory changes. Initially it was seen as a way of introducing financial advice to mass-market employees to help them maximise the value of their 'Super' (superannuation) funds, however, subsequently the concept has been extended to become a way of delivering focused advice to the mass-market generally. So, 'Scaled Advice' is a concept that is being pushed by the Australian government and is being developed by the major banks and distributors but, whether it will deliver in terms of significantly increased delivery of financial advice to the mass-market consumer remains to be seen - but there is certainly a good deal of activity being undertaken in this area within the Australian market.

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

We believe that the ideas suggested by the FCA, i.e. 'safe-harbours' and 'sand-boxes' are both well worth further consideration. However, we would also suggest that providing clarity around the distinction between regulated advice and guidance would have the biggest impact. As we discussed in our response to Q24, whilst the FCA have drawn a good theoretical distinction between advice and guidance, in the real-world it simply isn't well understood and, rightly or wrongly, many players are frightened of the down-side compliance risk. A real-world (hard edged) distinction would, we believe, provide the right signals to the market and further encourage innovation.

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

Clearly automation of advice brings with it the possibility of systemic risk. However, experience over the last twenty years proves that there is plenty of scope for systemic issues to arise without the presence of automation e.g. mortgage endowment mis-selling, pensions mis-selling, PPI mis-selling to name a few! Logically, one might argue that well designed, well managed automated advice delivery models should be capable of delivering good consumer outcomes, consistently and at a lower price-point.

The main consumer consideration will be trust in the provider themselves, i.e.

- Their financial stability and longevity, i.e. will the provider be around when clients want to take their money out?
- Their ability to protect their clients' data from cyber-attack / fraud?
- Whether they truly have consumers' interests at heart. There have been too many mis-selling scandals, with even the largest brands involved, for many consumers to believe that these organisations have changed.

IRESS believes that the 'Fair Life' kitemark initiative would be one way in which the trust issue might be addressed.

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

IRESS believes that creative and innovative use of technology is the only way in which the primary UK advice gaps will be addressed. Whether it is used for educating consumers, streamlining the existing advice processes, enabling more guided self-service solutions or delivering fully automated financial advice the use of technology is fundamental to increasing access and reducing costs.

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?

There is a danger that increased use of technology to deliver financial advice, guidance and support could have an adverse impact on those people that for whatever reason do not use technology, e.g. the elderly, those that cannot afford it, those that are educationally challenged, etc. It is also feasible that the advice market only "chases" the most profitable consumers, e.g. HNW clients (as it could be argued is increasingly the case today!). One way to address this issue might be to impose an obligation on the larger distributors and adviser firms to provide 'affordable' services to these less profitable consumer segments. This would, of course, imply some level of cross-subsidisation. However, until quite recently, the majority of adviser firms did operate some level of cross-subsidisation enabling them to provide services to the less well off. Some form of carefully managed move back towards that position might be appropriate.

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

IRESS does not believe that there is a conflict between maintaining the quality and standard of advice and the kinds of change being proposed. In fact, we believe that the careful application of innovative technology will have the opposite impact, i.e. quality and consistency of advice will be improved whilst costs will fall significantly. IRESS also believes that there is considerable scope to use technology to automate the process of checking consumer outcomes.

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From:
Sent: 21 December 2015 16:54
To: FAMRSecretariat
Subject: John Crick

Brief background to my business. Established 1975. Two full time advisers and 3 part administrators (equivalent to 2 full time staff). Around 300 current clients and another 1100 legacy clients that we still service from time to time. The business has evolved over the years from selling regular savings plans, pensions and mortgages to almost exclusively advising on investments and "at retirement pension planning".

I have looked at the review and the response from APFA. I see little point in repeating the views outlined in the very well prepared APFA response but simply wish to add some personal experiences which I think may be of value.

Q5 looks at whether different consumers have different needs for advice and asks for comments on the types of financial needs for which consumers may seek advice.

I feel the structure of the question indicates that the review may be missing a fundamental point. It has been my experience that consumers misinterpret information whatever the need they are addressing. Perhaps a way has to be found to enable cost effective face to face "discussions" with an adviser without triggering all the regulatory procedures and liabilities and associated costs. This will perhaps ensure that any client misunderstandings can be straightened out at a reasonable cost.

Q10 asks for information about the supply of financial advice that should be taken into account.

I feel that, because my business has been established much longer than most, then our experience relating to legacy clients may be valuable. As stated above we currently have around 1100 legacy clients that still receive our newsletters and consider this business to be the point of contact should they require advice. Whilst we try to help to help in each case with face to face advice the ongoing legacy commission that we receive (if any) is rarely, if ever, sufficient to cover costs of even a simple enquiry. It is becoming very difficult for us to maintain this approach without charging further fees. Furthermore, should we sell the business it is highly unlikely that the new owners will take such a charitable view and these clients will probably join the many for whom the advice gap is a reality.

Q32 asks if I have evidence that the lack of a longstop is leading to an advice gap.

I am approaching the point at which I wish to sell my business. Enquiries to date have come from sources unwilling to take on any liability. Therefore they will not buy the shares in the company. They simply wish to cherry pick my customers and sign new customer agreements with the wealthier investors. Without these clients my business would close and the remaining customers will face an advice gap. Furthermore much of the liability would then fall upon the FSCS, increasing general industry costs. Bearing in mind my business has been running for more than 40 years a 15 year long stop would greatly reduce the perceived liability and greatly help with maintaining continuity, improving outcomes for the clients and reducing industry costs.

An alternative to selling would be to bring one or more of my sons into the business. With unlimited liability I would not allow any of my family to join the business and therefore this solution for continuity is also currently a non-starter. Again a 15 year long stop would assist.

In summary, the continued lack of a 15 year long stop will lead to a poor outcome for many of my clients and also increase general industry costs.

I trust you will take my views into account.

Kind regards.

John Crick

John Crick Investment Consultant

The Pension & Investment Specialists

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F.A.M.R. SECRETARIAT

DEAR SIR

RE:- INDEPENDANT FINANCIAL ADVISORS

MY WIFE AND I VALUE THE HELP AND ADVISE WE HAVE RECEIVED FROM OUR I.F.A. AND AS WE GET OLDER THE HELP AND ADVISE FROM SOMEONE WE KNOW AND WHO KNOWS US WILL BE OF EVEN GREATER IMPORTANCE.

I TRUST THAT NOTHING WILL BE DONE THAT WILL HARM THIS SERVICE.

A "ROBOSERVICE" IS TOTALLY INAPPROPRIATE TO OUR NEEDS

YOURS FAITHFULLY

JOSEPH BARRON ANTHONY

JULIAN KNIGHT

Member of Parliament for Solihull

FINANCIAL ADVICE
EST
FSERV

Harriett Baldwin MP
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Our ref: JK/HW
18 November 2015

Dear Harriett

RE: Financial Advice Submission

At the West Midlands conference you kindly said that you would welcome my thoughts in financial advice as part of a submission to the consultation.

Here are some thoughts for you.

The problem

In the run up to RDR many financial advice firms migrated up to focus on high net worth individuals, classing themselves as wealth management firms. This was to preserve their income streams from new clients, understanding - rightfully - that it was in this target market that they would find customers willing to pay what are quite high hourly rates and fees for rounded and in-depth financial advice (the provision of which is now a regulatory requirement, more about that later).

Longer term, we have also seen a huge decline in tied financial product sellers, there are very few "men from the Pru" anymore; selling mass market and often fairly vanilla financial products to the public, which were in the main to the benefit of clients, providers and wider society.

In short, we have a wasteland in financial advice. Very basic advice is catered for through CAB, Money Advice Service, online tools and personal financial journalism but above and beyond this there is little realistic choice until we hit the high net worth individuals (100k plus) who are the target of wealth managers and former financial advice firms which have gone upmarket and styled themselves wealth managers.

How do we facilitate the provision of financial advice to this large middle ground?

Well, firstly I think it is a fools errand for government to provide this advice. It will cost too much and will always have to be couched in double speak for fear of being sued aka Equitable Life. It is problematic enough dealing with very basic, generic advice as is shown by our experience with the money advice service, never mind tailored advice to a life situation. Government provision is a non- starter in this sector of the market.

JULIAN KNIGHT

Member of Parliament for Solihull

In my view, we need to encourage private sector provision. There is actually a tremendous business opportunity for firms to provide good what I call "life situation" advice in this market. There may not be the thousands of pounds in fees available (as is the case with high net worth individuals) but there is more than likely several hundred pounds in fees per customer in this middle ground. Think of it as if we were dealing with solicitors, it is a sector with well-paid people charging high hourly fees, yet a standard conveyancing costs as little as £500. It is all about scale and simplicity, repetition of task. These are effectively the ingredient we need in the middle ground of the advice market.

So why aren't firms filling that space?

In a word: regulation. It is the overarching requirement to do a full nuts and bolts financial review of the client, which is costly and is holding the market back. This is a requirement which skews provision to the top end. Take an MP, he or she earns £74k a year, are we willing to spend £2-3k and then ongoing fees in order to put our finances on a long term footing? I am not. That may seem a fair price but still if we believe ourselves to at least partly capable financially (and if we don't we may not see the need for advice at all) surely we would look to not spend this money and muddle through, make some broad ranging decisions and then react to life situations by shopping around? Wouldn't it be better for us to have the option to dip in and out of decent quality financial advice to meet certain life situations, without first having to go through the expense of a full financial review at the outset?

In many respects the pre-RDR advice world was bad in the paying of commission, but where it worked well it allowed people to step in and out of advice. Now that commission has gone we no longer need to fear as much the spectre of product mis-selling, therefore the requirement for a nuts and bolts initial financial review is less needed in all instances. Instead financial advisers could ask a broad range of questions - even get this done on line to detect any red flags in the individuals' finances. What is not needed is for people in the middle ground who feel the broad requirement to buy say a health or a life product to have someone, very expensively, to go through their savings and investments. They simply want to augment their current arrangements, which will probably not be best in show but decent and adequate, with a specific product to meet a life situation.

There are company's out there waiting to take the opportunities of the middle ground we just need to be more flexible in the regulatory framework we construct so that they can enter the market with confidence, compete and drop their prices.

Yours ever

Julian Knight

Julian Knight MP

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22 December 2015

FAMR Secretariat
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
LONDON
E14 5HS

Dear Sir / Madam

FAMR – Financial Advice Market Review – Call for input

Just Retirement welcomes the opportunity to respond and contribute to the Government's review of the financial advice market review. Just Retirement's business philosophy since founding over 10 years ago has been to develop great value, innovative products and services for customers who are approaching or in retirement. Consequently, the majority of the comments in this response focus on advice for customers at this stage of their life.

Since the pensions freedoms were implemented in April 2015, customers have experienced additional complexity and requested additional information and advice. As a consequence, there are a number of customer-facing improvements that we are suggesting via our response to CP15/30 'Pension reforms – proposed change to our rules and guidance'. Many of these also relate to the advice that customers should be receiving and so are summarised here:

- The clarity of the guidance proposed in COBS 19.4 should reflect the new retirement journey which no longer sees a customer have a single 'retirement date', but rather is a transition and series of decision making points taking them from accumulation to decumulation, each of which require more information and/or advice.
- We believe that there should be compulsory sign-posting of the Pension Wise service ahead of the period when customers become eligible to access their pension savings. Whether this leads to more informed and educated customers making confident decisions through trusted non-advised services or more customers seeking regulated advice; either should be regarded as a positive customer outcome.
- Customers should be encouraged to access the open market and shop around and should not be overwhelmed by being presented with a wide range of unsolicited illustrations. All unsolicited illustrations should be prohibited. In our view illustrations should only be produced after sufficient customer information has been gathered to generate a personalised illustration based on the

option(s) selected. This should encourage customers to break away from their incumbent pension provider to research (either themselves or via advice) a wider set of options that are likely to lead to an improved outcome.

- Customers who just want access to cash without being fully aware of the implications for them, including the benefits of shopping around may be encouraged to use non-advised drawdown from their incumbent pension provider. We have observed an emerging risk with an increase in these transactions.
- Risk warnings should be retained for all customers, regardless of their pension pot size. Customers at the lower end of the socio-economic scale are most likely to have smaller pension pots and these are also the same customers for whom research shows they would benefit from modest increases to their regular income, which can often only be provided through information and advice services to which they should be encouraged.
- We believe the FCA are correct to undertake further analysis and research on customer outcomes from non-advised services, rather than just focusing on the commission that they might be paid, with the logic that well designed, informative services can provide positive customer outcomes in the same way as advice, but for some customers, with the added convenience of being able to progress their plans on their own.

We agree that the correct areas of financial advice on which to focus most attention are those that affect the mass middle Britain market, where the complexity of decision making is greatest and regulated advice, guidance and education could make the biggest difference.

Since the March 2014 Budget, Just Retirement believe the area of financial planning that has been most affected by change and complexity of issues to consider is undoubtedly the choices open to customers to use their pension savings.

The key principle of this call for input response is that customers should receive clear and appropriate information, guidance and/or regulated financial advice. Support of this kind will enable them to make informed decisions that are appropriate through the rest of their retirement, addressing the key concerns of sustainability of income, the impact of mortality and investment performance risk.

With the right balance of customer protection and risk education, customers should be provided with the income in retirement they have worked towards from their pension, property and other savings and investments, reducing the customer's reliance on the State.

Specific answers to the 'Call for input' questions follow. We would welcome the opportunity to discuss any of these matters further with the FCA, HMT or other relevant bodies.

Yours faithfully

Steve Kyle
Director

Q1: Overview - Equality and diversity considerations - 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?

Taking each characteristic in turn:

- Age: Not specifically, although the use of and access to the internet tends to decrease as age advances. Additionally with the onset of age, firms need to be cognisant of related physical or psychological health conditions that become more commonplace, requiring more tailored and flexible approaches to advice, as well as sound recommendations to effect Lasting Powers of Attorney in advance of needing to rely upon the assistance of others. Inevitably firms need to be more aware of the increasing risk of exposure to scams and other financial crime as the risk of vulnerability increases. This is particularly relevant given the wider access to pensions since April 2015 and may increase with the introduction of the second-hand annuity market in 2017.
- Disability: There are some difficulties caused by the nature of the specific disabilities, for example, the deaf or blind. Larger firms tend to provide documentation in braille or may be able to conduct a transaction purely by letter, but these options are not industry-wide and add cost which cannot be absorbed by some smaller firms.
- Gender reassignment: No.
- Marriage / Civil partnership: No.
- Pregnancy / Maternity: No.
- Race: Language issues exist, but the language of financial services in the UK is English, therefore it is incumbent upon advice firms to ensure that anyone who does not understand English has an appropriate, trusted, independent person who can translate all key aspects of advice and any transaction. Firms need to be wary about the additional risk of financial crime in such instances.
- Religion / belief: Sharia compliance finance creates the need for some innovative and niche solutions.
- Sex: No.
- Sexual orientation: No.

Q2: What do consumers need and want from financial advice? – The demand for advice - Do you have any thoughts on how different forms of financial advice could be categorised and described?

We believe that the FCA Finalised Guidance paper 15/1: 'Retail investment advice: Clarifying the boundaries and exploring the barriers to market development' produced clarity around the key different forms of financial advice offered by firms (although these terms are unlikely to be understood and therefore not used with customers).

However, we believe that the term 'Simplified' meaning advice where "the firm sets out the limited nature of the service" is the wrong choice of terminology as it implies 'simple' if the term was seen by customers. With the advent of the industry term 'robo-advice' (perhaps better described as 'automated advice'), we believe a better definition for 'Simplified' would be 'Limited by advice firm' and consequently the term 'Limited' or 'Focused' advice, meaning advice where the customer has sought to deliberately limit the range of the advice, should be renamed 'Limited by customer'.

When explaining the different types of advice available or the limitations and impact of any restricted advice services, technology can support customer understanding with the use of videos and other media deployed to efficiently and consistently explain key points to customers.

Q3: What do consumers need and want from financial advice? – Professional advice - What comments do you have on consumer demand for professional financial advice?

Perception of the need for advice in a customer's mind is a difficult barrier to overcome. Costs of advice versus the perceived value for money and customers' preferences to self-manage their finances are increasingly seen as reasons why customers do not seek advice.

The implementation of the Pension Wise service as a free, impartial provider of customer guidance is a positive step by the Government. Pension Wise should be capable of encouraging customers towards financial advice where required, hence helping to overcome some of these customer perception barriers.

To further promote the uptake of advice (and informed non-advised shopping around), we believe there should be compulsory sign-posting of the Pension Wise ahead of the period when customers become eligible to access their pension savings. Whether this leads to more informed and educated customers making confident decisions through trusted non-advised services or more customers seeking regulated advice; either should be regarded as a positive customer outcome.

As lessons from Pension Wise are learned, the expansion of the breadth of impartial, government-sponsored guidance services that can help promote advice should be considered. This should be focused on areas where the advice gap is widest and most needed, for example, long term care.

Q4: What do consumers need and want from financial advice? – Other forms of advice - Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

In addition to advice, customers are increasingly choosing to manage their finances themselves. With the pension freedoms, the FCA is correct in selecting to review the non-advised drawdown market, given its expansion and apparent use by customers towards the lower end of the socio-economic scale, in contrast to pre-pension freedoms use of drawdown products.

With this in mind, as well as focusing on the information provision and clarity of risk warnings delivered as part of non-advised services, the FCA should encourage providers to design products that are simpler and easier for customers to compare. The rapid introduction of wider choice has resulted in an absence of services to assist customers to make comparisons between drawdown products. This exposes customers due to the asymmetry of information / knowledge between provider and customer and discourages shopping around.

In some markets, such as equity release, a report evidenced[1] that customers undertake a considerable amount of research themselves before seeking advice. More research should be undertaken to understand why this appears to take place more in some markets that others, perhaps reflecting an awareness of the potential risks likely to be involved. In the same report some customers felt there was not a need for advice, given the research they had undertaken.

[1] 'The Future of the UK Equity Release Market: Consumer Insights and Stakeholder Perspectives', University of Essex, June 2015

Q5: What do consumers need and want from financial advice? – Do different consumers have different needs for advice? - Do you have any comments or evidence on the financial needs for which consumers may seek advice?

We agree with the complexity list drawn up by the HMT which highlights that options at retirement and the merits of the different options should be a key initial focus for the FAMR.

The need for financial advice at the point of accessing some form of long term care should also be added to this list of complex financial issues. Making provisions to finance long term care can be extremely challenging, given it may involve the resources of family members, the use of home equity and have to navigate complex benefit rules.

Throughout FAMR, consideration should be given to the amount of documentation produced that customers are expected to read, but inevitably many do not. There is need for clear, concise documentation which highlights the key points and sign-posts to where more detail exists.

Q6: What do consumers need and want from financial advice? – Consumer segmentation - Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?

Yes, but please see Q7 response below.

Q7: What do consumers need and want from financial advice? – Consumer segmentation - Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

The FCA's segmentation is too limited for customers in retirement. Our own research has identified three distinct customer segments at retirement:

- 'Planners': Those taking active steps to plan, likely to already have a financial adviser;
- 'Shoppers': Those who will shop around and research in an effort to find the right deal – they may take advice or use a comparison site; and
- 'Dormants': Those who are retained by the ceding pension provider and take the easy option of what is first offered, usually experiencing financial detriment as a result.

The 'dormants' do not typically achieve a positive outcome and therefore more needs to be done to free this customer type from their incumbent pension provider and not be allowed to default into an in-house retirement income product. We believe there are merits in the FCA taking greater responsibility for forcing or nudging a more competitive market and pursuing the approach taken in the secondary annuity where incumbents are only permitted to buy-back their own annuity via an open market regulated intermediary.

There are some other segments that do not appear to be covered by the FCA's segmentation:

- "Retired and not coping", where sign-posting to other guidance services, such as Citizen's Advice or Age UK may be beneficial.
- Those seeking assistance with long term care (at the point of needing care). As indicated in the response to Q5, this is a relatively complex area of advice and one where customers are often stressed and vulnerable (both the customer with the care need and their supporting family).

The area of particular focus for FAMR should be 'at retirement choices', given this is the area of most change and high complexity – and impacts upon the mass middle Britain market.

Mintel Group's 2015 research indicated the joint highest areas where customers think they may need financial advice in the future were 'savings and investments' and 'pensions and retirement planning'[2].

Q8: What do consumers need and want from financial advice? – Consumer income and wealth - Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

YouGov survey data gathered between 2012 and 2014, analysed by the ABI shows approximately twice as many ABC1 socio-economic customer types use an independent financial adviser than C2DE customer types. Equally ABI research from 2012 showed that twice as many people undertook research via moneysavingsexpert than sought regulated financial advice, demonstrating the demand for trusted sources of information without necessarily speaking with a financial adviser.

Recent research by Citizens Advice identified four different advice gaps[3], perhaps better described as areas where customers required further help, not just regulated advice. In summary:

- *"The affordable advice gap affects consumers who are willing to pay for advice, but not at current prices. Our research suggests that up to 5.4 million extra people would consider paying for advice if it cost less.*
- *The free advice gap affects people who want advice but are unable to pay for it. Up to 14.5 million people who think they would benefit from free advice haven't taken any in the past two years. The free advice gap includes:*
    - *5.3 million people who have needed free advice in the past two years, but haven't taken it.*
    - *735,000 people who have tried to access free advice in the past two years, but couldn't due to lack of supply.*
- *The awareness and referral gap affects people who are not aware that advice exists, or where to get that advice. As many as 10 million people who think they would benefit from free advice are not aware of public financial guidance. The awareness and referral gap includes:*
    - *3.3 million people say they need free money advice but failed to get it because they didn't know it existed or where to get it.*
    - *3.4 million people have raised a financial issue with a trusted professional at some point, but were not given help or were not told where to find it.*
- *The preventative advice gap affects those who would benefit from having money advice as a preventative measure. We found that as many as 23 million people have fallen into a preventative advice gap at least once in their life.*
    - *For instance, 39 per cent of people who have expected a baby would have taken money advice if it was offered.*
    - *1.2 million people who have taken paid for or free advice in the last two years have not had the non-financial causes of those problems addressed."*

[2] 2015 Mintel Group Ltd - 'Pension Freedom: How are we doing? – Consumers, choice and the advice gap'
[3] https://www.citizensadvice.org.uk/the-four-advice-gaps/

Q9: What do consumers need and want from financial advice? – What stops people seeking advice? - Do you have any comments or evidence on why consumers do not seek advice?

Financial capability evidence and analysis of customer behaviour concludes many people are not aware of and do not understand a number of key concepts that are essential when selecting retirement products. These concepts include:

- The enhancements available through the underwriting of guaranteed income for life products;
- The length of time they are likely to live, usually underestimating this;
- Other principles around sustainability of drawdown income and the risks of running out of money.

This links to earlier points about the need for clear customer information and risk warnings being delivered at an early stage when a customer is first considering using their pension savings, sign-posting towards Pension Wise and regulated advice services.

Other research points to factors such as:

- The lack of perceived value for the time and cost commitment;
- Stress in dealing with financial matters;
- Complexity; and
- A lack of understanding as to reasons why customers do not seek advice – with the lack of understanding usually leading to the easiest option being selected, which is usually the one not in the customer's best interests.

We believe comparison / aggregator services and technology can play a part in relieving this customer stress as well as delivering information in a clear and consistent manner to either provide the customer with confidence to make their own decisions or prompt the need for financial advice.

Q10: Where are the advice gaps? – The supply of financial advice - Do you have any information about the supply of financial advice that we should take into account in our review?

Please see comments in responses to Q8 and Q9 above.

Q11: Where are the advice gaps? – The supply of financial advice - 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 use of comparison websites should be seen as a positive step if it is viewed that the various services have educated and empowered customers to make their own decisions.

Technological improvements have also helped create informed and confident customers, enabling some complex situations previously the territory only of advisers, to be understood by customers.

Q12: Where are the advice gaps? – The supply of financial advice - Do you have any comments or evidence about the role of new and emerging technology in delivering advice?

Complexity exists given the amount of data required to 'Know Your Customer', which impacts on time and cost, together with the amount of documentation (which is not usually fully read by customers). Therefore simplifying this area to make choices more easily comparable will be part of the key to success in future.

The Journal of the Financial Services Forum's article 'Human Touch in a Digital Age'[4] sets out the rise of 'financial DIY' in the UK, but also emphasises the need for human involvement in the customer journey.

Just Retirement's own advice services[5] include an automated advice service where a personal recommendation can be generated without the involvement of a QCF level 4 Adviser. However, research has so far informed us that customers appreciate the ability to speak with a member of staff as 'know your customer' information is being gathered. Other firms' partially automated services gather know your customer information without any human contact, but then refer to a level 4 Adviser as part of the personal recommendation production.

When developing fintech solutions, the most significant cost is usually in the up front development of the technology solution. Legislative and to a lesser degree, regulatory change can act as a barrier to such development and hence such solutions to assist with the advice gaps can best be delivered where an outlook of relative stability across the legislative (and regulatory) foreseeable future exists.

Additional complexity for fintech and automated advice solutions is also prevalent when designed for customers at the lower end of the socio-economic scale, in particular for those who could be eligible for means tested benefits. These involve complex, changing and often regionalised rules and calculations, but which are vital to understand if trusted personal recommendations are to be produced.

Q13: Where are the advice gaps? – The economics of supplying advice - Do you have any comments on how we look at the economics of supplying advice?

Whilst Just Retirement support the principles of the RDR, it cannot be ignored that outcomes of the RDR have been:

- Customers that can afford to take financial advice (and those that cannot);
- Advisers that can afford to take on customers with modest-sized portfolios / pension pots (and not smaller sums); and
- Customers who seem unwilling to pay for financial advice.

All of which have contributed towards the advice gap. Specifically the economics of supplying advice for those customers with smaller sized portfolios / pension pots appear more difficult as well as the simple lack of customer affordability and for some, the lack of a perceived value in seeking financial advice.

Providers and advice firms can have similar liabilities if mistakes are made, but typical profit margins are much smaller for advice firms in comparison to provider firms. FAMR should consider if the economics of supplying advice are affected by this apparent imbalance between profit and liabilities.

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[4] The Journal of the Financial Services Forum – 'The human touch in a digital age' by John Gilbert.
[5] Provided by Just Retirement Solutions Limited.

Q14: Where are the advice gaps? – The economics of supplying advice - Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Given the profit margin differences highlighted above, this could lead to more vertically integrated firms in future.

Just Retirement has experience of working with corporate clients and pension trustees who recognise the risks of selecting financial products and the importance of financial advice for their customers. As a consequence some of these firms have chosen to contribute to the advice fees paid by their customers, in some instances covering the full costs to encourage their customers to take financial advice.

More needs to be done to address the economics of supplying advice to create a healthy market where the needs of more customers can be met through affordable advice.

Technology can play its part here with informative websites, learning tools and automated advice services.

Q15: Where are the advice gaps? – The economics of supplying advice - Which consumer segments are economic to serve given the cost of supplying advice?

High net worth investors (HNWIs) remain the most lucrative customers for advice firms to focus upon, with smaller value customers only viable at considerable scale and possibly when subsidised by other HNWI customers.

Please also refer to the response to Q12 above.

Q16: Where are the advice gaps? – Barriers to firms providing advice - Do you have any comments on the barriers faced by firms providing advice?

Changing legislation is one of the most costly impacts to any advice firm, particularly those that have deployed the use of technology and therefore higher up-front costs looking to be recouped in the longer term. So settled legislative periods lead to more viable automated customer propositions.

Research by the Mintel Group Ltd found that over half of internet users aged 18+ agreed that "pension rules change so often, that it's impossible to make long-term plans"[6]

Q17: Where are the advice gaps? – What is an advice gap? - What do you understand to be an advice gap?

The advice gap is both the unwillingness of firms to deal with customers and the unwillingness of customers to seek advice.

By comparison, the equity release market is operating successfully without an advice gap as advice is perceived as mandatory. As with retirement options, there are key aspects that need to be carefully

[6] 2015 Mintel Group Ltd - 'Pension Freedom: How are we doing? – Consumers, choice and the advice gap'

considered when considering using equity release to avoid customer detriment. Equity release is typically used by older customers and is expected to have long term implications for the customer. Due to the complexity of the implications, financial advice is used by almost all customers.

In the wider mortgage market, the vast majority of customers receive financial advice, we consider that the FAMR should ask why this is the case. We believe one key reason is that customers perceive the need for advice when considering a mortgage. Arguably the products are comparable and there is a very wide choice of products available and hence more competition than tends to exist in other product markets where financial advice is used. Clearly distribution remuneration through procuration fees is also a reason why it remains financially viable for advice to be provided to the mass market in this sector, which links to our earlier points about the economics of providing advice in the response to Q13 above.

Q18: Where are the advice gaps? – What is an advice gap? - To what extent does a lack of demand for advice reflect an advice gap?

A lack of demand is undoubtedly part of the advice gap, but how much of this is due to a lack of customer understanding and appreciation of the benefits of advice is unclear.

For financial markets where customers understand the product features and benefits, well designed non-advised services can provide the relevant information to customers to help them make informed decisions and shop around to achieve positive outcomes.

Q19: Where are the advice gaps? – Where are the advice gaps? - Where do you consider there to be advice gaps?

As previously indicated, we believe the most significant advice gap exists in the ‘at retirement’ (“taking an income in retirement”) segment, particularly for the mass market (customers with smaller pension pots). The following customer segments identified by the FCA also indicate advice gaps: “hard pressed”; “striving and supporting”; stretched, but resourceful” and “retired on a budget”.

We believe the advice gap questions should also focus upon those customers and their families seeking information, guidance and advice at the point of using long term care services.

Q20: Where are the advice gaps? – Where are the advice gaps? - Do you have any evidence to support the existence of these gaps?

Please see above response to Q8.

Q21: Where are the advice gaps? – Where are the advice gaps? - Which advice gaps are most important for the Review to address?

As previously mentioned, the ‘options at retirement’ and to a lesser extent, long term care advice gaps.

Q22: Where are the advice gaps? – Where we plan to focus our work - 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?

Yes, but given the positive progress made with auto-enrolment the core focus should be on "taking an income in retirement".

Q23: Where are the advice gaps? – Where we plan to focus our work - Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)? What exact income / wealth thresholds should we use to determine which consumers we will focus on?

For the 'at retirement' sector, it is not as straightforward as to determine set wealth levels. Many customers have significant defined benefit pension arrangements and reasonable defined contribution pension plans, but have never had savings and investments that would class them as 'wealthy'.

However, we agree that the focus should not be on HNWIs who are typically served well by the existing advice market.

Middle Britain consumers with defined contribution pension plans valued in aggregate at less than £100,000 is an appropriate threshold.

Q24: What options are there to close the advice gap? – The regulation of advice - 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?

Simplicity of customer-facing documentation must be a key consideration for FAMR, with an aim of reducing the time and cost required by advice firms to prepare and discuss the key points with customers. With customers currently not reading all the different documentation prepared for them, a different approach much be taken, which encourages simplicity of product design, leading to simpler requirements to evidence suitability and therefore less cost and less likelihood of liability issues for advice firms.

The Financial Services Compensation Scheme (FSCS) should not purely be funded by the current financial services firms. Regulatory fines should be used, in part, to help fund the FSCS to prevent 'the good' from having to bail out 'the bad'.

If not unchecked, this aspect of funding will increasingly present a barrier to new advice firms being established.

Q25: What options are there to close the advice gap? – The regulation of advice - 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?

Like NEST, defaults for customers in the absence of advice should be progressed. For example, an Open Market Option style default with simple guidance (provided by Pension Wise) to choose a blend of guaranteed income and flexible drawdown. An auto-default, in the absence of advice could also be considered to coincide with differing tax treatment, for example, a move to 100% guaranteed income at age 75.

Q26: What options are there to close the advice gap? – Previous initiatives to improve consumer engagement - What can be learned from previous initiatives to improve consumer engagement with financial services?

In the US, fintech advice solutions already exist where customers' investment advice, product administration and fund management charges can all be costed at no more than a total of 35 bps. Whilst the regulatory environment is different, it demonstrates how the use of technology at scale can provide real customer value.

Several automated advice services have been operating in the UK for a few years, but these have largely operated in areas of investment for relatively HNWIs and have therefore been limited to providing comprehensive advice on investments and limiting the scope of advice on other financial markets.

Since the pension freedom reforms, other fully and partly automated advice services have started to launch offering advice across more complex areas of financial planning.

For automated investment advice services, it should perhaps be considered that these have yet to be tested against the experience of a significant market crash. How customers respond and how any complaints in response to investment performance are evaluated will be important to observe and build upon.

Regarding consumer engagement, more needs to be done to ensure customers are engaged – to ensure they have the knowledge and understanding why they will be asked certain questions and to understand their relevance and the need for certain data such as income and expenditure. Greater effort is required to help people understand the impact of longevity, inflation, consumer short termism etc., for example, what a guaranteed income for life can secure, rather than the amount of cash given up.

This needs to take place before customers reach the age where pension savings may be used and should be led by the existing pension provider firms.

Q27: What options are there to close the advice gap? – Previous initiatives to improve consumer engagement - Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

The US and Australian markets are often cited as comparisons for their contrasting approaches to that of the UK. However, more research should be undertaken to understand why some other countries such as Canada, Switzerland and Sweden appear to have sound financial market reputations. For example, in Sweden, there are shared Government and private pension provider initiatives that seek to provide simple, informative material to customers on pensions and how to access advice.

It is also important to consider the wider culture and history that is specific to the UK. Since the demise of the direct sales forces, middle Britain customer relationships with advice firms have decreased, with advice being sought for transactional events. The economics of supplying advice are a significant factor in addressing the advice gap, but so too is the customer perception of the value of advice.

Q28: What options are there to close the advice gap? – Previous initiatives to improve consumer engagement - What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

We are already witnessing growth of fintech to assist consumer decision-making. Regulatory innovations such as the FCA innovation hub and regulatory sandbox may be useful, but also important is limiting the degree of legislative change to enable high up-front development costs to be offset later.

We believe an important part of FAMR should be understanding more about customer behaviour and motivation, for instance how customers can better realise that advice is likely to deliver significant benefits to them and therefore that advice is worth actively seeking. There are limited mandatory requirement for customers to use advice for pension and retirement planning, so measures are needed to promote the benefits of advice and explain how advice may be located.

Other areas to consider are promoting the use of correct "Rule of Thumb" approaches (for instance, the multiple of monthly expenditure that should be retained as an emergency fund; or saving a percentage of income into a pension) and also dispelling the myths that are also considered to be "Rules of Thumb". General consumer advertising can play a key part to educating customers and encouraging the take up of advice.

Q29: What options are there to close the advice gap? – Options for bridging advice gaps & limiting certain liabilities - To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice

We do not believe that safe harbour after the event is the correct area of focus. Initial design of new advice services is where assistance is required and should be provided. The liability advice firms are exposed to should be taken into account considering the clarity and disclosure of the service type and the level of advice provided.

The funding of the FSCS, as previously mentioned, is a topic that should be reviewed, utilising regulatory fines from poor firms, rather than continually seeking new funds from current active firms. Consideration should also be given to changing the FSCS funding blocks with provider firms taking a larger share of these costs, which should lead to provider firms undertaking more vetting of the advice firms with whom they choose to do business.

Q30: What options are there to close the advice gap? – Options for bridging advice gaps & limiting certain liabilities - Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?

Areas most benefiting from FCA support would be newly designed advice models. To further encourage such new advice services, some allowance around liability for firms could be made where customers clearly accept these new advice services are still in 'testing' phase when entering such new services with the potential impact of this being clearly disclosed for such customers.

Q31: What options are there to close the advice gap? – Options for bridging advice gaps & limiting certain liabilities - What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?

Broadly there should be the same level of consumer protection, perhaps with the exception where a customer has clearly agreed they are using the service 'in testing' mode. The ability to easily return a customer back to where they started before entering such an 'in testing' service could be a key customer protection and mitigate the potential for any systemic risk.

Q32: What options are there to close the advice gap? – The longstop review - Do you have evidence that absence of a longstop is leading to an advice gap?

There is a perception that by resolving the longstop, the advice environment would improve. However, we have no such evidence and consider that consumer protection for long-term products should be prioritised over what could be seen as a reduction in advice firm liability.

Q33: What options are there to close the advice gap? – The longstop review - 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?

We have no such evidence.

Q34: What options are there to close the advice gap? – The longstop review - Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?

Many retail investment products are designed for the rest of a customer's lifetime and therefore issues may not arise for a considerably long time. Therefore there should be no longstop in the interests of appropriate customer protection.

Q35: What options are there to close the advice gap? – The longstop review - Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

As previously mentioned in the response to Q24, the FSCS funding should be revisited with regulatory fines used in part to help fund the FSCS.

Q36: What options are there to close the advice gap? – Automated advice - 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?

Just Retirement has successfully built an end to end automated advice service for 'at retirement' advice, one of the most complex areas of financial planning. This has been developed based upon sound advice model principles, with consistent personalised recommendations being automatically generated based on earlier gathered 'Know Your Customer' (fact find) information.

This proves that automated advice can be deployed across the most complex areas of financial planning, but the low-cost financial payback for all this technological development can only be delivered if there is a relatively stable legislative climate in which to work.

Other examples of automated retirement advice in the UK that we have studied to date all use a QCF level 4 adviser between fact find stage and report recommendation generation.

There are several examples of pure investment automated advice in the UK, but these are easier to develop and maintain due to there being less complexity and a more stable legislative environment.

Please also see responses to Q12-Q15 above relating the economics of providing advice services, especially to the mass market.

Q37: What options are there to close the advice gap? – Automated advice - What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?

The FCA innovation hub and specialist retail advice team expertise have been useful, along with guidance papers such as FG 15/1.

Q38: What options are there to close the advice gap? – Automated advice - What do you consider to be the main consumer considerations relating to automated advice?

The amount of data required from consumers points to either human involvement (not necessarily QCF level 4 advisers) to help gather the data or fintech 'gamification' that incentivises and rewards customers to providing data to keep them engaged.

Therefore the key consumer consideration is the willingness to engage purely online / offline by supplying data or engage with someone who may not be a qualified adviser.

Alternative considerations may include how customer data, once captured, can be easily, and cheaply shared across different firms in a customer's life (a 'data passport') to ease the economics of capturing this data. However, there are clear data protection and financial crime risks involved with such considerations.

Q39: What options are there to close the advice gap? – Considering the options to bridge gaps - What are the main options to address the advice gaps you have identified?

The key option that Just Retirement have deployed is automated advice (simplified advice by setting the scope of advice to one particular area, such as retirement options).

As mentioned above, we are advocates of encouraging customers towards advised services through the early sign-posting and the application of appropriate risk warnings so they are pointed towards Pension Wise and advice services.

The principles of Pension Wise should also be built upon to improve services to help customers make their own decisions with trusted services to which customers can be sign-posted to progress such decisions. These may be advised services or non-advised services where customers can gather further relevant information in order to make their own financial decisions in an informed, educated and confident manner.

Q40: What options are there to close the advice gap? – Considering the options to bridge gaps - 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?

The advice market is not competitive and could be characterised as being highly dispersed, lacking scale and operating in small geographical clusters.

As with earlier comments in our response to Q4 about enabling easier product comparisons, the more that can be done to allow customers to fairly and easily compare advice firms, the better level of competition and customer value will result.

Whilst we believe that the same customer protections should exist where advice is provided, the breadth of the advice service entered and how any limitations of the advice and the impacts of these have been explained to customers should be taken into account when considering advice suitability and potential liability. For example, some customers may seek advice about pension drawdown products with no intention of actively switching funds in the future. Where this was clearly noted at the point of advice, advice could be provided at a lesser cost to the customer who wishes access to a much wider range of funds and intends to take a much more active approach to future fund movement.

Advice fees remain a key consideration for seeking advice, both for those seeking advice for the first time and those who already have a financial adviser. Research from 2012 showed that the most common reason for switching their financial advice (36%) was the level of fees charged[7].

Therefore the FCA should consider steps to allow customers to easily compare the costs and benefits provided by different advice firms. The FCA already collects data from advice firms about their charging models, so this may be able to be developed so customers could quickly and easily be able to research this key information relating the different advice firms available to them and through which distribution channels (web, telephone, face to face) these are accessible. This should not be done in isolation as promoting and enhancing the perceived value of advice is just as important.

Q41: What options are there to close the advice gap? – Considering the options to bridge gaps - What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

With consumer protection remaining the paramount focus, any changes should only be introduced after thorough consultation with the industry.

More can be done to centrally promote the value of advice, along with making advice firms and key product sets easier to compare, allowing those who wish to shop around themselves to do so in a safe and information-supplied manner.

New minimum standards should be defined for non-advised services as a way to raise the bar, improve standards and enhance the customer experience.

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[7] The Journal of the Financial Services Forum – 'Desperately seeking advice' by John Gilbert.

HM Treasury

FCA
FINANCIAL CONDUCT AUTHORITY

FAMR

Financial Advice Market Review

Call for input

Contents

The Financial Advice Market Review team at the FCA and HM Treasury is asking for comments on this Call for Input by 22 December 2015.

You can send them to us using the form on our website at:
www.fca.org.uk/famr-response

Or in writing to:

FAMR Secretariat
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Email: FAMRSecretariat@fca.org.uk

In responding to this Call for Input, you consent to your response being shared between, and discussed by, the FCA and HM Treasury.

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Call for Input from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

Abbreviations used in this document

FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
IFA	Independent Financial Adviser
ISA	Individual Savings Account
MiFID	Markets in Financial Instruments Directive
MMR	Mortgage Market Review
PIF	Personal Investment Firm
PRIIPs	Packaged Retail and Insurance-based Investment Products
RDR	Retail Distribution Review

1.
Overview

Introduction

HM Treasury and the Financial Conduct Authority (FCA) announced the Financial Advice Market Review (FAMR) on 3 August 2015 to look at how financial advice could work better for consumers. The Review has a wide scope and aims to look across the financial services market to improve the availability of advice to people, particularly those who do not have significant wealth or income.

We recognise that not everyone wants or needs professional, face-to-face advice and we are aware that advances in technology, particularly the increasing availability of online services, are leading to changes in how people seek advice for their financial planning. In this paper we do not focus solely on services that would meet the regulatory definition of advice but instead use the word 'advice' to capture a wide range of provision of services offering support to consumers.

Consumer engagement with financial services is essential but some people may struggle to find the right support, at the right time, to help them make decisions. People face increasingly complex choices and need the right help to make financial decisions. Some of the main issues facing people at present include:

- increasing complexity in financial services products and how they are described
- increasing choice of products, product features and distribution methods
- increasing levels of debt in some consumer segments
- the impact of technology on how people engage with financial services products and services
- increased flexibility in how people are able to draw money from pension schemes at retirement, and
- changes to demographics, leading to an ageing population and the need to consider issues such as long-term care

In this context, the Review aims to consider:

- the extent and causes of the advice gap for those people who do not have significant wealth or income
- the regulatory or other barriers firms may face in giving advice and how to overcome them
- how to give firms the regulatory clarity and create the right environment for them to innovate and grow

- the opportunities and challenges presented by new and emerging technologies to provide cost-effective, efficient and user-friendly advice services, and
- how to encourage a healthy demand side for financial advice, including addressing barriers which put consumers off seeking advice

Alongside this consultation, the Government will publish a consultation on publicly-funded guidance, such as the Money Advice Service. This will consider how the Government should structure the provision of free, impartial guidance, including that given by the Money Advice Service and Pension Wise, to give consumers the information they need, either to make financial decisions directly or to seek the right additional advice to help them do so. The two Reviews will provide a complementary and comprehensive analysis of the advice landscape.

Where the market for financial advice is working well we expect to see consumers able to obtain the form of advice that best meets their needs, with firms offering them competitive prices, good quality, choice and innovation. Currently not all consumers may be able to find the form of advice that they want on a need they have, at a price they are prepared to pay but, in the context of increasingly complex financial choices, the aspiration must be to maximise the number who are able to do so.

There are a number of reasons why advice gaps may exist. There are barriers to people seeking advice; including, but not limited to, the cost of taking advice, lack of trust and lack of knowledge. There are also barriers to firms providing advice; including costs in searching for and providing products that meet consumers' needs, regulatory costs, ongoing liability for sub-standard advice and potential lack of clarity about regulatory expectations.

We want to focus the Review on situations where we can make the greatest difference in terms of meeting needs for advice and for those products and people where advice can have the greatest positive impact. This will mean focusing our attention on those areas where the complexity of decision making is greatest and advice could make the biggest difference. It will also mean focusing on those consumer segments where people may lack the means to afford traditional, face-to-face advice.

This paper is a call for input, asking readers to contribute their thoughts and evidence on the above matters. We welcome views from readers on the areas that they consider most relevant, but responses do not need to address all of the questions that we pose.

Equality and diversity considerations

This Review will consider whether there are particular difficulties in relation to advice for consumers in vulnerable circumstances.[1]

We will consider if there any groups of people with protected characteristics under the Equality Act 2010 that face particular difficulties in accessing financial advice. The protected characteristics relate to, in alphabetical order: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation.

1 See, for instance, FCA, Occasional Paper no. 8, Consumer vulnerability, February 2015: http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-8.pdf

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?

Next steps

We want to know your thoughts. Please send us your comments by 22 December 2015. To submit a response, please use the online response form on the FCA's website or write to us at the address on page 2.

Following consideration of this feedback, we will publish recommendations in time for Budget 2016.

2.
What do consumers need and want from financial advice?

In this chapter we consider some of the financial needs that drive consumer demand for financial advice and how these might vary according to different consumer groups.

The demand for advice

When consumers take advice it is a step towards addressing a financial need. Therefore consumers are more likely to focus on the end goal of a good financial outcome rather than the intermediate service of advice itself. Advice is also something that by its nature is often difficult for consumers to assess in terms of quality and value, both before and after purchase. Indeed the value of financial advice may not be apparent for many years after it is given, if at all.

People seek different types of support to help in their financial planning decisions. Consumers' needs fall on a broad spectrum, from needing basic information about products through to complex financial planning encompassing all their assets and liabilities.

The terms that have been developed to describe advice within the regulatory landscape (as set out in the Appendix, including labels like focused advice and basic advice, and the distinction between 'guidance' and 'advice') are not always consistent with people's understanding of what advice is. We welcome views on whether we should seek new ways for firms and parties to communicate with consumers about the different forms of financial advice available.

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

Professional advice

Professional advice includes regulated advice which a firm or individual is generally paid to provide. Mintel research indicates that consumers are more likely to seek professional advice for more complex products and when the decision might have a greater impact on their wealth.[2] When asked about areas in which they might need professional advice in the future, the top three responses were: savings and investments (30%), pensions and retirement planning (30%) and

2 Mintel, *Consumers and Financial Advice*, UK, May 2015

mortgages (26%). In comparison, only 11% of respondents expected to need professional advice for life/protection insurance, and 12% for general insurance.

A report by NMG Consulting also shows that consumers are more likely to seek professional advice for more complex needs.[3] For example, their research indicated that consumers are more likely to seek professional advice about starting a pension or retiring, while professional advice was rarely perceived as necessary in case of saving for a 'rainy day'.

The size of an investment is another relevant factor, with a majority of respondents stating they would seek professional advice for an investment above £50,000, but lower proportions when the investment amount is lower. See the section on consumer segmentation later in this chapter for further discussion on how different consumer characteristics affect the demand for advice.

Some consumers clearly place a high value on professional advice and are willing to pay fees for expert advice available from financial advisers. However, for less affluent consumers, even if such advice could be of real benefit, it may be unaffordable or be perceived to be poor value for money.

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

Other forms of advice

Simpler investment decisions may still require support obtained through other advice channels (e.g. advice that falls short of being regulated advice, information from public sources, or price comparison websites). So, for example, while the research quoted above shows that consumers are unlikely to demand professional advice on general insurance, a Mintel report shows that price comparison websites are the most common single source of information for car and home insurance purchases.[4]

While for general insurance products, online research might be sufficient for some consumers, it should be noted that in most cases consumers prefer to seek information from a variety of sources, and the sources preferred depend on the nature of the product. For example, individuals buying car insurance used sources such as price comparison websites (69%), product provider websites (26%), phone calls with providers (23%), and other online resources (20%). For comparison, individuals buying a mortgage reported consulting professional financial advisers (39%), speaking to bank/building society branch staff (31%), consulting price comparison websites (26%), reading material on product provider websites (19%), and speaking to providers over the phone (19%), as well as several other sources.

Some consumers make at least some of their financial decisions independently, using generic advice or using publicly-available information. This includes experienced consumers, as well as some who may be overconfident when it comes to making a financial decision. An NMG Consulting report shows that the primary reasons for people not taking professional advice in relation to investments were the desire to remain in control of their investments (18%), feeling as competent as an adviser (17%), completing an activity simple enough not to warrant seeking professional advice (14%), and not being willing to pay an adviser fee (14%)[5]. This data is supported by the Mintel report, which argues that the observed (marginal) shift towards channels that do not offer a personal recommendation could be explained by consumers wanting to stay in control of their investments and believing they were as capable as an investment adviser.

3 NMG Consulting, *Impact of the Retail Distribution Review on consumer interaction with the retail investment market*, 2014: http://www.fca.org.uk/static/documents/research/impact-of-rdr-consumer-interaction-retail-investments-market.pdf

4 Mintel, *Financial Services: the path to purchase*, UK, June 2015

5 NMG Consulting, *Impact of the Retail Distribution Review on consumer interaction with the retail investment market*, 2014: http://www.fca.org.uk/static/documents/research/impact-of-rdr-consumer-interaction-retail-investments-market.pdf

Q4: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?

Do different consumers have different needs for advice?

Different consumers have different financial needs according to, among other factors, their stage in life, financial sophistication, income, debts and wealth.

In some cases, consumers will have only one or two specific needs to consider at one time. In other cases, they may wish to review their entire financial situation. Advice is likely to be more complex the more interactions there are between different needs.

Common financial issues for which consumers may need advice, in order of complexity and the potential risks to consumers arising from making a mistake, are set out in the box below:

Less complex

- Saving for short term needs
- Insuring valuable assets, such as a home or car
- Protecting against misfortune, such as death, disability or sickness
- Taking out an unsecured loan (e.g. to finance the purchase of a car)
- Financing a house purchase
- Saving into a pension for retirement
- Investing to meet other medium and long-term needs
- Coping with debts
- Saving for retirement
- Using pensions, savings, investments or home equity to provide an income in retirement

More complex

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

Consumer segmentation

The FCA uses a consumer segmentation model, called the Consumer Spotlight, in its work.[6] This model examines how people deal with money and financial services, with a focus on the capabilities and potential vulnerabilities of different groups. The model informs the FCA's ongoing work looking at the potential impact of emerging risks. We propose to use this model as the basis of the Review's work on consumer segmentation.

6 The Consumer Spotlight is the result of a specially commissioned survey of over 4,000 people across the UK. This has been combined with other large data resources to produce a detailed view of attitudes, behaviour and capability in dealing with financial matters. All data refers to 2013.

The segments are as follows:[7]

Starting out	Slightly below average income but technologically advanced with a high level of education. Mostly under 45, single, without children. Almost all are renting. Approximately 5m people in the UK adult population.
Living for now	Low incomes, with most working or studying. Confident using the internet but less confident about financial matters – although they will take more risks than average. Approximately 8m people in the UK adult population.
Hard pressed	Low incomes, with many struggling with everyday expenses. Many have no savings or investments, and are not confident with financial decisions. Approximately 6m people in the UK adult population.
Striving and supporting	Mostly in work, with low incomes. More than half have dependent children. Risk averse, but can struggle with bills or fall behind with payments. Approximately 6m people in the UK adult population.
Stretched but resourceful	Likely to own their home, many have savings, investments and pensions. Half have children at home. Confident about financial matters, but time-poor. Approximately 7m people in the UK adult population.
Busy achievers	High household income, with mortgages, pensions and some savings. In work, with children at home. Can access information and services easily but time is very limited. Approximately 3m people in the UK adult population.
Affluent and ambitious	Mostly aged between 35 and 60, with high incomes. Most own their homes and work full-time. Highly educated and financially confident. Approximately 4m people in the UK adult population.
Mature and savvy	Confident and well informed about financial services, with higher incomes and savings than average, and most in full-time work. Approximately 2m people in the UK adult population.
Retired on a budget	Mostly over 65, careful with their money, staying loyal to providers. Limited access to services and information. Approximately 4m people in the UK adult population.
Retired with resources	Mostly retired homeowners. Risk averse and rarely in debt, with high savings and a range of financial products. Well informed on financial matters, preferring traditional channels. Approximately 7m people in the UK adult population.

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

Q7: **Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?**

Consumer income and wealth

The central differences among different consumer groups relate to their level of income or wealth. For example in relation to investments, the net monetary benefit of professional advice is likely to be greater for those with higher levels of wealth or income, as the cost of advice is lower relative

7 Detailed information on the characteristics and numbers in each segment may be found here: https://www.fca-consumer-spotlight.org.uk/explore-segments#na

to their level of investments. By contrast, more expensive types of advice may not be cost effective for those with lower amounts to invest.

Data from a 2013 Bank of England survey shows the total pre-tax annual household income distribution as follows:[8]

Household total annual income before tax	Proportion of population
Up to £6,499	2%
£6,500 - £9,499	2%
£9,500 - £13,499	6%
£13,500 - £17,499	7%
£17,500 - £29,999	30%
£30,000 - £49,999	31%
Over £50,000	20%
Don't know/prefer not to state	2%

The following table, also drawn from the Bank of England data, shows household wealth held in savings and investments (excluding pensions) distributed across the population as follows:

Household wealth held in savings and investments	Proportion of population[9]
No savings/investments	20%
£1 - £4,999	25%
£5,000 - £9,9999	8%
£10,000 - £24,999	11%
£25,000 - £49,999	7%
£50,000 - £99,999	6%
£100,000 - 149,999	3%
Over £150,000	6%
Don't know/prefer not to state	13%

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

What stops people seeking advice?

There are a number of factors that prevent many people from seeking advice. These are likely to be particularly significant in relation to professional advice. They include:

8 Bank of England, *The financial position of British households, evidence from the 2013 NMG Consulting survey*, Q4 2013: http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130406.pdf and http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&uact=8&ved=0CB0QFjAAahUKEwjgyaOj-ZnIAhUBHhQKHfihBL8&url=http%3A%2F%2Fwww.bankofengland.co.uk%2Fpublications%2FDocuments%2Fquarterlybulletin%2F2013%2Fnmgsurvey2013.xls&usg=AFQjCNESPDN9asMyE2DEn5n3P9sAGCXuQQ

9 Note that the sum of the categories may not add up to 100% due to rounding

- **Price** – consumers may view the price for advice, particularly for professional, face-to-face advice, to be too high. A survey by unbiased.co.uk found that consumers are paying an average hourly rate of £150 for professional, regulated advice (though this represents a 14% drop compared to 2013)[10]. Some consumers may also find it hard to judge the value of advice because the benefits are usually deferred over time and more intangible than for purchases of non-financial products.

- **Lack of trust** – consumers may not trust firms in the financial services market to act in their best interests, or be able to identify which firms are trustworthy and could provide valuable service.

- **Lack of knowledge** – consumers might not recognise the need for advice or be aware of it. They also may not understand how to obtain it. As many people engage only infrequently in the market this is not an area where people can easily gain experience to inform future decisions. In addition, consumers may lack confidence about the process, feel embarrassed about their lack of knowledge or concerned they may be judged for previous decisions – this may cause consumers to make non-advised financial decisions with poor outcomes. For example, the Mintel report shows that there might be a sizeable group of consumers who lack a basic understanding of what professional advice involves and how to obtain it. Of the consumers surveyed, 44% believe it is too complicated to understand how financial services firms can help them manage their finances, and 34% do not believe that professional advice is geared towards them. Moreover, 14% of consumers said they would not know where to begin looking for a financial adviser.

- **Engagement** – consumers who are disengaged with financial services generally are unlikely to engage with the process of seeking advice. Others may not recognise the complexity of their financial needs; e.g. longevity, tax, long-term care, benefits and investment returns may be relevant to a decision about retirement planning. Still others may feel they need financial advice but never be prompted sufficiently to seek it.

- **Overconfidence** – some consumers might believe they are as competent as a professional adviser even though they could benefit from using one. As a result, consumers might not seek professional advice or, if they do, not follow the advice.

- **Access to face-to-face advice** – depending on their location, some consumers may not have easy access to advisers, and others may not wish to make the time to meet with an adviser.

- **Access to the internet and concerns with sharing data online** – where advice is available via the internet (for example in the form of information, generic advice or an automated online advice service), lack of ability to use such channels and tools may prevent some consumers from getting advice in this way. Consumers may also have concerns about sharing sensitive personal data online.

- **Advice not necessary** – consumers may make a rational and reasonable decision that they do not need advice and are capable of making a decision themselves. This could be the case, for example, where the situation and options are simple and the risk is low, or where the effort or cost of seeking advice is disproportionate to the benefits.

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

10 Unbiased.co.uk, unbiased.co.uk reveals hourly fees for financial advice have decreased by 14% over the last year, November 2014: https://business.unbiased.co.uk/press-releases/unbiased-co-uk-reveals-hourly-fees-for-financial-advice-have-decreased-by-14-over-the-last-year-10-11-2014

3.
Where are the advice gaps?

In this chapter we ask for your thoughts on the gaps between the levels of advice that are currently available and what consumers need from advice.

The supply of financial advice

As explained earlier, we are considering a broad spectrum of advice services as set out in the box below.

Tailored/ personalised

- Holistic or focused face-to-face professional advice
- Professional financial advice delivered remotely (e.g. online)
- Generic advice which falls short of regulated professional advice but nevertheless helps consumers make better financial decisions
- Tools to facilitate financial decision-making, such as online tools and calculators
- Relevant information

Generic/ non-personalised

Traditionally, sales and distribution of retail financial products in the UK has been associated with professional and, often, face-to-face advice. For example, in 2007, two-thirds of retail investment products were sold with professional advice. This conjunction of professional advice and product sales is also a feature in other countries.

However, in recent years we have seen a decline in the number of financial advisers offering professional advice (from around 26,000 in 2011 to 24,000 in 2014). A number of major providers have cut back their professional advisory businesses, or left the market.

In addition it appears that a number of those firms offering advice are focusing more on wealthier customers rather than the mass market.

We have also seen a trend away from the provision of professional advice, toward consumers making purchasing decisions based on information and generic advice. The FCA’s product sales data suggests that the proportion of retail investment products (which includes pensions, retirement income products, and investments) sold without advice has increased from around 40% in 2011/12 to around two thirds in 2014/15. There may be a number of factors behind these trends including:

- technological developments, such as availability of online support tools and information for decision-making and purchasing financial products
- people feeling more confident making their own decisions
- lack of trust from consumers in professional advisers
- an increase in regulatory and other costs in the provision of advice, including higher standards of qualification for financial advisers
- the continuing cost of paying redress to consumers where poor advice has been given in the past (directly and indirectly in costs of business through regulatory fees such as FSCS funding)
- transparency of the cost of advice to consumers following the RDR (as opposed to less visible costs in the form of commission), resulting in a reduction in demand for professional advice

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

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?

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

The economics of supplying advice

Understanding firms' economic incentives to provide advice is critical to establishing the causes of any barriers that firms may face and identifying practical solutions to overcome them. We want to understand the different business models for providing advice in terms of the factors that affect cost and revenues. We also want to understand how costs and revenues are affected by technology. In particular

- **What does it cost to provide advice?** The cost of providing advice can influence firms' economic incentives very strongly. Costs will vary significantly depending on how complex and personalised the advice is. The need to earn a direct return from the service will also vary. Some of the categories of cost include expenditure on marketing to attract customers; direct costs, such as staff training and the preparation and delivery of advice by financial advisers and support staff; cost of technology; direct regulatory costs, including compliance costs; and indirect regulatory costs, such as potential costs of future liability claims. Often the scale of the business can influence costs too – e.g. where a technology that may be costly to build can be delivered to consumers more cost-effectively on a larger scale. Some providers may be able to leverage fixed costs (e.g. in their branch networks) to enable advice to be delivered at lower marginal cost. The structure and level of these costs will have a direct impact on firms' incentives to provide advice.

- **What are the sources of revenue from providing advice?** Revenues need to be sufficient to meet the costs of supplying advice. It may be the case that for some business models, the cost of serving some customers, for example those with lower incomes or assets, is not met by the potential revenues from supplying the advice and/or selling products to those customers. We are aware that some advisers set thresholds for the minimum income or assets a customer needs to have. However some advisers may find ways of cross subsidising the cost of some types of advice between clients which may enable them to serve a wider range of customers. Others may have generated additional revenue streams on top of the fees from providing advice to clients.

Q13: Do you have any comments on how we look at the economics of supplying advice?

Q14: Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Q15: Which consumer segments are economic to serve given the cost of supplying advice?

Barriers to firms providing advice

There are a number of factors that may dissuade firms from providing advice, particularly in relation to professional advice, where a number of firms have left the market in recent years.

- **Establishing reputation and trust** – as noted in Chapter 2, consumers may lack trust in the financial services industry and it takes time for firms to establish a brand presence, and to build a trustworthy reputation.

- **Finding consumers** – with consumers finding it difficult to engage in the market and lacking knowledge of financial services, it may be challenging for firms to identify new consumers at the point at which they need advice.

- **Regulatory clarity** – when providing advice, particularly professional advice, firms need to consider the requirements of individual consumers. This involves a degree of judgement. Attempts have been made by the FCA to assist firms with guidance to help them understand their regulatory responsibilities, for instance on the boundary between regulated financial advice and non-regulated advice.[11] We recognise, however, that the legal framework is complex.

- **Business costs** – the costs involved in providing advice, including technology costs, staff training and achievement of qualifications, and adviser salaries, may be a barrier.

11 FCA, FG15/1, Retail investment advice: clarifying the boundaries and exploring the barriers to market development, January 2015: http://www.fca.org.uk/static/documents/finalised-guidance/fg15-01.pdf

- **The regulatory cost of providing advice** – costs arising as a result of complying with regulatory requirements may be a concern to firms. The Association of Professional Financial Advisers has published survey results on the cost of regulation. Their June 2014 report found that smaller firms are spending, on average, 12% of their income on direct and indirect regulatory costs. Of this, 3% is spent on direct fees and levies (including for the FCA, FOS, FSCS, and the Money Advice Service), and 9% on indirect costs (such as compliance checking, regulatory reporting, management time dedicated to regulatory issues, and insurance).[12] However, for the smallest firms the percentage increases to around 20% of revenue, with indirect costs accounting for 16%. Direct regulatory costs include the cost of funding the FSCS, whereby firms face the uncertainty of costs which vary depending on the level of poor advice given by others in the sector (and therefore the number of compensation claims against other firms) and the number of firms going out of business.

- **Lack of profitability** – advice for some types of business or in relation to smaller investment sums may not yield sufficient revenue to be worthwhile. Firms may adopt different business models to ensure supplying advice is viable and profitable (e.g. supplying low cost/ low margin advice to a large number of customers), but there may be limits to what is feasible.

- **Liability** – firms may be liable to pay redress in relation to advice that falls below the standards expected, where that failure leads to consumer losses. For example, advisers may be liable if they do not take reasonable steps to ensure that a personal recommendation is suitable for their client or do not act honestly, fairly and professionally in the best interests of clients. Advisers may also be liable under the common law where they act negligently (for example, do not exercise the expected standard of skill and care) or act in breach of any contractual duty to advise.

  The Financial Ombudsman Service considers consumer complaints which firms have not been able to resolve themselves. Use of the Financial Ombudsman Service is free for consumers and its determinations are binding on firms. Under the general law, defendants to a professional negligence claim can normally rely on a limitation defence if it is brought more than 15 years from the accrual of the cause of action. In contrast, although there are time limits for referring complaints to the Financial Ombudsman Service (subject to certain exceptions), there is no ultimate 'longstop' after which a complaint would be dismissed if the firm objected to the Ombudsman considering it.

  The FCA has received feedback from industry in the past that the various routes by which they might be held liable to consumers for advice given add to the costs of advising (due in part to the need for proper professional indemnity insurance), and may act as a disincentive to new firms entering the market.

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

What is an advice gap?

Different commentators offer different definitions of what constitutes an advice gap. As a starting point for the Review, we suggest that the advice gap should be regarded as any situation where

12 Association of Professional Financial Advisers, The cost of regulation 2013 report, June 2014: http://www.apfa.net/documents/publications/apfa-cost-of-regulation-june-2014.pdf

consumers cannot get the form of advice that they want on a need they have, at a price they are prepared to pay.[13]

The advice gap may also include areas where consumer demand is low because the long-term benefits of advice may not be fully appreciated. However, we would not expect this to include situations where there is no real need for advice, for instance when a consumer has the appropriate knowledge to take decisions without assistance, or when the decisions they need to take are not complex.

Note that we do not intend to consider the savings gap – i.e. the gap between what people are saving and what they should be saving in order to meet their goals – directly as part of this Review. There may however be a relationship between an advice gap and a savings gap insofar as advice may also serve as a prompt for people to save. We welcome any evidence on this point.

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

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

Where are the advice gaps?

Our preliminary view is that the market works better for some consumer segments and some types of advice than others. As a starting point, based on the data in Chapter 2, we believe that:

- certain sectors of the market appear to be working well and to show no signs of a significant advice gap:
  - given the availability of high street bank and building society branches and phone and internet access to savings accounts, we think there is less chance of an advice gap existing in the deposit market
  - most retail general insurance is sold direct by providers or via online comparison platforms and brokers. There seems to be little demand for additional sources of advice
  - as credit products are available via bank and building society branches, online and over the phone, we do not believe there is a significant advice gap with the important exception of advice when debts become unmanageable. Access to advice in these cases is crucial and the separate public financial guidance consultation will consider this area.
  - property is the principal way of accumulating and holding assets for a large majority of UK consumers, thus appropriate access to mortgage advice is important. Under the FCA mortgage regime the great majority of consumers now receive advice, so we do not consider there to be an advice gap in this sector[14]
- wealthier consumer groups and those with complex needs are more likely to seek and to be able to afford professional advice

13 Recall that we use a broad definition of advice in the Review, so examples of advice gaps include consumers who want information, generic advice or professional advice to help them address a specific financial need and cannot get it or are not willing to pay for it.

14 The impact of the provision of advice on competition in the mortgage sector is being separately considered as part of the FCA's ongoing Call for Inputs on the Competiton in the Mortgage Sector: https://www.fca.org.uk/news/call-for-inputs-competition-mortgage-sector.
We will use any relevant intelligence gathered through this exercise to inform our work.

- people who have some existing savings but not significant wealth are less well served at present. Retirement income is one area where there is an obvious need in the light of the pension reforms, and where some people may be facing a complex financial decision without being able to access appropriate professional advice or without recognising the benefit of seeking such advice

In this review we aim to identify and prioritise where advice gaps exist for the different consumer needs by consumer segment. An illustrative framework is set out below. We welcome input as to where the most important advice gaps are on this 'heat-map'.

	Taking an income in retirement (including through equity release)	Saving into a pension	Saving for short-term needs	Taking out credit and managing debt	Investing	Getting retail general insurance cover	Getting life insurance and protection cover	Taking out a mortgage
Starting out								
Living for now								
Hard pressed								
Striving and supporting								
Stretched but resourceful								
Busy achievers								
Affluent and ambitious								
Mature and savvy								
Retired on a budget								
Retired with resources								

Q19: Where do you consider there to be advice gaps?

Q20: Do you have any evidence to support the existence of these gaps?

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

Where we plan to focus our work

We propose to focus initially on advice in relation to investing, saving into a pension and taking an income in retirement. These appear to be the sectors where consumers could benefit most from increased access to advice. We will focus on consumers with some money but without large wealth. We invite feedback as to whether these are the right areas for our focus or if more should be done to assist consumers in other sectors.

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?**

Q23: **Do you agree we should focus our initial work on consumers with some money but without significant wealth? What exact income/wealth thresholds should we use to determine which consumers we will focus on?**

4.
What options are there to close the advice gap?

In this chapter we summarise the regulatory framework and some previous attempts to increase consumer engagement, and then ask for thoughts on options that could help to address the advice gap.

The regulation of advice

Much of the regulation of advice is drawn from EU legislation. National regulators, like the FCA, may not impose lighter standards than are required by EU law. In some areas, equivalent standards have been applied to matters that are not covered by EU law on the basis that, for example, it is easier for firms to deal with one set of regulatory standards.

EU legislation defines how several very important aspects of the advice market can work in the UK. Specifically, EU legislation contains conduct requirements for firms that have a substantial impact on the UK market including:

- Obligations on firms to act in the best interests of clients
- Standards to ensure personal recommendations are suitable for clients
- Obligations for firms to ensure communications with clients are 'fair, clear and not misleading'
- rules on how firms communicate and disclose important information about their products and services to clients
- Conditions on what third party inducements (including fees and commissions) firms can pay and accept and the circumstances in which they are able to do so.

In some instances, EU legislation is currently under review by the European Commission and the Review may consider recommending representations be made by the appropriate authorities to the European institutions in respect of those obligations, if appropriate. We are also aware that the European Commission has recently proposed, as part of its Action Plan on Building a Capital Markets Union, a comprehensive assessment of the European investment markets – including the advice sector – and we will seek to work with the Commission on this work, drawing on the findings of our own Review.

We invite input on whether there are aspects of either domestic or EU legislation that could be changed to enable the UK advice market to work better. We will use this input to inform our responses to the EU's upcoming Green Paper on competition in cross-border retail financial services and insurance. We expect that the main recommendations of the Review will not be dependent on changes to the EU legislative framework. However, if significant opportunities for improvements to the UK advice market through changes in EU law are identified, the Review may consider recommending that UK authorities seek those changes.

The provision of certain kinds of financial advice on certain products in the UK is a regulated activity and only those firms authorised to do so by the FCA (or another EU regulator) may provide such advice. The rules relating to the provision of different kinds of regulated advice differ depending on the financial product and service.

In general, where a firm provides a personal recommendation to a client in the UK, it must take reasonable steps to ensure that its recommendation is suitable for its client. If a firm fails to meet this obligation and provides unsuitable advice and a consumer suffers financial harm as a result, the consumer may complain and seek redress. As a rule of thumb, the firm should put the client back into the position they should have been in had they not provided the unsuitable advice. If the client is dissatisfied with how the firm has dealt with the complaint, the client may be able to refer the complaint to the Financial Ombudsman Service.

If the firm has gone out of business, the consumer may be able to seek compensation from the Financial Services Compensation Scheme (FSCS) – or another EU scheme if the adviser is authorised elsewhere and their home state compensation scheme covers unsuitable advice[15]. The cost of compensation paid by the FSCS is paid from levies on authorised financial services firms.

The FCA's Retail Distribution Review (2012) changed a number of aspects of the way financial advice is provided in the UK for retail investment products, setting new standards for professional standards, independence and remuneration. See the Appendix for more detail on the regulatory framework.

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?

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?

Previous initiatives to improve consumer engagement

Previous initiatives have aimed to encourage increased participation in financial services by people on low-to-medium incomes and with little experience of the sector and limited existing provision. Notably there have been attempts to introduce straightforward products at low prices, to be supported by simplified advice requirements.

Simple products and basic advice

A number of 'simple product' initiatives have been operated in the past in the UK, including:

- CAT standard ISAs (which meet certain criteria in relation to charges, access and terms) that aim to offer reasonable returns, and
- special rules for the provision of 'basic advice' in relation to stakeholder products (such as stakeholder pension schemes, certain deposit accounts and child trust funds)

15 In some cases the FSCS can provide compensation if an EEA authorised firms carries on business from an establishment in the UK.

Most analyses of these 'simple product' initiatives characterise them as having failed to create the anticipated increase in engagement or advice provision, particularly in the main target markets.[16]

Consumers did not have the knowledge, confidence or enthusiasm to seek out simple products on their own initiative, meaning that potential levels of business were insufficient to encourage providers to offer such products. The combination of relatively low charges, free movement in and out of products without penalty and the relatively low amounts invested by many users, meant there was little incentive for firms to invest in the sales and distribution of these products. In particular, the low fee cap on stakeholder products was seen as incompatible with the provision of professional advice.

While these 'simple product' initiatives did help many people, they are not considered to have been as successful as might have been hoped. We would be interested in your thoughts on why these initiatives did not succeed as fully as they might have done, to help ensure that our work can learn from them.

International experience

We are also keen to hear examples of best practice for bridging advice gaps in other jurisdictions. We are particularly interested to hear about international experience in:

- fostering an environment where technology-based advice models can be effectively developed;
- finding ways to deliver high quality advice at an affordable cost to consumers with modest sums to invest; and
- finding an appropriate balance between protecting consumers interests and preserving the economic incentive for the industry to deliver advice.

Below we include three examples of varying approaches to advice regulation internationally. These are provided by way of comparison for illustrative purposes only, as we have not assessed their effectiveness. At this stage we are interested in views on whether we could learn from any of these or other examples.

16 *Literature Review on Lessons Learned from Previous 'Simple Products' Initiatives*, Professor James F Devlin: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/81571/lessons_learned_from_simple_products_initiatives.pdf

International Example A) Australia

Australia introduced the Future of Financial Advice (FOFA) regulation in 2012-2013.

The objective of FOFA was to improve the trust and confidence of Australian retail investors in the financial services sector and ensure the availability, accessibility and affordability of high quality financial advice. FOFA includes:

- A requirement that the adviser act in the client's best interest, including a safe harbour which advisers could rely on to show they have met the best interest duty. This included a 'catch all' clause to 'take any other steps reasonable in the circumstances'.
- An opt-in requirement to renew fee agreements every 2 years.
- A requirement for annual fee disclosure.
- A ban on conflicting remuneration structures such as commissions for investments (not including life insurance)

Following this, in 2014-2015, a set of technical amendments were made, mainly to correct errors in the original legislation.

The Australian Government is currently considering whether to legislate in relation to professional development and training of advisers and is considering reducing high up front commissions on life insurance products.

International Example B) Netherlands

The Netherlands' Authority for Financial Markets introduced a number of reforms similar to the UK's Retail Distribution Review (RDR). The objective was to shift the culture in the market from product-driven sales to consumer-focused advice by removing the incentive for advisers and intermediaries to recommend products that were not in the best interests of the client. These reforms included:

- A ban on remuneration through commission, including (packaged) investment products and mortgages. This was recently extended to cover other retail investments.
- Rules on product governance, setting standards for the product oversight and governance process as well as for suitability of products.

International Example C) U.S.

Under current US securities regulations, brokers must make "suitable" recommendations, meaning that investments must fit the customer's needs and tolerance for risk. These brokers are not subject to a fiduciary standard.

In contrast to this, investment advisors must follow a fiduciary standard which is generally defined by the Investment Advisors Act 1940. There are limited competence requirements for investment advisors and no specific restrictions are placed on conflicts of interests and fee structures. Instead, advisors are a "fiduciary" to their advisory clients, and therefore have a fundamental obligation to provide investment advice in the best interests of their clients. Investors are responsible for selecting their own advisors and negotiating arrangements with them based on the disclosure they receive.

While the market is still developing, there has been a large degree of recent innovation in the US advice market and there are a number of significant advice websites serving customers.

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

Q27: Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

Options for bridging advice gaps

We set out below some of the broad types of proposal that could be used to address the advice gap. We then pull out two specific areas – limiting liability and automated advice – where debate has recently been focused. However, we welcome views on all the proposals and indeed others.

Improving access	Options to improve access could include: • encouraging workplace advice • encouraging advice in accessible locations like libraries or post offices • supporting the development of online advice • sharing the costs of advice with employers, or subsidising the cost through some form of levy on the industry
Improving trust	Improving the alignment of industry interests with those of consumers may help address concerns of those who lack trust.
Increasing awareness of the value of advice	Making consumers more aware of the long-term benefits of seeking financial advice could help stimulate engagement among those who have a need for assistance but are not currently willing to pay. The Review may consider whether the Government could work with industry and employers to enhance awareness through methods such as signposting (pointing consumers towards advice) or public information campaigns.
Reducing risks and uncertainty for firms	The potential risk for firms of having to pay redress when providing advice that causes consumer loss is likely to be a major concern for the industry. It may be that one recommendation from the Review is to look at whether there are product or advice types where potential liability can be reduced in certain instances or where consumers can reasonably take more responsibility for their investment decisions (see below). We would be interested to hear whether the FCA can build on previous guidance on the boundary between regulated advice services and non-regulated advice[17] and provide more support to help reduce uncertainty for firms.
Reducing the cost of providing advice for firms	We are particularly interested to hear from the industry where direct and indirect regulatory costs are highest and where they can be reduced without leading to increased detriment for consumers. There may be certain types of advice or certain types of financial product that could be sold on the basis of more limited regulatory requirements.
Promoting innovation and competition	New and emerging technologies present opportunities and challenges to provide cost effective, efficient and user friendly advice services. There may also be options that address structural issues – such as barriers to entry – that hinder innovation and competition. Similarly, it may be possible to improve incentives for firms to encourage new entrants into the market.

17 FCA, FG15/1, Retail investment advice: clarifying the boundaries and exploring the barriers to market development, January 2015: http://www.fca.org.uk/static/documents/finalised-guidance/fg15-01.pdf

Limiting certain liabilities

If firms follow FCA rules and guidance when giving advice and are not negligent then they will not incur liability and will not need to pay compensation to consumers for advice given. However, there is concern that there is a degree of subjectivity involved in judging whether firms have complied, and there is also fear among industry (whether well-founded or not) that retrospective action may be taken if standards change in the future, or if there are unexpected developments in the market. Therefore firms have argued that uncertainty exists which discourages firms from providing advice as this could lead to potential future liability.

One question we will consider is whether any 'safe harbours' may be appropriate for financial advice, and if so, whether they would be possible given, amongst other things, the constraints of EU law. By safe harbour, we mean a regulatory provision which reduces or eliminates uncertainty and potential liability in certain circumstances or if certain conditions are met. Some safe harbours already exist, for example, in FCA guidance on rules, in confirmed industry guidance and where the FCA modifies or waives rules.

There are a number of factors to consider before we can specify what form any additional safe harbours might take. FAMR has not made any judgment on this at this stage, and examples are purely illustrative. The factors are:

- What the safe harbour might be in respect of – it could relate to regulation regarding a particular type of advice, or specific products. For example, liability could be reduced in the case of focused advice, or advice without a personal recommendation. Alternatively, it could be reduced in the case of simple products where a specified set of actions to determine suitability have been taken pre-sale.

- What the firm is 'safe' from and how this benefits consumers – this could range from protection from FCA penalty in respect of breach of a rule, or from liability to consumers more generally, for example in court or before the Financial Ombudsman Service.

- The extent of the protection the safe harbour provides for firms – the FCA could specify actions firms can take that 'tend to establish compliance' with particular rules in certain circumstances (the effect of evidential rules). Alternatively, the FCA could specify precisely conduct which complies with a rule and conduct which does not. This is a more 'hard-edged' safe harbour that would give the firm greater certainty.

- How reasonable it is for firms which have charged to provide a service (advice) to be able to avoid liability for that advice

The intention of regulatory safe harbours is often to reduce the uncertainty that firms may face when regulation does not specify exact requirements, or is outcome focused. They are designed to protect firms where they have behaved in line with guidance. Therefore in circumstances where regulatory uncertainty could increase barriers to firm innovation, a safe harbour might reduce that uncertainty and so remove some of the barriers to firms providing advice. We are interested in hearing your views about what form a safe harbour might take to encourage firms to provide advice and innovate to a wider range of consumers.

We are also equally interested in your view of the impact a safe harbour could have on consumers. We are interested in your views on consumer protections and any increased risk to consumers, particularly around the quality of advice they receive and their ability to secure redress.

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?

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

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

The longstop review

A longstop is a limitation period which prevents claims being brought after a set time following the act or omission which the claim relates to. The FCA has previously committed to review the question of whether there should be a longstop limitation period in relation to liability for long-term advice. This review will now be incorporated into FAMR.

There is currently no longstop after which the Financial Ombudsman Service (Ombudsman) will no longer consider a complaint, although there are some time limits. Very broadly, the time limits can prevent the Ombudsman from considering complaints where what is being complained about took place more than six years earlier or, if later, three-years from when the complainant realised (or should have realised) that there was a problem.

The FSA previously reviewed whether a longstop was needed[18]. The FSA deemed that it was important that consumers were provided with a means by which to claim redress from a firm in relation to advice about long term products or services where they could not earlier have reasonably known that they had cause to complain. This could be the case for example in relation to advice on pensions, investment and mortgage products, the terms of which can be 25 years or longer and where the outcome is often uncertain until the end of that term. The ability of consumers to be able to complain helps to ensure that consumers have the confidence to take advice knowing that they will be compensated if the advice is unsuitable.

However, the effect on firms is that they can remain liable in the long term for unsuitable advice which they might have provided to clients many years ago. There is a concern that firms perceive that the risks they face are too high as a result of their ongoing liability, and so may be discouraged from providing advice about long-term products. Similarly, the absence of a longstop could potentially cause a barrier to entry or exit from the financial advice market, either for individual advisers or firms.

The absence of a long stop may further contribute to higher costs to firms through greater professional indemnity insurance premiums (PII) across the industry.

We understand that there are relatively few awards by the Ombudsman made against financial advisers in response to complaints relating to incidents longer ago than fifteen years (which would be likely to be barred if a longstop were in place); there were only 254 such cases taken to the Ombudsman against financial advisers during 2014/2015, out of 6,297 complaints against all firms

18 FSA, FS08/06, Retail Distribution Review: including feedback on DP07/1 and the Interim Report, November 2008: http://www.sfc.hk/web/doc/EN/general/general/lehman/Review%20Report/Exhibit%203.pdf

not relating to payment protection insurance (PPI). Of these 254 complaints only 30% (76 cases) were upheld.

As part of our review we will be evaluating the options around implementing a longstop. This will include considering if it may be possible to put in place an alternative approach to providing an appropriate level of protection for consumers which might also remove or reduce the burden of indefinite liability on individual firms. We will be actively seeking views from stakeholders on options during the coming months.

The options the review will consider include:

- **Maintaining the current regime** – not putting in place a longstop
- **Introducing a single longstop** – for example, a longstop of 15 years (such as that applying to certain causes of action under the Limitation Act 1980), or using a different time period recognising the long life of financial services products
- **Introducing varied limitation periods linked to the terms of products** – for example, differential time limits which reflect the nature of products or advice, so that liability extends for a longer period when it relates to longer-term products (for example, 25 years for a mortgage).
- **Enhanced professional indemnity insurance (PII)** – strengthening PII for firms so that it includes cover sufficient to meet claims relating to long-term advice, whether the firm is still in business or not
- **A compensation fund** – setting up a compensation fund which would pay out in the event of a justified claim older than fifteen years against an individual firm, which all firms would contribute to, but which would not require the firm concerned to be insolvent before paying

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

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

Q35: Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

Automated Advice

A number of new digital models are emerging in the industry. The range of web-based services being established includes execution only services, advice (ranging from simplified advice to full advice), and fully managed investment solutions. The level of automation in these models varies. There are examples of fully automated models as well as hybrid models, which include interaction with a qualified adviser during the process.

It is clear that these new technologies could have a significant role to play in meeting customers' needs around financial advice in an efficient and user friendly way. We are interested in the opportunities and challenges presented by new and emerging technologies to provide cost effective advice services

We are particularly keen to understand how the regulatory environment can be supportive of technology-based advice models that can meet consumer needs at low cost. While some firms have successfully launched automated and semi-automated models within the current regulatory frameworks, others have reported that they have developed new automated models of advice but have not felt able to take them to market.

We also want to understand consumer issues that may arise from automated advice. FAMR will consider:

- The economics of automated advice - automated advice has the potential to be much cheaper and quicker than face-to-face advice and we are interested in the effect this could have on the cost and availability of advice.

- Consumer attitudes to automated advice - we will consider whether consumers trust automated advice and if automated advice can meet consumer needs.

- Any potential risk to the consumer, particularly regarding the quality of advice received.

We are working closely with the FCA's Project Innovate[19] to understand the regulatory barriers to innovation in the advice sector. We would be interested in your views on what steps we should take to develop and encourage digital models.

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?

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

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

Considering the options to bridge gaps

We invite feedback on the advantages and disadvantages of these various options (including the broad types of proposal in the box above) and ask respondents to suggest alternatives that could be considered.

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

The Review will consider the impact of possible solutions on the competitive dynamics of the relevant markets, in order to ensure good consumer outcomes. This primarily means a consideration of effects of the proposed solutions on competition in the advice market. Where

19 Project Innovate is an FCA initiative which helps innovative businesses get to grips with the regulatory dimension of their innovations as easily as possible (see appendix for detail)

appropriate, we may also have regard to the effects on competition in the markets for the financial services concerned, e.g. retirement income.

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?

Whatever solution is pursued, the Review aims to ensure consumers still receive advice that is of appropriate quality. There is a balance to be struck between reducing costs and uncertainty for the industry and providing an appropriate degree of consumer protection. Measures that lead to significantly lower standards or make it harder for people to seek redress for losses caused by breaches of, for example, regulatory requirements when receiving advice, are unlikely to encourage demand or successfully close advice gaps in the longer term, or indeed to foster trust.

Equally, if there is a lack of an economic incentive for the industry to provide advice services to all consumers who need it, then some consumers may suffer detriment through being unable to access advice. This detriment may be incurred to a greater extent by consumers of average or below average income and wealth. The Review will work to provide the foundations for solutions that result in an advice market that works for all segments of consumers and are economically viable for the industry to deliver.

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

Annex
List of questions

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?

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

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

Q4: Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

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

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

Q7: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

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

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

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

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?

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

Q13: Do you have any comments on how we look at the economics of supplying advice?

Q14: **Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?**

Q15: **Which consumer segments are economic to serve given the cost of supplying advice?**

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

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

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

Q19: **Where do you consider there to be advice gaps?**

Q20: **Do you have any evidence to support the existence of these gaps?**

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

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?**

Q23: **Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?**

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?**

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?**

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

Q27: **Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?**

Q28: **What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?**

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**

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

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

Q32: **Do you have evidence that absence of a longstop is leading to 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?**

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

Q35: **Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?**

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?**

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

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

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

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?**

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

Appendix: The regulation of financial advice

Why is regulation needed?

1. For many financial products it is hard for consumers to understand how such products can help satisfy consumers' financial needs. Often, the benefits for consumers from buying financial products are not immediately apparent. If someone buys an item of food they do not like, they will know not to purchase it again. But if they buy the wrong pension, they may not know for 35 years. This creates the possibility that firms may sell consumers expensive products that are unsuitable for their needs and may be harmful. Advice can help bridge the gap in understanding and experience – but it needs to be trusted and good value advice. The implications of getting it wrong are significant and could lead to a much reduced quality of life.

Examples of previous problems with investment and pension planning advice

Pension transfers – In the late 1980s, new legislation came into force that, for the first time, allowed employees to save for retirement themselves, rather than rely on the state pension or participate in an occupational scheme. Between 1988 and 1994, more than five million personal pensions were sold. By 1993 the Securities and Investments Board was sufficiently concerned about the possible mis-selling of pensions to launch a study of past advice. By 2002, the FSA reported that over one million people had been mis-sold pensions and the industry had to pay out over £11.5bn in compensation.[20]

Pension switching – In 2008, the FSA reviewed the quality of advice to switch from one personal pension to another.[21] Advice was assessed to be unsuitable in 16% of cases, with a further 7% of cases judged unclear.

Retail bank investment advice – An FSA mystery shopping exercise found that approximately three-quarters of investment advice by retail banks was suitable but in 11% of cases the advice was unsuitable and in a further 15% the adviser did not gather enough information to make sure the advice was suitable.[22]

Structured products – An FSA review into the quality of advice on structured investment products after the collapse of Lehman Brothers, found that advice was suitable in only 31% of cases, with unsuitability clear in 48% of cases and file quality insufficiently clear to determine suitability in the remaining cases.[23]

20 FSA, press release on the pensions review, June 2002: http://www.fsa.gov.uk/library/communication/pr/2002/070.shtml

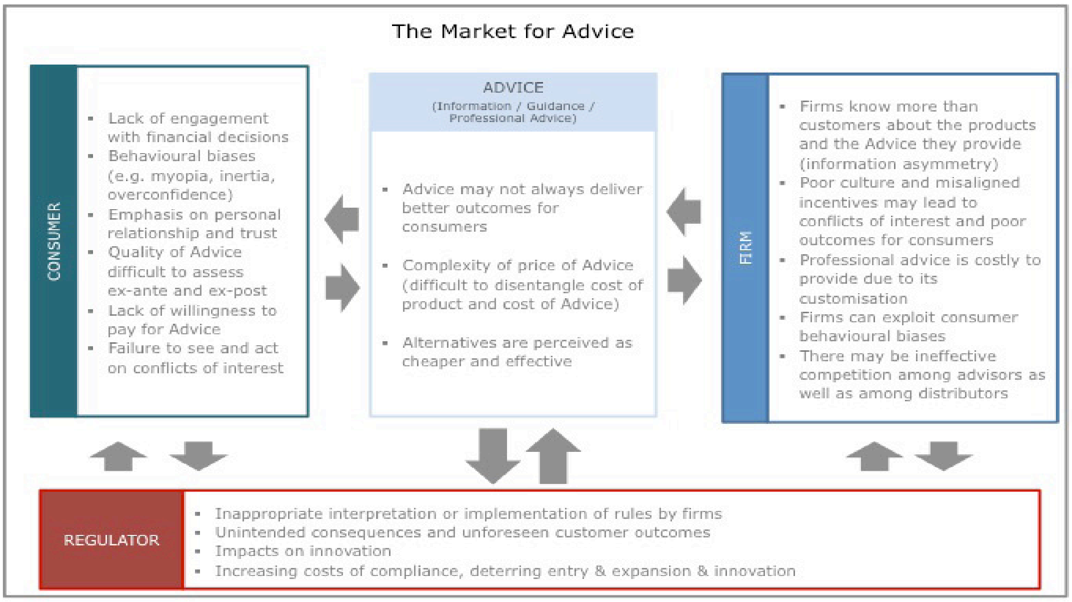
21 FSA, *Quality of advice on pension switching: A report on the findings of a thematic review,* December 2008: http://www.fsa.gov.uk/pubs/other/pensions_switch.pdf

22 FSA, *Assessing the quality of investment advice in the retail banking sector*, February 2013: http://www.fsa.gov.uk/static/pubs/other/thematic_assessing_retail_banking.pdf

23 FSA, *Quality of advice on structured investment products,* October 2009: http://www.fsa.gov.uk/pubs/other/qa_structured.pdf

2. Regulation sets minimum standards that firms must meet and aims to provide appropriate levels of protection for consumers in a market that would otherwise risk being stacked against their needs. A balance needs to be struck to ensure that regulation is proportionate, however, and allows innovation and competition to take place, where it is in the interests of consumers, without setting inappropriate barriers that limit consumer access to advice.

3. In a well-functioning market, we would expect to see consumers able to access and obtain the form of advice that best meets their needs, in order to make good financial decisions, with providers offering competitive prices, quality, choice and innovation. As is the case in many other financial services markets, however, there are economic mechanisms at play in the market for advice.[24] We present our view of this market in the figure below.



Consumers

4. Trust has been suggested to be a very important factor for consumers when taking up professional advice.[25] This seems to be the case in the UK as suggested by the FCA's Consumer Spotlight work:

- around half of people do not trust financial services firms at all (survey evidence, for instance, shows that 42% of those starting out and 51% of hard pressed consumers have this opinion)
- similar proportions of people think there is not enough trustworthy information on financial services

24 Associated with these mechanisms are market failures, which in a broad sense, consist of features that prevent a market from working well and delivering good and efficient outcomes for consumers. Typical examples of drivers of market failure are information asymmetries, externalities, market power, behavioural characteristics of participants and regulatory interventions.

25 See Hung, A. A., Clancy, N., Dominitz, J., Talley, E., & Berrebi, C. (2008), *Investor and industry perspectives on investment advisers and broker-dealers,* Vol 767. Rand Corporation.

5. Lack of trust results in consumers not wanting to spend time assessing financial issues. As a result, consumers may decide to make their own decisions, which can be problematic because they often find it hard to make good decisions, even for simpler matters.[26] In some cases, consumers may simply prefer not to take any form of formal advice at all and to make no decisions in relation to their financial planning.

Firms

6. The provision of advice leads to costs for firms, which become higher as advice becomes more complex or tailored. Of the types of advice considered in this paper, information is likely to be the cheapest to provide, while professional advice is likely to be the most costly.

7. Firms may decide that it is unprofitable to provide certain types of advice below a given price level. This impacts consumers who do not have the means or are not willing to pay for it. Depending on such willingness to pay for advice, there may be cases of mismatch between the supply of and demand for advice.

8. Note that we do not regard there to be a problem where it is sufficient for consumers to have access to information or generic advice, provided it is readily available, rather than a full, professional advice service. In these cases, information or generic advice may be already providing the necessary support for consumers to make good financial decisions. In other words, the market is working well because substitutes are used by consumers without loss in their welfare.

9. We also need to consider that, in some cases, poor business culture and structure – such as sales pressure, misaligned incentives and ineffective competition – may result in firms not competing to supply the best quality service to consumers. In these cases, advisers may compete to extract revenues from consumers without necessarily providing the best quality or suitable advice.

26 See Chater, N., Huck, S., & Inderst, R. (2010), *Consumer decision-making in retail investment services: a behavioural economics perspective:* http://ec.europa.eu/consumers/archive/strategy/docs/final_report_en.pdf

Summary of regulation

10. In brief, if a firm wishes to provide regulated financial advice, the FCA generally requires them to comply with a number of rules in the following areas.

Authorisation	The FCA has a 'gatekeeper' role: firms must meet minimum threshold conditions including meeting minimum capital requirements and ensuring staff are competent for their roles.
Principles for Businesses	The FCA has 11 Principles for Businesses which are the fundamental obligations with which authorised firms must comply. They include, for example, requirements that firms pay due regard to the interests of customers and treat them fairly, pay due regard to the information needs of clients, and communicate information to them in a way which is clear, fair and not misleading.
Systems and controls	Firms must take reasonable care to establish and maintain appropriate systems and controls, including effective risk management processes. Systems must include, for example, orderly and sufficient record keeping, and procedures in relation to conflicts of interest.
Disclosure	In addition to the Principle relating to the communication of information, the rules require that firm communications to clients are fair, clear and not misleading. Additional rules expand on what is expected in particular cases, such as when providing information on the past performance of investments.
Regulated advice	Where a firm provides a personal recommendation, it must take reasonable steps to ensure that the recommendation is suitable for the client. For some products, to help consumers understand the implications of the advice, firms are obliged to write to the client to explain why the recommendation is suitable and to highlight any possible disadvantages.
Redress	Where a firm receives a complaint from an eligible complainant, the complaint must be handled promptly and assessed fairly. Complainants dissatisfied with a firm's response may be able to refer their complaint to the Financial Ombudsman Service. An ombudsman determines complaints by reference to what the ombudsman considers is fair and reasonable in all the circumstances of the case, and determinations are binding on firms.

11. Some of the most important regulatory concepts for financial advice are summarised below.

Basic advice	A regulated activity, which is, in summary, providing advice on stakeholder products (such as certain child trust funds and stakeholder pension schemes) using a process that involves putting pre-scripted questions to a retail client by advisers who do not need to be qualified and where advice is remunerated by commission.
Focused advice	Advice focused, at the request of the customer, on the provision of personal recommendations relating to a specific need, designated investment or certain assets.
Independent advice	A personal recommendation to a retail client in relation to a retail investment product (such as a life policy, stakeholder pension scheme, or personal pension scheme, etc.) where the personal recommendation provided is based on a comprehensive and fair analysis of the relevant market and is unbiased and unrestricted.
Personal recommendation	A recommendation relating to taking certain steps in respect of a particular investment, made to a person in their capacity as an investor or potential investor (or their agent), which is presented as suitable based on a consideration of the person's circumstances.
Regulated advice	Advice relating to a particular investment given to a person in their capacity as an investor or potential investor (or their agent) which relates to the merits of them buying, selling, subscribing for, or underwriting (or exercising rights to acquire, dispose of, or underwrite) the investment.

12. Many of the specific requirements that govern the provision of financial advice are set by the EU and cannot be reduced at national level. Where the Review is to recommend a reduction in standard, we will need to consider whether this is compatible with the UK's international obligations.

The Markets in Financial Instruments Directive (MiFID)

As an example of the impact of EU legislation on regulation, MiFID sets standards across the EU in relation to the distribution of investments. Some of the most significant requirements in MiFID include:

- a requirement that firms act honestly, fairly and professionally in the best interests of their clients
- conditions about what third party inducements firms can pay and accept and the circumstances in which they can do so
- standards to ensure personal recommendations (amongst other things) are suitable for clients
- for sales of certain products not involving for example personal recommendations, obligations to assess whether the investor has the knowledge or experience to understand the risks, and
- obligations for firms to ensure communications with clients are 'fair, clear and not misleading' and to disclose key information about their investments and services

The directive has been updated and amended. MiFID II is due to be implemented in 2017 and will strengthen some of the requirements, providing additional levels of consumer protection. Not all firms selling investments are subject to the directive but the FCA has to date applied the directive requirements to all firms selling investments. This simplifies the rules for firms and avoids situations where investor protection differs depending on whether or not a particular transaction falls within MiFID.

There are constraints on what the FCA is able to do in relation to matters that fall within the scope of the directive.

13. It is also important to consider recent regulatory changes in the UK, such as those introduced by the Retail Distribution Review (RDR).

The Retail Distribution Review

The RDR was launched by the Financial Services Authority (FSA), the predecessor body to the FCA, in 2006. It aimed to fundamentally change the way investment products were distributed to retail consumers in the UK, with the aim of establishing an effective retail investment market that consumers had confidence in and trusted.

In particular the RDR introduced new rules for investment advisers and platforms, which introduced higher minimum levels of adviser qualifications, amended disclosure rules in relation to adviser charging and services, and realigned adviser and platform incentives with those of consumers by removing the commission they received from providers.

The majority of changes arising from the RDR came into force at the end of 2012.

14. While developing the proposals, the FSA (and later the FCA) committed to carrying out a Post-Implementation Review to help determine the extent to which the RDR delivered the outcomes it was designed to achieve.

15. That review found that the RDR has achieved much of what it was designed to do:[27]

- adviser recommendations are no longer influenced by commission paid by product providers, potentially prejudicing the advice
- advisers are now better qualified and there are indications the industry is becoming increasingly professional
- product prices have reduced in some areas as a result of more effective competition in the market
- firms appear slightly better placed to deliver on their long-term commitments, with both average revenues and profitability of advisory firms having increased, and
- the costs to firms of complying with the RDR have been in line with or lower than expectations

16. The Post-Implementation Review was tasked with considering the extent to which the RDR may have had an impact on any gap in advice provision. It found that there is little evidence that the availability of advice has reduced significantly, 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. To the extent that there is demand from some consumers for lower cost simplified advice, not currently offered by the market, this demand also existed pre-RDR.

17. The Post-Implementation Review also recognised that in some areas the transparency rules were not resulting in improved consumer understanding, in particular in relation to the descriptions of the nature of the service on offer. In their *Smarter consumer communications* Discussion Paper, the FCA have asked for suggestions of how consumers' understanding of the type of advice they are being offered could be improved, as well as requested ideas for how information on advice charges might be better presented by firms.[28]

18. Changes were also introduced to mortgage regulation by the Mortgage Market Review in April 2014.

FCA regime for mortgage and equity release advice

The FCA's mortgage regime is designed to ensure that the great majority of consumers receive advice, with the aim of ensuring they are only recommended mortgages which are appropriate and suitable for their needs.

However the regime recognises that not every consumer needs advice. Firms are permitted to conduct a mortgage sale without advice (known as an 'execution only' sale) in certain specified circumstances, for example, where the consumer is considered 'high net worth' or the loan is solely for business purposes.

The approach is very similar for the equity release market. FCA rules, reinforcing long-established industry practice, require advice as part of every sale. There are very limited exceptions – either where (i) the consumer has received advice but is rejecting it and making their own choice or (ii) is varying their existing equity release product but not borrowing or releasing more, for example they could be switching to a product with a different interest rate.

27 Europe Economics, *Retail Distribution Review Post Implementation Review*, 16 December 2014: http://www.fca.org.uk/static/documents/research/rdr-post-implementation-review-europe-economics.pdf

28 FCA, DP15/5, *Smarter consumer communications,* June 2015: http://www.fca.org.uk/static/channel-page/dp-smarter-comms/dp-smarter-comms.html?utm_source=smarter-comms&utm_medium=smarter-comms&utm_campaign=smarter-comms#scc2

19. During 2014 and 2015, the FCA carried out a thematic review[29] to consider the suitability and quality of mortgage advice being provided under the new rules. It concluded that, while some firms were engaging customers in focused, relevant discussions leading to suitable recommendations the quality of advice in the mortgage market was mixed. Further work engaging with industry to address the issues identified is underway. This is outside the scope of this Review.

Other relevant current regulatory initiatives

20. The FCA is currently working on a number of other initiatives that will have a bearing on the Review. We will liaise with the FCA and take account of developments in these projects as the Review progresses.

EU legislation

21. A number of new EU initiatives are in progress that may have a bearing on FAMR. These include reviews of the Insurance Mediation Directive (which will become the Insurance Distribution Directive) and the Markets in Financial Instruments Directive, and the introduction of the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation. This work will continue as FAMR develops. As noted earlier, we may consider recommending representations be made by the appropriate authorities to the European institutions in respect of these EU initiatives, if appropriate.

Financial Services Compensation Scheme funding review

22. The FCA is committed to review the FSCS funding model which sets out in detail how the FSCS is funded. FAMR will be relevant to this review as fees and levies to fund the regulatory bodies in the UK are costs for the industry, which may shape the way in which advice is provided and the groups of consumers with which firms are willing to engage. We are therefore proposing to consult on the FSCS funding model once FAMR has made its recommendations in 2016.

Review of FCA rules for pensions and retirement

23. In late September the FCA published a consultation paper following a review of its pension and retirement rules.[30] Among other issues, this raises concerns about commission payments on non-advised sales of annuities. This work will continue alongside FAMR and will be coordinated with it.

Capital requirements for Personal Investment Firms

24. Capital requirements are the obligations placed on financial services firms to hold certain amounts of specified financial resources for regulatory purposes. Capital requirements are important because they aim to minimise the risk of harm to consumers by ensuring that firms behave prudently in monitoring and managing business and financial risks. Experience tells us that if a firm is in financial difficulty or fails, it can cause harm and disruption for consumers. A firm under financial strain is more vulnerable to behaving in a way that increases the probability of consumers suffering loss.

25. The requirements are tailored to the needs of firms and consumers in different sectors. In May 2015 the FCA published a consultation paper which proposed new capital resources requirements

29 FCA, TR15/9, *Embedding the Mortgage Market Review: Advice and Distribution,* June 2015: http://www.fca.org.uk/news/tr15-09-embedding-the-mortgage-market-review-advice-and-distribution

30 FCA, CP15/30, Pension reforms – proposed changes to our rules and guidance, September 2015: http://www.fca.org.uk/static/documents/consultation-papers/cp15-30.pdf

for the 5,000 Personal Investment Firms subject to IPRU (INV) chapter 13.[31] For the most part, personal investment firms are independent financial advisers (IFAs). The consultation also proposed to revoke rules made by an earlier policy statement,[32] which are otherwise due to come into effect on 31 December 2015.

26. The consultation closed on 7 September 2015 and the policy statement making final rules is due to be published before 31 December 2015. This work will continue alongside FAMR and will be coordinated with it.

Project Innovate

27. Project Innovate is an FCA initiative designed to help innovative businesses (both start-ups and established players) get to grips with the regulatory dimension of their innovations as easily as possible. Our Innovation Hub gives regulatory advice to businesses developing innovations that hold out the prospect of consumer benefit via heightened competition. It also seeks to streamline policies and processes so that they do not needlessly hinder innovation.

28. Initiatives in train include the following:

- from October 2015 innovators that receive Hub support will benefit from continuity in the context of the authorisation process. They will also receive dedicated supervisory support, normally for one year
- increased international engagement will help innovative UK businesses that want to expand abroad, and/or non-UK businesses that want to enter the UK market
- engagement with larger institutions will be stepped up
- new initiatives that focus on improving competition in the market, including:
  - regulatory sandboxes: safe spaces in which businesses, both authorised and unauthorised, small and large, can experiment with innovative products, services, business models and delivery mechanisms without immediately incurring all the normal regulatory consequences of engaging in the activity
  - themed weeks: dedicated periods designed to stimulate intense engagement between the FCA and stakeholders with an interest in a particular area of innovation
  - discussion on barriers to entry for digital and mobile solutions
  - discussion on how to support the adoption of new technologies to facilitate the delivery of regulatory requirements

31 FCA, CP15/17, *Capital Resources Requirements for Personal Investment Firms (PIFs)*, May 2015: https://www.fca.org.uk/static/documents/consultation-papers/cp15-17.pdf

32 FCA, PS09/19, *Review of the prudential rules for personal investment firms (PIFs)*, November 2009: http://www.fsa.gov.uk/pubs/policy/ps09_19.pdf

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Proposed feedback to HM Treasury-FCA paper entitled:
FAMR – Financial Advice Market Review *Call for Input*

This response is submitted on behalf of Key Retirement who are one of the UK's leading providers of financial solutions for the over 55's arranging 33% of all equity release cases in the UK.

The responses below are aligned to the specific questions listed in "Annex List of Question's" of the above stated paper.

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?

No comment.

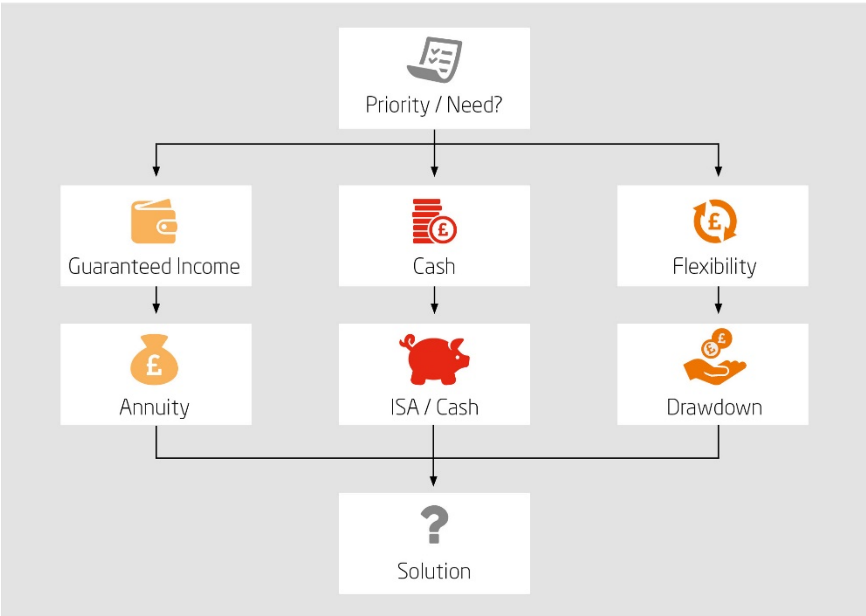
Q2

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

We suggest consideration be given to the understated alternative:

Delivering "Sensible Options":

- With regard to Pension assets there are clear outcomes we would expect to see depending on priority or need
- Radical simplification is required – a trade-off between perfection and safe outcomes
- A process which identifies priority/need and provides a straight forward solution



- Outcomes can be determined by a simplified analysis of attitude to risk

A need for clearer differentiation between information, guidance and advice is still required as there would still appear to be an element of confusion in some quarters especially for consumers. There is still ambiguity and mixed messages being delivered with regard to consumers with small pots/portfolios of say £15,000 or less and whether they actually need or require advice – e.g. reference is still being made to stakeholder products when in fact these are far less prevalent.

Q3

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

The recurring conundrum is whether as an industry we believe that someone with a relatively small fund and/or need actually need or seek advice? We feel that this question is best addressed by saying that it is a balance between 'perceived value' versus 'perceived risk' and ultimately value for money.

Q4

Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?

-----No Comment-----

Q5

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

New and/or unique financial experiences (e.g. ER/Long Term Care etc.) especially where the subject area is non-mainstream or alien to the consumer will potentially prompt advice. Advice will be freely sought where it is perceived to add value to either existing or newly identified needs or where this is a regulatory requirement.

It is equally about perception and all too often consumers are naturally wary about the guarantee of quality and protection especially given the apparent ever increasing reports of mis-selling scandals, large and small.

Q6

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

Yes.

Q7

Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

All should be reviewed so as to ensure a fresh perspective is gleaned.

Q8

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

As outlined in Q3 above we feel that this question is best addressed by saying that it is a balance between 'perceived value' versus 'perceived risk' and ultimately value for money.

Q9

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

All too often there is an assumption that people who do not seek advice make the wrong choices.

However the key variable here is the balance between knowledge versus competence which ultimately impacts on a consumer's confidence to seek advice. Developing understanding aligned with tailored education is undoubtedly key and needs to be totally aligned to the segment being targeted, hence the suggested review as outlined in Q7 above.

We need to have a defined view of what good outcomes look like as specific needs and priorities can have clear best outcomes. If priority and need are facilitated in a process which enables the right outcome in the majority of cases then this may well be more than served without the need for advice, but with the need for a process/service to enable this.

Q10

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

Regardless of the type, level of service and supply of financial advice if this is to be perceived as both professional and adding value the process needs to be robust, transparent and easy to understand. The key challenge is being able to deliver such lofty goals and consideration should be given to adopting the 'STAR' model – namely Standards for Training, Accreditation and Revalidation.

There would appear to be a degree of consumer confusion as to what comprises service and advice this should in turn be addressed so as to eliminate confusion and advance understanding of what or isn't advice.

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?

-----As Above-----

Q12

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

-----As Above-----

Q13

Do you have any comments on how we look at the economics of supplying advice?

There is a perception that advisory firms are making big profits. In reality the opposite is occurring and we feel that both the Regulator and Treasury should actually look at the Profit and Loss Statements for a range of advisory firms so as to be able to effectively assess 'the real picture' and then trend and benchmark its findings. These should then be shared with the wider industry for comment and feedback.

Q14

Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?

Whilst not talking specifics this is fundamentally about 'Cost of Enquiry' versus 'Cost of Sale' which will clearly vary from sector to sector. That said regardless of sector it is generally accepted that staff account for the biggest cost closely followed by lead generation.

It is acknowledged that a significant number of authorised firms have grown their businesses organically and lead generation plays a less significant part of their day-to-day operations. It naturally follows that firms heavily reliant on direct marketing as the primary source of new enquiry generation will look to drive efficiencies via the adoption of streamlined operational practices and in the case of outbound tele marketing may rely on call centres based abroad or located in areas where the cost of labour is significantly lower than say the home counties.

Q15

Which consumer segments are economic to serve given the cost of supplying advice?

From a true cost perspective we do not feel that there is any real correlation and/or saving for dealing with a customer with a large portfolio or one with a relatively modest one – e.g. £20,000 versus £250,000 as the time spent and business investment is primarily the same regardless. However it naturally follows that inevitably the wealthier clients, or those seeking more complex advice, inevitably subsidise those with smaller pots or less complex needs as the fees would be more substantive. We firmly believe that this latter scenario is not sustainable in the longer term and that equally a business serving only one segment, other than say the Ultra High Net worth {UHNW}, will struggle to survive.

Q16

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

Regulatory costs continue to challenge firms and impact significantly on operating margins. The lack of regulatory clarity we feel impact on the how firms operate and whilst flexible the 'Principles Based' approach championed by the FCA give rise for uncertainty with the resultant impact on firms taking or adopting an overly cautious approach to the advice/services provided. The EU's approach of adopting a 'rules based' approach possibly holds merit especially in the disputes resolution area and would provide clearer guidance to FOS, reducing the retrospective application of Regulation. This should in turn promote a more consistent and transparent approach to what is becoming an ever increasing 'pressure/pinch point' within financial services.

This translates into a lack of governmental and regulatory encouragement around advice risk which impedes innovation and discourages wider conversations. In short there needs to be greater interaction with the intermediary sector, financial institutions, consumer bodies and charities to ensure that the different needs of financial services consumers are at the centre of any changes emanating from this FAMR.

Q17

What do you understand to be an advice gap?

From a regulatory perspective we would answer this question as being where the FCA feels advice should be given but isn't. In reality it is potentially where a customer ideally would like advice but sadly cannot afford to pay for it. 'Pro Bono' advice is very much a thing of the past given the attaching responsibility given to anyone dispensing advice and the failure of the Money Advice Service (MAS) to adequately bridge this gap only serves to reinforce the fact that the delivery of any free service comes at an actual cost.

The advice gap fundamentally is about people making bad decisions when a default against need or priority can be suitably established. Ultimately good outcomes don't necessarily need advice. Therefore in terms of advice gap this doesn't necessarily mean that advice need be sought but that the "gap" is where the right outcome can easily be lost.

Q18

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

Following closely on all that has been documented under Q17 above we feel that it is not a lack of demand but consumers not being able to identify or source a credible 'free service'. Alternatively this perceived lack of demand is attributable to a general lack of awareness that such advice exists or where to find it! All of these combine into an 'Education Gap' which in part MAS was set up to deliver and in turn draws into question its effectiveness.

It must be questioned as to whether the Retail Distribution Review (RDR) has impacted adversely in this regard, although it is acknowledged RDR has advanced the cause of transparency allowing consumers to compare services and costs more easily.

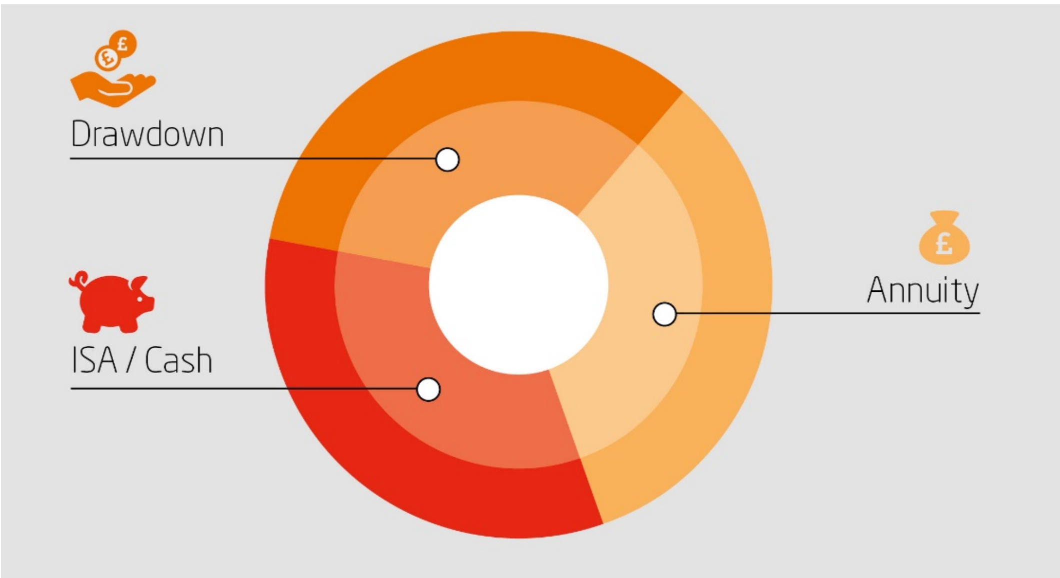
Q19

Where do you consider there to be advice gaps?

Default strategy to be adopted to resolve "advice gap"

- A product default from which there can be no recourse to the ombudsman
- The retirement account which provides all elements
- Annuity, ISA/Cash, Drawdown
- Annuity being best rate
- ISA default to competitive rate from market, auto maximise annual allowance if cash available
- Drawdown default funds based on risk
- Nest's paper, The future of retirement – A retirement income blueprint for NEST's members published in June 2015, highlights the need to address the major demands for income in retirement that individuals want but with the need for flexibility, but sits on a perfect journey which is unachievable for many in the current climate of lower value DC pension funds, and where solutions to meet those who can fulfil this model do not today exist. The proposal within this paper addresses the wider need now for those who want greater flexibility but with levels of simplicity if they want it to achieve their defined outcome to the best of their ability. The proposed solution however could be adapted as options develop in the future towards facilitating similar outcomes

The Retirement Account



Suggested framework for product design and delivery

- Each element of the account to be fulfilled by competitive pricing by providers who want to compete, e.g. best annuity terms, best ISA rates, best drawdown terms
- Authorised firms deliver the process non-advised for a fixed price taken from the investment
- Providers provide the products, but not the process

Conclusion

The advice gap fundamentally is about people making bad decisions when the default outcomes against priority or need are reasonably well defined. The proposed defaults detailed within this paper would ensure that consumers can gain the required outcomes in a cost effective manner by financial services firms like Key who are well versed in process "best value" led engagement.

The simplicity of the retirement account is essential alongside the distancing of the delivery from the providers of the three segments.

In principle this is a solution which could be quickly brought to market.

Q20

Do you have any evidence to support the existence of these gaps?

-----No Comment-----

Q21

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

-----No Comment-----

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?

Yes

Q23

Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)? Yes.

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?

Greater clarity in the categorisation of advisers – **see response to Q: 2 above.**

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?

Whilst EU regulation tends to be overly prescriptive and rules based (e.g. MiFID) it does at least provide a clear view of what is expected and if adopted in the UK could provide greater clarity to both FOS and advisers alike. This would in turn ensure consistency of consumer experience.

Q26

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

Processes and practices akin to the adoption of CAT standards are all too often expensive and invariably do not deliver what customers need.

Q27

Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?

-----No Comment-----

Q28

What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

-----Please refer to earlier comments-----

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

-----Please refer to earlier comments-----

Q30

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

-----Please refer to earlier comments-----

Q31

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

-----Please refer to earlier comments-----

Q32

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

-----Please refer to earlier comments-----

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?

-----Please refer to earlier comments-----

Q34

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

-----Please refer to earlier comments-----

Q35

Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?

-----Please refer to earlier comments-----

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?

-----Please refer to earlier comments-----

Q37

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

-----Please refer to earlier comments-----

Q38

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

-----Please refer to earlier comments-----

Q39

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

-----Please refer to earlier comments-----

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 refer to earlier comments-----

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 refer to earlier comments-----

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Dear Sirs,

Financial Advice Market Review – Call for input

We are pleased to have the opportunity to provide our thoughts on the Financial Advice Market Review (FAMR).

Killik & Co is a privately-owned, full-service stockbroking and wealth management firm established over 25 years ago. We have over 23,000 retail clients and c£4bn of assets under administration. We are members of the Wealth Management Association (WMA).

Our understanding of the main aims of the FAMR are that it wishes to:

1. Enable consumers to obtain advice that best meets their needs and aspire to maximising the number of people who are able to access advice.
2. Focus on areas where (a) complexity in decision making is greatest and advice could make the biggest difference; and (b) consumer segments where people may not be able to afford traditional face-to-face advice.

In other words, it aims to improve accessibility to a far wider and larger group of consumers than is currently the case.

Our comments are limited to how to improve accessibility of investment advice and investment solutions.

Current barriers to people seeking advice

Investing is perceived as being something that is only for very wealthy people. This is reinforced by often high minimum lump sums required to open an investment account.

For people considering investing for the first time, it is a daunting world of financial jargon and is perceived as complex and something that they do not and may be unlikely to understand, even if receiving advice.

Lack of trust in advisers is linked to lack of knowledge. People are not able to judge for themselves if they are getting good or bad advice and may not discover this until far into the future.

Amongst younger age groups there is a sense that doing the sensible thing and investing for the future is something that can wait until they are older. It is perceived as something that, say, under 35's don't need to do yet.

Cost of advice can be prohibitive/disproportionate for those with only small amounts to invest. The one good thing about trail commission from the consumer's perspective was that it was an easy way for them to pay for advice and spread the cost over the life of the investment. The knowledge of how much advice costs and perhaps more importantly the need to pay for it in one go at the point of receiving the advice is off-putting for many.

However, there is also some evidence that certain consumer segments are more than willing to pay for services if it removes worry or is perceived to be of benefit. For example, many Millennials are happy to pay a fixed charge per month for a bank current account because it means that they don't have to worry

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about arranging their own travel insurance or mobile phone insurance, or offers protection against unauthorised overdraft charges. In an investing context, consumers may be willing to pay someone to advise on and manage their investments if they feel that it is taking care of their financial future for them, so that they don't have to worry about it[1].

Current barriers to firms offering advice

Regulatory fears, especially expectations around evidencing suitability of advice, and risk of regulatory fines/sanctions are a significant barrier for firms. Evidencing suitability takes time meaning advisers are able to cope with fewer clients. So many firms have opted for fewer, more remunerative clients, excluding the majority of consumers. Problems/costs are not a result of the suitability rules themselves but the regulator's expectations around evidencing compliance with the rules e.g. the need for more sophisticated Customer Relationship Management (CRM) databases, longer factfinds, risk profiling tools etc. We question whether there is any evidence that the quality of advice has improved as a result of the FCA's wealth management suitability reviews and raised expectations about documenting suitability. The WMA has commented substantially on this point within their response to this call for input and we support their submission.

Stemming from the above are also fears of complaints/legal claims handling costs and potential redress payments.

Costs of paying highly qualified advisers versus charging for advice at a rate that consumers are willing (and able) to pay.

Relatively high transaction costs for investments restrict firm's ability to offer advice more cheaply. These also drive the requirement for a minimum portfolio value.[2]

Combination of perceived high risk of giving advice versus low revenue margins means that offering advice to wider consumers does not make commercial sense for firms.

The potential of technology

We believe that new technology has the potential to remove a number of the barriers for consumers and firms, in the following ways:

Current investment platforms use legacy technology which is unable to handle large volumes of small transactions. Yet technology exists and is in use every day which can do just this. Take, for example, Google Ads which works by advertisers bidding in auctions to display their website/products on Google search results pages. These auctions are processing millions of transactions per second, far in excess of what investment platforms are able to handle. The potential of technology to make carrying out small transactions viable for both consumer and adviser is huge, because the technology can aggregate lots of small orders into single larger orders keeping trading costs low, yet still ensure that each individual client is allocated the correct amount of securities. This would allow firms to promote the benefits of saving regular, small amounts which we believe would engage large numbers of consumers who currently feel excluded.

Technology can also be used to deliver advice, which overcomes consumer's reluctance to engage face to face with an adviser. It also means that consumers can access that advice at times and in a manner that is more convenient for them and which therefore may improve accessibility.

Another area to consider is using artificial intelligence within technology to determine suitable investment strategies, as this could potentially reduce the number of advisers that firms need to train, develop, support and retain, reducing costs. Clearly, significant investment would be required upfront to develop such

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[1] See recent article "I am Millennial, hear me whimper" https://www.linkedin.com/pulse/i-am-millennial-hear-me-whimper-adam-jones

[2] Typical cost of executing a UK equity trade is c. £15. With cost of advice on top, it is near impossible to offer an affordable advice service for people with less than £2,000 to invest at a time.

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technology, but we believe strongly that radical changes in approach are needed if firms are to have viable businesses in the future. There would of course continue to be a role for financial advisers in the design of intelligent technology, as well as in dealing with consumers who have more complex financial situations and requirements, in the traditional way.

Intelligent algorithms already exist which can analyse someone's bank account transactions in order to understand how they spend.[3] It seems logical that with consumers conducting more and more of their transactions (and life) via digital channels, that the data trail they leave behind could be used for their benefit to offer them financial advice. Consumers will need reassurance that their data is being used in their interests and not simply to sell to them, but perhaps if consumers could allow access to their data on their terms only to firms that they trust, and be able to remove that access at any time, this would offer the reassurance they need.

Using technology within the delivery of advice can help greatly with evidencing suitability, as all contact with the consumer is recorded, without the possible inferences or misunderstandings that can occur with face to face discussions. This not only reduces the potential for complaints/legal claims going against firms, but reduces the costs of manually recording notes of telephone conversations or meetings. Maintaining and updating 'know your customer' information is a major time and cost burden to firms, which "robo-advice" could reduce.

Being able to deliver advice to more consumers, more cheaply <u>and</u> with better record keeping, could adjust the risk-reward dynamic, such that offering advice becomes an attractive proposition for firms once more.

The potential of education

Improved financial knowledge and understanding may help to alleviate consumer's fears about being able to judge the quality of advice they receive, as well as intimidation they may feel in approaching an adviser face to face.

In addition, educating consumers on the benefits of putting money aside little and often from a young age may encourage those under 35 to begin investing earlier and stop putting it off. The power of compounding and the smoothing effect on portfolio volatility that arise from regular investing are not widely understood, but we believe if explained carefully could have a significant effect on the number of younger investors. However, this is subject to using technology that allows for small sums to be invested regularly. Both the technology and the education must work together.

Some proposals

1. Use technology to deliver simple solutions online. Simple solutions also mitigate the risk of getting it wrong or a client not understanding it. The inherent danger of "robo advice" is the removal of human intuition (always difficult to evidence or value) and of "computer says no" or even "computer says yes" when that outcome is not actually in a client's interests. Therefore, we suggest that online advice solutions are not appropriate for complex matters. Simple solutions for simple needs should be its focus.

2. Promote investing as a long term commitment for both consumer and the firm, not a one-off product sale. Use technology to build a long term relationship with the consumer, continually learning about their circumstances and requirements from the consumer's digital data and via digital interactions.

3. Safe harbour guidelines could reassure firms that the "robo-advice" services they are developing have some future-proofing against changes in regulatory expectations around suitability. As above, using online services for simple needs is important. We would caution building the safe harbour around certain types of product because the unintended consequence of this might well be to drive

[3] See https://digit.co/ and https://www.moneydashboard.com/

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sales in these products when a different investment strategy might be more in the consumer's interests. We think firms offering investment advice should always be taking a long term portfolio approach, not just recommending a single product. Problems in the advice market in the past have been about mass mis-selling of "products," rarely about building unsuitable portfolios over the long term.

Safe harbour guidelines could include firms being required to ascertain or offer warnings about certain things before allowing a consumer to invest in equities. For example, it is generally regarded as sensible to retain approximately 3 months net income in cash for emergencies. Consumers that don't have any emergency cash savings may be more likely to need to sell out of investments after only a very short time, potentially suffering losses if the market is down. Recommending upfront that consumers retain an emergency cash pot and also that they inform their adviser of any known upcoming events that would require a withdrawal from their portfolio, will enable the adviser to recommend equity investment for the longer term and to adjust portfolio asset allocation towards meeting known calls on capital as they draw near[4].

If this approach to determining the suitability of equity investment were supported by the FCA through guidance or some other form of safe harbour, firm's may feel some of the uncertainty about how claims of unsuitable advice might be viewed after periods of poor market conditions, is removed and be more willing to offer advice.

Closing remarks

We have provided further comments in Appendix 1 to some of the specific questions posed within the "Call for input" paper. We would be delighted to share with you, on a confidential basis, more details of the research we have been carrying out into the potential of new technology and to expand further on any of the points we have made in this response. We await the outcome of this review with interest.

Yours faithfully

pp

Penny Rooney
Partner, Compliance Director

[4] Longer term for the purposes of equity investment should be seven years or more, because according to our own research, over the last 50 years market cycles in the UK and US have run from peak to trough to recovery to previous peak in five to seven years.

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Appendix 1 – response to questions

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?** No comment
Q2	**Do you have any thoughts on how different forms of financial advice could be categorised and described?** Labels are generally confusing, as we have seen with the "Independent" and "Restricted" labels introduced by the Retail Distribution Review. If consumers feel like they have received a recommendation, they will think they have received advice.
Q3	**What comments do you have on consumer demand for professional financial advice?** Our research suggests people do want help to get started with investing, but do not think they are wealthy enough to have begun an investment portfolio. This is reinforced by often high minimum portfolio sizes.
Q4	**Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?** People under age 35 are generally more comfortable managing their affairs online, than face to face. There does seem to be a role for online advice solutions.
Q5	**Do you have any comments or evidence on the financial needs for which consumers may seek advice?** Our detailed comments above focus on helping people invest for the long term. Our own research suggests that consumers want to do the sensible thing, but need help/advice to get started. Also, they don't really have either the time or interest to manage investments themselves, and would benefit from solutions that take care of that for them.
Q6	**Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?** No comment
Q7	**Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?** No comment
Q8	**Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?** No comment
Q9	**Do you have any comments or evidence on why consumers do not seek advice?** See detailed comments above.
Q10	**Do you have any information about the supply of financial advice that we should take into account in our review?** See detailed comments above.
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?**
Q12	**Do you have any comments or evidence about the role of new and emerging technology in delivering advice?** See our detailed comments above. We would be pleased to expand on this further on a confidential basis.

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Q13	**Do you have any comments on how we look at the economics of supplying advice?** No comment
Q14	**Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?** See detailed comments above.
Q15	**Which consumer segments are economic to serve given the cost of supplying advice?** Currently many firms are shifting towards fewer, more wealthy clients in order to manage the risk/reward of offering advice. We believe that investment in new technology is critical to be able to drive down the costs of delivering advice and open it up to wider consumer segments.
Q16	**Do you have any comments on the barriers faced by firms providing advice?** See detailed comments above.
Q17	**What do you understand to be an advice gap?** We understand this to be the inaccessibility of investment advice due to high initial portfolio sizes, lack of consumer understanding, disproportionate cost of advice for smaller investors, high cost and risk to advisers of delivering advice.
Q18	**To what extent does a lack of demand for advice reflect an advice gap?** We believe one of the main reasons for apparent lack of demand for advice is that many consumers don't think investing is designed for people like them – they are not wealthy enough or financially savvy enough to enter that world, so don't seek out advice.
Q19	**Where do you consider there to be advice gaps?** Long term investment market for people wishing to make regular small contributions. There is a general lack of understanding of the benefits of compounding and why making small regular contributions can have such a dramatic impact over the long term. Promoting the benefit could be one way to engage wider numbers of consumers, but it must be supported by investment platforms that can deliver regular investing in small sums at reasonable cost. This is where new technology has a key role to play.
Q20	**Do you have any evidence to support the existence of these gaps?** Our own research suggests that consumers have a strong desire to invest for their long term future, but do not feel able to get started with the relatively small amounts that they have available to save.
Q21	**Which advice gaps are most important for the Review to address?** Our comments focus on investment advice for the long term – a simple goal with a simple investment portfolio solution. We believe that traditional advice methods are still necessary for more complex needs.
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?** We agree. Our comments all relate to advice on investing.
Q23	**Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?**

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	We agree that this should be the initial focus. Please refer to our comments above about the potential of technology to open up investment advice to an even broader segment of consumers.
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?** Please refer to the WMA's submission which discusses the FCA's expectations around evidencing suitability.
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?** Less focus on single product sales and more about long term, diversified portfolios.
Q26	**What can be learned from previous initiatives to improve consumer engagement with financial services?** Giving labels to advice doesn't necessarily help understanding. Listen to what the Millennials are saying about how they want to run their financial affairs. Here is one example: https://www.linkedin.com/pulse/i-am-millennial-hear-me-whimper-adam-jones
Q27	**Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?** No comment
Q28	**What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?** Don't understand the question.
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** We think there is some scope for removing uncertainty for advisers over recommending equity investment, which could improve the supply of investment advice. See our detailed comments above.
Q30	**Which areas of the regulatory regime would benefit most from a safe harbour, and what liabilities should a safe harbour address?** "Robo-advice" should be limited to simple solutions for simple needs.
Q31	**What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?** As per Q30, simple solutions for simple needs.
Q32	**Do you have evidence that absence of a longstop is leading to an advice gap?** No
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?** No

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Q34	**Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?** No comment
Q35	**Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?** No comment
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?** Please see our detailed response above.
Q37	**What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?** Costs of collecting small regular sums from consumers for investment will remain a barrier. There needs to be disruption within the payments industry, as currently there are so many middle-men each charging something to process a debit card or direct debit transaction. For example, to collect a debit card payment of £25 costs approximately 25p. So whilst firms might wish to offer regular investment propositions at say £5 per month, the cost of collecting that £5 is disproportionate.
Q38	**What do you consider to be the main consumer considerations relating to automated advice?** Simple solutions for simple needs.
Q39	**What are the main options to address the advice gaps you have identified?** See our detailed comments above. In summary, technology as the potential to make investing accessible by reducing the costs of delivering advice and executing transactions, removing one of the major barriers to both consumers and firms.
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?** Simple solutions for simple requirements. More complex needs to be dealt with in more traditional format.
Q41	**What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?** Normal supervision should be adequate.

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Contact

18 December 2015

Dear FAMR Secretariat,

Financial Advice Market Review: Call for Input

We are delighted to enclose our response to the Financial Advice Market Review (FAMR) Call for Input. As advisers to the industry we recognise the importance of the review to our clients, the wider industry and most importantly the end customer as an opportunity to balance consumer outcomes with viable economics leading to greater availability of help with financial decisions at the point of need.

Our response is informed by engagement with a variety of market participants, our research and that of others, and the insight of our colleagues. We hope that by responding to the *Call for Input* we will stimulate debate and would welcome further involvement from the FCA, HMT and the wider industry. Our view is that whilst the industry should critique the existing post-RDR framework, firms should also recognise the benefits of RDR in raising professionalism and increasing transparency, and focus on the opportunity to close the advice gap, especially in light of the increased need resulting from Pensions Freedom.

Ultimately the target outcomes FAMR should be looking to achieve are threefold:

1 Maximise take-up of affordable advice through general and personalised customer communications eg by improving annual statements

2 Focus on 'better' not 'best' recognising that a perfect customer outcome is theoretical and that a reduction in costs must come with a reduction in liability, including retrospective consideration

3 Break the industry deadlock on fear of the advice boundary in the middle ground between Full Advice and Execution Only to unleash innovation

We have outlined in our response how the FCA may achieve these outcomes through better understanding of the need for advice and the drivers of the advice gap, protocols on the definition of ‘guidance’ and how technology powered affordable advice solutions with regulatory endorsement may address the gap.

In addition, we also want to raise alternatives to changes to the advice framework to improve financial outcomes for consumers, including:

- Financial education in schools/universities
- Supporting individuals to get affordable financial advice when they start work, potentially funded by the employer and/or the state
- Supporting individuals to get affordable financial advice as they approach retirement, again potentially funded by the employer and/or the state

To align our response and for ease of reading, we have structured this letter in line with the *Call for Input* paper and the relevant questions contained within it.

1 What do consumers need and want from Financial Advice?

1.1 Savings Market Context

At 4.9% (source: ONS) the UK savings rate is at its lowest rate for approximately 30 years and as a result the UK is facing a retirement savings gap crisis of around £9trn (source: Chartered Insurance Institute).

Arguably the need for help with sound financial planning was already at an all time high before Pensions Freedom was introduced in April and since its inception that need has climbed to new heights driven by increased choice and the emphasis on greater personal responsibility.

Conversely the supply of advice has decreased by over 20% (source: FCA / FSA, APFA) since RDR meaning that access to advice has declined to an historic low. Affordable advice models – whether Simplified, Basic or otherwise – or guided alternatives have not come forward to fill the gap left by advisers exiting the market resulting in a serious and growing gap between demand and supply.

In our view, the most vulnerable customer groups impacted by the advice gap are those with the following needs who are not typically served by current providers of Full Advice:

- Immediate priority group are those approaching retirement and who are at risk of making poor decisions due to lack of education or who do not have the means to access affordable advice or guidance, including those in later retirement who may have impaired cognitive ability (cf. *Old Age and the Decline in Financial Literacy, Texas Tech University)*
- Next highest priority are those making inadequate provision during accumulation, especially if investing in high charging or under-performing funds

Current labels on forms of financial advice are not widely recognised by customers who do not distinguish between advice and guidance let alone between various categories of advice, even where the distinction is explained to them. Indeed, customers are most likely to perceive any process which results in a decision they are content to accept as 'advice' regardless of whether it meets the regulatory definition or not. As a result sub-categories only serve to confuse further and do not serve as a practical limit on adviser liability as customers are likely to seek redress for any outcomes they are not content with, regardless of the regulatory basis on which advice (or guidance for that matter) is given.

1.2 Demand for advice

Consumer demand for financial decision support is typically driven by life events – in particular retirement – but also other events such as the birth of a child, inheritance, unmanageable debts and inheritance planning. However, key life events do not automatically result in professional financial advice being sought as alternative sources of information and guidance, especially for those who are not aware of the availability of professional advice or who cannot afford it. Customers are just as likely to turn to other sources of support eg. their bank, friends and family, internet research or government provided services such as MAS, Pensions Wise or TPAS.

We also believe that customers may be defaulting into Full Advice when they neither understand nor value the service which ultimately increases the risk of a poor outcome as a result of fees undermining investment returns and as customers who feel misled are more likely to seek redress from the adviser. The same is true of customers who may default into Execution Only on the basis that advice, even when needed, is not available or affordable.

It is a myth that more wealthy customers will always seek professional advice on every decision – Platforum's 'Stickman' analysis shows that out of 14.1m adults with risk based investments only 2.4m are always advised. Indeed the research shows that 3.7m are entirely self-directed, but most interestingly 7.9m are both advised and self-directed. In other words, advice is an option which is selected by the customer for some, but not all decisions. Critically, this indicates that wealth is not a definitive indicator of complexity of affairs and, therefore, of the need for advice. Indeed, the wealth segment arguably most at risk of falling into the advice gap are average earners as those with significant wealth generally are able to afford advice and those on low incomes, who may need debt advice, are relatively well served by government services such as MAS.

The factors most likely to determine complexity of affairs will include:

- Complexity of product and/or investment holdings eg. number of investments, complexity of product types eg. mix of DB and DC pensions, high-risk or low liquidity investments eg. structured products, fine wine or art
- Family or marital circumstances eg. divorce, child custody arrangements
- Tax status
- Geography & jurisdiction eg. cross-border or offshore tax considerations
- Bankruptcy or Individual Voluntary Arrangements
- Trust status of assets

- Inheritance planning considerations (giving or receiving)

In our view, your diagram on page 10 of the *Call for Input* showing consumer issues as low to high complexity (which identifies saving for retirement and providing an income in retirement as the most complex) is a generalisation to the extent it implies Full Advice is most likely to be required for these needs based on their inherent complexity. In practice, retirement savings are complex where product, fund/investment and tax structures have caused complicated and opaque situations for the consumer, in particular legacy structures, or where the consumer's personal circumstances have dictated it. The underlying need for many customers may be relatively simple, but customers will seek reassurance they are making the right decision hence there is a real need for an affordable advice solution.

Our point of view is that firms operating legacy structures should eliminate complexity and, therefore, the need for advice by transitioning customers and their assets into fair substitute products, potentially with lower charges and improved investment returns. This should benefit firms in the long run by allowing them to build lasting relationships with their customers and reduce their operating costs.

Where simplification cannot be achieved using this method in the customers' interests eg. where a valuable guarantee is present, firms should disclose not only the presence of such features, but also the real-world cash value of them in annual statements. This will also reduce the need for advice by improving customer understanding.

The Spotlight model currently in use by the FCA highlights a number of key lifestage segments, but it is unclear how the FCA is planning to deploy it with regard to FAMR. Were it to be used to determine the need for advice (or the type of advice) based on wealth or lifestage, we would have concerns it over-generalises those most in need of affordable advice as those with fewer investable assets. Our proposal would be to overlay the framework with a view on the complexity of need and level of financial awareness/engagement. Finally, the framework should also cater for the proportion of customers who do not and will never engage and we would encourage the FCA to explore further what steps should be taken for this segment, for example, compulsory contributions targeting a 'living wage' in retirement or allowing scheme administrators limited rights for non-responsive customers to switch out of high charging or under-performing investments.

1.3 Barriers to accessing advice

Ultimately the barriers most likely to prevent customers from seeking financial advice are not necessarily the most obvious – cost, lack of trust, inadequate supply, lack of education, willingness to self-serve – but are more deeply embedded in the UK's cultural sub-conscience. As government policy tips responsibility for long-term savings away from the state or the employer and onto the individual, it is critical that the outcome of FAMR addresses the impact of the cultural inertia which discourages many from engaging with long-term savings altogether. There are lessons to be learned from the past on customer engagement. The 'man from the Pru' model acted as a breaker of cultural inertia through regular, personal contact.

However, provision of a free or affordable model is also no guarantee of mass take-up as has been experienced since the launch of *Pensions Wise*.

The key realisation for future advice models is that stimulation of demand from customers is more likely to derive from proactive engagement, such as personalised communications or direct offers of support in the workplace, over passive measures such as advertising and ensuring that even where the supply of advice is increasing supply customers are incentivised to use it.

2 Where are the advice gaps?

2.1 Nature of the advice gap

As outlined in Section 1, we believe the advice gap exists most acutely for those approaching retirement – especially those with fewer assets, followed by those failing to save inadequately during accumulation. A lack of demand for advice does not indicate a smaller need when additional factors, in particular cost and lack of incentive to engage are driving down the notional demand. Therefore, providing statistical data to prove the size and nature of the advice gap is extremely challenging.

The key drivers of low demand at present are, we believe, as follows:

- Low levels of awareness of the value of advice or incentive ‘a nudge’ to use it – especially where families or social groups have no history of engaging an adviser
- Uncertainty as to how and where to find advice, in particular reputable advice, for example there is little mass media advertising for such firms
- Low levels of supply impacting demand **-** our experience of the market suggests adviser numbers are down by 20-25% since RDR, but the impact is even more acute in retail banking where adviser numbers are down by up to 80% (source: FCA / FSA, APFA) as mass market customers would naturally gravitate to their bank otherwise
- Lack of understanding of the services provided by advisers and the costs involved
- Availability of free to use guidance services, online tools and information driving growth in self-direction

The critical gaps, therefore, are for customers who fall into the following segments:

- Reaching retirement with limited understanding of the available options and the consequences of those options – especially post Pensions Freedom
- Relying on access to advice through a retail bank or Building Society
- Unable to access or use effectively internet resources
- Attempting to self-direct without sufficient understanding of the consequences, including tax impact or that some decisions are irreversible

- Responding to high levels of debt by withdrawing funds on a non-advised basis from a pension and paying excessive tax when other options eg. mortgage restructuring may be available
- Attempting to access property wealth to fund retirement without understanding consequences eg loss of property ownership
- Younger customers (under 40) who have opted out or not contributed above the minimum to their pension scheme

We agree with the FCA that the immediate priority is addressing the needs of those customers at the point of making retirement benefits decisions from age 55. Of particular concern are those without substantial wealth who are potentially vulnerable due to low levels of education or age.

Longer-term, we see the priority as those who are actively making retirement provision, but are doing so inadequately for their expected needs and/or who are invested in high charge, low performance investments.

2.2 Tax Advice Gap

The tax treatment of financial products is an integral part of suitability. Customers need to understand the tax consequences of changes to a product before making a decision, potentially one which is irreversible. They also need to understand how to report the product on their tax returns and monitor their ongoing tax liability.

These considerations and the ever increasing complexity of tax rules are a critical driver of the need for advice.

However, many financial advisers do not provide comprehensive tax advice as part of their service. This means that even where advice is sought, the customer may not understand the tax treatment of the product or how to report it to HMRC. This leads to frustration on the part of the customer and a risk of non-compliance.

Tax information given by providers of savings products is typically also not comprehensive. HMRC have recently launched their roadmap for ‘Making Tax Digital’ a key aspect is that producers of tax information will need to take more responsibility for reporting accurately the tax treatment of investment returns so that the digital information can flow seamlessly from the producers to their clients and the tax authorities. This is relevant to the majority of savers – not just wealthy individuals.

In our recent experience, issues of this nature resulting from Pensions Freedom have driven the following consequences for customers:

- Customers requesting payments of 25% of their pension pots as uncrystallised funds pension lump sums (UFPLS), believing them to be tax free. When tax is deducted, customers ask for the transaction to be cancelled, but this is not possible under current rules.

- Interaction of PAYE deducted from pension payments with the actual income tax due by the customer being poorly understood.
- Customers seeking to access pension pots that carry a guaranteed annuity option are required to take advice and overseas tax residents may find this impossible to access.

2.3 Impact of supply on the advice gap

Certainly prior to Pensions Freedom it was doubtful whether the industry could supply sufficient advisers, even if a revised framework could unlock demand, as fewer and fewer new recruits were qualifying to replace those retiring or exiting the industry post-RDR.

Pensions Freedom has had a catalyst effect on the market both in terms of the supply of advice and the development of new retirement solutions, including guidance and affordable advice models.

So called ‘Robo’ or ‘Cyborg’ models in particular are a significant departure from traditional propositions and are now being adopted. Experience from the US suggests rapid growth in this sector and commentators believe that within 3-5 years the underlying technology will have been adopted to the point the ‘Robo’ or ‘Cyborg’ labels will no longer be used.

Such models typically have the following characteristics:

- Core component is an algorithm able to construct a financial plan - typically investment portfolio based - aimed at achieving the customer’s goals following key information provided by the user
- May be offered fully or partially online or used by an operator who in turn is engaged in conversation in person or remotely with the end customer
- Charges a fee which is typically at a significant discount to standard Full Advice
- Takes a position on the advice boundary which is more assertive than previous affordable propositions

Critically new models are demonstrating the important role that technology will play in materially improving the customer experience.

We believe that current propositions are at an early stage of evolution and future iterations will benefit consumers when enhanced with the following features:

- Goal not investment focused – able to construct a financial plan based on a customer’s whole financial situation, including tax status, debt, property and other holdings, to achieve specific goals such as a specific retirement date / income or capital requirement
- Aggregation of customers’ data, in particular a *Pensions Dashboard*, in a single format will dramatically improve awareness of total pensions holdings – which can be on average 5.6 pots for DC customers (source: Age UK) – but this will require a regulatory framework to be effective as has been demonstrated in Israel and Sweden.

- Retirement planners – as these continue to evolve, such tools will be able to play off aggregated data to deliver a superior view of holdings and likely income in retirement, including 'nudges' to encourage customers to contribute spare cash to long-term savings or notify customers of failure to meet regular targets.
- Machine Learning & Decision Science – already deployed in places such as Healthcare, this capability will further enhance online advice propositions by continually assessing the performance of a customer's assets against their financial plan

Not all the direct costs of providing advice can be mitigated by the use of technology –although clearly automation and deploying self-service to some aspects of the process will contribute to cost reduction.

Significant indirect costs are incurred in remaining compliant, including training, professional fees, Professional Indemnity Insurance and reporting. Existing models demand higher fees to cover such current and future costs. Technology as a solution to reducing this type of cost remains unproven, but clearly has potential.

Received wisdom suggests that wealthier clients are the most economic to serve as they are in a position to pay Full Advice fees, however, as we explored earlier in this letter we believe that those with the most complex needs are most likely to be the most expensive to serve, but these are not necessarily the wealthiest. Conversely those with straightforward needs – regardless of wealth – should be the least expensive to serve.

Whilst reputation and trust, consumer engagement, regulatory compliance and profitability do constitute barriers to firms entering the market and developing new channels, the single most critical barrier for affordable advice models in our view is the fear of retrospective action by the FCA and/or FOS with respect to advice recommendations, in particular in affordable advice models where lower-fees are not currently seen as profitable, and when the cost to serve and absorbed liability remains on a par with Full Advice.

Ultimately we would define the advice gap as:

"The disparity between better customer financial outcomes and the status quo which would be addressed through the wider availability and affordability of help with financial planning decisions" NB. we believe, in this instance that both advice and guidance solutions may address the 'advice gap'.

3 What options are there to close the advice gap?

Our firm position is that successful models in future should default to a guided ‘triage’ process on the available forms of financial help, regardless of whether they are execution only, guidance or advice. This will ensure that customers are never forced to pay for a service they do not value or cannot afford (or perceive they cannot afford), will direct them to a solution which is appropriate to their needs and in which the available support options are explained in plain English.

We do not advocate a strict definition of guidance as we feel the industry should continue to be free to define non-regulated activity, however, we do believe it would be of value for the FCA to articulate a set of non-binding protocols for guidance which clearly distinguish it from regulated advice, for example, by setting the expectation with customers up front that the liability for any decision remains with them, and bringing it in line with public sector provided guidance such as *Pensions Wise* or that provided by provider firms.

Our view is that affordable advice models should operate on the basis of a core principle of ‘Better not best’ – customers ultimately need support to achieve a better or optimised financial outcome, but the current focus on ‘best’ advice assumes a perfect outcome is theoretically achievable in all cases and holds advisers liable for performance relative to this goal.

To simplify the current advice framework to work within this principle we advocate a set of principles to improve the current framework which amounts to a ‘safe harbour’:

- Triage of all customers at zero cost at the outset to ensure customers are directed to the advice or guidance service which best meets their needs and affordability criteria
- A revised category of ‘Affordable Advice’ which utilises technology to underpin the existing principles of advice, including acting in the customer’s best interest and applying standards to ensure recommendations are suitable
- Caters for a typical person’s whole financial situation – tax status, retirement provision, protection, other savings and investments (including cash deposits) and fixed assets such as their property as well as debt, including mortgages, credit cards and other loans
- Built around the key life stages which drive the need for advice, in particular birth of a child, retirement planning and transition into retirement
- Allows a customer to revisit their goals and how their portfolio is performing against these goals with the ability to refresh the advice if desired
- Limited to advising on a restricted range of new products/investments, for example, low to medium risk funds in low charge pensions, ISAs and GIAs or protection with the customer being referred to Full Advice should they wish to exercise an option which requires it such as a public sector DB to DC transfer
- A framework which allows systematic design and approval of a framework by a QCFL4 or above individual, but operation by an individual with training or a lower qualification,

such as paraplanners, to further improve the commercial viability without increasing the risk to the consumer

- A modest price point for a 'better or good outcome' personalised recommendation
- Allows for innovative funding models eg. where an employer provides a voucher to new joiners entering the workforce for the first time or shortly before retirement
- Ongoing governance requirements, including periodic validation of the original affordable advice and independent review of the systematic framework to ensure ongoing compliance and quality of consumer outcomes
- Utilises the '*regulatory sandbox'* from Q116 to validate any amendments to the advice framework to allow the FCA and firms to test and learn from deployment of prototype models, followed by explicit endorsement by the FCA of the resulting framework such that firms operating within it are doing so on a substantially reduced liability both now and in the future (naturally firms not complying with the framework should expect supervisory / enforcement action)

We realise that endorsement by the FCA of a framework designed in a live environment is a substantial departure from current practice, but we believe it is an essential one to unlock the potential of the mid-market for advice.

Conversely, we do not see a strong case for a longstop arrangement on the basis that customers would not see an arbitrary deadline as grounds to bring or not bring a complaint against an adviser for a particular outcome – a much stronger solution is clarity on the extent of liability at the outset for all parties.

Whilst EU regs will undoubtedly play a larger role in future, we do not see any conflict in our proposed principles within the existing EU framework as what we are proposing reinforces the need to 'act in the best interests of clients', but this should not be confused with the concept of 'best advice'. CMU development is an area we will also monitor closely and would want to ensure it protects a level playing field and does not place onerous requirements on firms which would reduce the supply of advice.

A critical innovation which would benefit all member states would be an extension of the *pensions dashboard* scheme – with comparable examples already live in Sweden and Israel - whereby pensions data is pooled, aggregated and access provided to customers to enable better awareness of their complete retirement picture.

As mentioned above, the FCA can learn from previous initiatives, in particular RDR, that balancing consumer need with profitability is key to a successful framework. Equally, that a decline in supply may also result in a decline in notional demand or vice-versa due to the ability of advisers to disrupt the cultural inertia of low-engagement.

Whilst we believe in the viability of a purely online affordable advice model, we also accept that customers will generally prefer human interaction, even if that interaction is underpinned by the same technology. Therefore, whilst we don't see any downside of remote contact vs. F2F (except in the case of vulnerable customers who require it), we do see engagement benefits in a phone based service over purely online.

The ‘acid test’ for technology enabled advice will be its ability to deliver consistently better outcomes to customers with the same or similar needs and transparency on the basis on which that is performed. We believe the current barrier to further innovation remains fear of retrospective action by regulators and hence the importance of the ‘*sandbox’* in trialling new concepts.

Whilst fully online advice models in the US have a number of limitations – notably a focus on investments as opposed to financial planning – examples are already emerging in the UK which are more goal focused and offering a viable low cost alternative. There are consumer considerations which require further development, not least whether customers understand the advice they have received without a human to explain their liability and their right to redress if they are not satisfied. Restoring trust in the FS industry overall may also be challenging where there is no human interaction with customers.

More broadly, we see the industry, employers and the FCA taking further steps to closing the advice gap through:

- Financial education in schools/universities
- Supporting individuals to get affordable financial advice when they start work, potentially funded by the employer and/or the state
- Supporting individuals to get affordable financial advice as they approach retirement, again potentially funded by the employer and/or the state

Ultimately competition for control of the customer relationship will intensify if FAMR succeeds in making advice widely available and affordable. This is no bad thing for customers if it leads to better propositions, lower charges and improved outcomes. Naturally there are risks of unscrupulous practices, however, the implementation of a centrally endorsed, systematic framework will enable much greater transparency of adherence to quality standards. Of key concern would be any reduction in the supply of advice in the longer term as a result of competitive forces.

Closing Remarks

In conclusion, to ensure fairness and quality of outcome, we strongly advocate a guided triage step up front to ensure customers are guided to the advice, guidance or execution only option which is best for them, that affordable, advice processes are holistic in considering financial circumstances, but limited to low-risk options to meet the customer need and manage the liability on the adviser.

Furthermore, we believe that a systematic framework with FCA endorsement which is properly governed and technology enabled will deliver availability and affordability. The benefits of this approach should be enjoyed by a wide range of adviser firms and their customers.

Naturally we would be delighted to discuss our response with you in due course and would be happy to respond in more detail to any of the points raised on request.

Yours sincerely

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FAMR

Financial Advice Market Review

Call for input

A response by the Later Life Academy

December 2015

Contents

Who are the Later Life Academy?

The Later Life Academy was launched in February 2014 as a new service offering of the Equity Release Club. Its objectives are to help advisers who practice in the later life space whether they offer retirement income and investment solutions, equity release or care guidance the opportunity to increase their knowledge of other disciplines to enable more holistic advice to be provided to their clients.

Academy members are encouraged to work with other Academy members with specialist knowledge they may lack personally to deliver the best outcomes for their clients. Currently there are over 200 financial advisers who are Academy members.

Advisers who are members of the Academy benefit from support services that aid them in providing a complete package of support, including will writing, power of attorney and funeral plans.

The Academy is supported by product ambassadors who support the training given to the members of the Academy.

In 2016 the Academy is looking to launch several consumer facing information and guidance services designed to follow on from PensionWise appointments that could lead to full advice being provided by an Academy member.

Executive Summary

The Later Life Academy welcomes the opportunity to respond to this call for input.

Our focus is on the period approaching retirement, at retirement and in retirement stages of life.

The foundation of our work is built upon how individuals can organise their finances, calling on studies from the USA that treats the individual as a utility generating income, using surplus income to create wealth and then drawing down that wealth once full time working has ceased. We use similar work around a household budget to identify the surpluses available for the future, and the minimum income needs for drawing down wealth.

This means that a holistic view of wealth has to be taken to provide retirement income expectations of the many individuals who have small pensions worth £60,000 or less and housing wealth of around £200,000 on average. A £60,000 pension fund is unlikely to produce an income of much more than £3,000 per annum, which when added to a state pension of around £7,000, is only going a replacement income of 37% of average earnings. This is long way short of the recommended 60% individual's are told to aim for. Sooner or later housing wealth will have to be called upon to help their retirement income needs.

Individuals who have £300,000in their pension fund will be prepared to pay £1,000 plus for good advice they are confident in. If they have a pension fund of £60,000 that cost becomes prohibitive, albeit that good advice could be more valuable to them. The savings gap therefore needs to be addressed to close any perceived advice gap.

The Academy also believes there is a deeper issue. If an individual has £200,000 in their pension scheme and an adviser wants an initial fee of 1% plus an annual servicing fee of ½% the individual needs to understand the value £2,000 plus £1,000 per annum is going to deliver. If the individual is of low financial capability and they cannot appreciate what is being done for those fees they will not is deeper than this. If an individual has low financial capability they will not appreciate the value of the outcomes of advice and consider other ways of spending that money. The financial capability gap therefore needs to be addressed to close any perceived advice gap.

There is also the issue of capacity. Taking APFA data at the end of 2014[i], there was an average of 4.5 advisers in each regulated firm. Each firm had on average 210 clients made up of 130 Active clients and 130 reactive clients. On these numbers which seem consistent over time, the reach of Financial Advisers is to 1.4m clients. If technology and introduction of more advisers raised this capacity by 25% the reach would extend to 1.75m clients.

If the capacity after expansion of Regulated Financial Advisers is only 1.75m clients, this means that only 4.15% of the population with wealth over the age of 25 can be serviced by Regulated Financial Advisers.

This could be translated into saying that regulated financial advice is rationed by capacity to those households who have total wealth, including housing and defined benefit wealth well in excess of £1m.

This capacity constraint is compounded by financial advisers who are only able to advice on mortgages and protection, or are unable to advice on areas where demand is rapidly growing e.g. care funding, more complex retirement income solutions, and equity release. There is a shortage of advisers able to give holistic wealth support and advice in the wealth decumulation phase of life.

The Academy feels that to provide individuals with what they require to deliver better outcomes for them, a process needs to be developed that supplies quality information, leading to guidance, leading to full advice. However more needs to be done to close the savings gap and improve financial competency if individuals are to seek the help and advice they need to improve their financial wellbeing.

In our response to the Treasury consultation on Public financial guidance we strongly recommend proactive ways in which financial competency can be improved. This includes the creation of a digital personal financial hub to reduce costs of all concerned and to encourage better engagement between individuals and the financial services industry.

Individuals in receipt of income based benefits are the most vulnerable when it comes to making wrong choices at retirement. The Academy therefore recommends that all such individuals should be proactively invited to a Citizens Advice Bureau for a face to face session on their financial situation and the impact of any pension options they may have.

The Academy does not believe that pension choices are that complicated. It is the application of those choices to individual circumstances and objectives that introduces the complexity. The individual must be at the heart of the services that are provided.

The Academy does not recommend that PensionsWise give guidance other than on pension options. However these other potential sources of retirement income should be brought to the attention of the individual in appropriate consultations with directions as to where they can get further information about how they can be used.

The pension amount available at retirement could be less than it would otherwise have been if appropriate decisions had been made earlier. The Academy therefore believes that PensionsWise should not be restricted to the “at retirement” options. It should be the “go to” place for all pension issues that arise throughout life including post retirement decisions.

The Academy believes that PensionsWise should be the help and support brand of TPAS who should drive all initiatives, but should be empowered to utilise other agencies to ensure successful delivery.

Latest research from the USA suggests that individuals spending patterns in the first 6 years of retirement does not fit with conventional wisdom. If such research holds in the in the UK, there maybe a large number of retirees who are spending far more than their income and building a large amount of debt that will have to be dealt with later in their retirement. Conventional product based solutions on their own do not deliver outcomes that satisfy how the customer behaves.

Main Input

1. The individual as a Utility

Work done by the Retirement Income Industry Association and Morningstar in the United States treats the individual as a utility and underlies this with the concept of a Household budget. In its simplest form, during their working life individuals' generate income. They should put surplus income aside to accumulate wealth for the future and then drawdown on that wealth during retirement.

We often refer to the Institute of Fiscal Studies research "The Evolution of Wealth in Great Britain: 2006-08 to 2010-12" in this response. Many of the figures contained in that research clearly show how the accumulation and decumulation of wealth follows the curve. Therefore without the aid of advised financial planning many are following that path.

What that and other research also highlights is the uneven distribution of wealth in the UK and that for a significant proportion of the population there is a disconnect between retirement income expectations, retirement spending patterns and the pension wealth available to meet such expectations and spending.

To identify the surpluses that can be put aside during periods of work there should be a household budget. Similarly the minimum income requirement in retirement is also determined by a household budget, how much do I / we need to live off? That level of income needs to be secured before I can decide to retire and draw on my retirement wealth.

The model assumes that the wealthier will have funds remaining after they have provided for their household budget income needs and will keep the balance of their wealth invested to be drawn upon with ad hoc withdrawals as large amounts of expenditure or changes in income needs arise, for example care costs.

Wealth in this respect is not restricted to financial products and retail investments. It can include housing, property, direct ownership of stocks and securities, the value of their own business, etc., that is it is their holistic wealth.

2. Financial Planning approach

The general principles of Financial Planning are that each of the following should be addressed before moving onto the next item -

1. Pay off unsecured debts with high interest rates;
2. Create an emergency accessible fund, equal to roughly 3 months net earnings;
3. Ensure sufficient insurance is in place to protect family in case of death or incapacity;
4. Create medium term assets to cover occasional eventualities e.g. new car etc.;
5. Create a long term savings fund for retirement and later life.

There may have to be a compromise between each of the above, for example giving up an employer contribution to a pension is akin to giving up part of your salary. Therefore something earlier in the list may have to be foregone diluted unless, in the extreme, it is not possible to pay any corresponding employee contribution to access the employer pension contribution and tax relief.

3. Individual Financial Ability

It would be wrong to approach the issues raised by this consultation with a broad brush approach. The population can be divided into segments determined by their financial capability. The segments we would identify are-

> **Financially astute -** these are fully familiar with the risks of savings / investments; are able to identify the solutions / products they need to meet their objectives and are aware how to source those solutions / products. They do not see the need for "advice". However although a large number of individuals would fall into this group, there is a risk that many who may say they are in this group are not as qualified as they believe themselves to be and could fall prey to scammers. This is a problem which needs to be addressed by this consultation.
>
> **Financially aware –** these are able to budget, identify their needs and wants. They have sufficient tax knowledge to apply their own tax situation to their needs. Their financial capability is however insufficient to identify the best products for their needs.
>
> **Financially able -** these are able to identify where their income comes from and where their spending goes. They have a little knowledge of the different banking and mortgage products available, when to buy insurance but are unlikely to be unable to be able to put together a financial strategy or source the best products for their needs. They may however use financial comparison Websites for this purpose.
>
> **Financially inept –** these are unable to identify where their income comes from, control their spending, have no knowledge of financial products and move from one financial crisis to another. These are the most vulnerable individuals.

4. Stages of Financial Solution process

Having satisfied 1 to 4 of the Financial Planning approach the stages of Financial Solution process for long term savings and retirement is basically

1. What wealth do I have?
2. What retirement Lifestyle do I want?
3. How can I use 1 to deliver 2?
4. If 1 cannot deliver 2 how can I fill the gap?
5. If gap cannot be filled how can I modify expectations of 2 to reduce the gap?
6. What products can I use to best deliver 3?
7. How do I source those products and solutions to deliver 6.

This process is complex and leads to the cost of advice being prohibitively high. For example 1 and 2 form part of the fact find process. Which if completed on a holistic basis is very time consuming. Advisers often complain about clients that keep information back, however unless the client is financially astute, where and how do they keep comprehensive records of all the wealth they have? Similarly why would they believe other wealth is relevant?

From an advised client point of view 6 and 7 would include product suitability which would include the assessment of the client's tolerance for risk and capacity for loss. These assessments may have been carried out by the adviser during the fact find stage.

5. A coherent solution

The above approach provides everyone with a framework that they can tailor to their needs. Treating the individual as a Utility identifies their adult financial journey. The Financial Planning approach identifies what they should be doing now and planning for the future. Their ability identifies what help they require and going through the mechanical process to arrive at a financial solution that is fit for purpose.

Falling out from these simple approaches comes the following –

1. The approach to tackling Financial Competency
2. The support services individuals require
3. Where the priorities lie for state organised support
4. What services should be provided by the private sector
5. The regulatory framework that governs those support services.

Much of the consultation focuses on pensions, at retirement decision making and guidance which is our area of expertise. We believe such a focus is incorrect. A Defined Contribution pension is only differentiated from other savings and investment products by the tax rules and regulations that apply. These maybe complicated but looking at pensions as if they are something unique and ignoring other wealth can lead to customer detriment.

6. Financial competency

There are two main reasons why people get into debt that is due to being financially inept (this is intended to describe a state that can lead to indebtedness, and not be derogatory to those in debt) or misfortune.

Those in debt can create a hidden economic burden on the nation, strain on health and social services; family breakdowns and so forth. It is therefore in the Government's interest to reduce the numbers getting into debt.

Also financially competent individuals are less likely to fall for the more obvious scams if they are equipped with the mantra ***"if it is too good to be true - it probably is"***

Work has already started with the next generation by getting Financial Competency added to the National Curriculum. Further Education institutions should be encouraged to run "managing finances" through seminars during the first weeks of the first year of study. Similarly getting financial education into early apprenticeship studies would also help.

At the other extreme, all retirees who are on income based benefits should be invited to Citizen's Advice Bureaus for dedicated financial education. Their choices and their impacts are most far reaching on this group and if debt is to be avoided in retirement they must be aware of what sources of income are available to them, and how to manage that income. These are the most vulnerable to making the wrong decisions that will cost the individual the most.

We believe that if the Financial Competency initiatives in schools are to be successful parents need to be involved. If the messages of financial competency are to become engrained and built upon they must be part of a cultural behaviour. It will be seen to be no more than an academic exercise if behaviours in the home are completely contrary to what is being taught in schools. Therefore schools should be encouraged to run parallel classes for parents so that on a voluntary basis they understand what messages are being given to their children and why.

This will still leave large proportions of the population untouched. We propose two initiatives to help reach these and support improving financial competency.

7. A digital personal finance hub

It is inefficient that every time everybody purchases a financial product through a different body the adviser / provider has to undertake fact finds of different complexity to ascertain suitability. If the individual had collected all their financial information in one place they could plug this into the advisers / product provider's software that would pull the information required from the individual's hub and then process it accordingly. This would remove a large amount of cost from the advice process.

Reports from government agencies e.g. TPAS could be held in the hub.

What is more the hub can hold links to awareness programmes that continue to add to the education of the individual increasing their financial competency.

The financial hub would hold details of bank accounts, insurance policies, savings products, investment including pensions, mortgages and other borrowings, wills, and so forth, increasing the efficiency of the financial services industry whilst at the same time aiding individuals to purchase and use only products that are of use to them.

As a protection against scams and fraudsters, only regulated organisations would be able to link with an individual's financial hub.

8. Financial Understanding

"Finance is boring and dealing with Financial Service companies is time consuming which reduces the time I have for more interesting things in life." This statement could be made by many individuals of all ages.

There is therefore a need for a public awareness counter message. *Get your finances in order and Life becomes a doddle".* Everything just falls out of the hub, but at the same time the hub is interactive. As it is populated, it educates the user at the same time. The more it is used the easier life becomes for the user, and its use enables the individual to become more financially competent.

Our view is that there is more of a competence gap among individuals, than an advice gap. If an individual has no idea with what he wants, then he does not realise the value of the advice he is being given. A financially competent individual will be more aware of when and how they need to seek advice and to assess the value of that advice.

When purchasing a car, majority of individuals know, despite the wide variety of models available, why they want a car; and how they will use the car. This reduces the model ranges to enable them to make an appropriate selection. There may have been better decisions, and there is no independent adviser who will make the decision for them. An aspiration would be to bring the financial awareness of the population when making financial decisions up to the level they have when buying cars.

The RDR has not introduced an advice gap. The transparency it has introduced has shown the consumer what he is paying for advice and many do not realise what good value it can be.

9. Advice or guidance

Looked at from a regulator's, adviser's, or a provider's point of view they feel that individuals receive either advice or guidance. Advice is where a product recommendation is given. Guidance is information provided about what to do. The problem with this differentiation is that if the "advice" is do nothing, e.g. keep working, defer claiming state pension, keep paying pension contributions is that advice? If the recommendation includes changing the investment selection, and increasing the pension contributions being made that is definitely advice.

It is interesting that attitudes expressed regarding trust in institutions giving advice between 2007 and 2012 those whose trust has improved are bodies that provide information or guidance but not advice[ii]. Those bodies that give advice all suffered a reduction in the trust of individuals. The only non advisory institution that suffered a loss of trust was Newspapers

This data may have been influenced by the financial downturn and the implementation of the Retail Distribution Review may have changed individual's attitudes. The world may have changed since 2012.

However, this does confirm our view that the majority of individuals cannot tell the difference between advice and guidance. The service they require will be determined by where they are on their life journey, their competence, what they have by means of wealth and what they are trying to achieve. Depending upon the complexity of the situation and the corresponding implementation of the solution is the service they require. It could be good for consumers if we could move away from the terms "advice" and "guidance".

A coach is our preferred analogy. Join a gym and you will be offered different degrees of support ranging from just being shown how to use the equipment safely, through to the development of a plan and review to meet goals through to a personal fitness instructor who is at every session to motivate and encourage reaching the next level. A range of financial coaching services is required that meets the needs of the individual and what they need and are prepared to pay for.

This range of services could be basic information, moving to what the information means to you; through to how you can implement a solution that meets your needs yourself; and onto the solution we recommend for you including product recommendations. The final stage is what regulators, advisers and providers would classify as "advice".

However before moving to the next stage individual's need to understand, in their own terms, the added value the extra expense will bring.

10. Capacity of Regulated advisers

Taking APFA data at the end of 2014[iii], there was an average of 4.5 advisers in each regulated firm. Each firm had on average 210 clients made up of 130 Active clients and 130 Reactive clients. On these numbers which seem consistent over time, the reach of Financial Advisers is to 1.4m clients. If technology and introduction of more advisers raised this capacity by 25% the reach would extend to 1.75m clients. It is said that the average age of advisers is 58. Therefore over the coming years those advisers moving into retirement is likely to exceed new advisers joining making a 25% increase in productivity measured in number of clients serviced by the industry more difficult to achieve.

There are 52.66 million in the UK over age 25[iv]. Although it could be stated that the poorest 20% of households have no wealth to speak of those individuals still require financial advice. Some could argue they are those most in need of financial advice as they have the hardest job in balancing their household budget. This 20% are unlikely to buy the products recommended by a regulated financial adviser.

Excluding that 20% that still leaves 42.13 million who live in households with some wealth. If the capacity of Regulated Financial Advisers is that they can only service 1.75m clients, only 4.15% of the population with wealth can be serviced by Regulated Financial Advisers.

Referring to the distribution of wealth analysis of the Institute of Fiscal Studies[v] , this could be translated into saying that regulated financial advice is rationed by capacity to those households who have total wealth, including housing and defined benefit wealth well in excess of £1m that is those above the 95th percentile of wealth.

This capacity constraint is further compounded by financial advisers who are only able to advice specific market segments, e.g. mortgages and protection, or are unable to advice on specialist areas where demand is rapidly growing e.g. care funding, more complex retirement income solutions, and Equity Release.

There is a shortage of advisers able to give holistic wealth support and advice in the decumulation phase of life. For example an Equity Release or Care Specialist is often unable to give advice on retirement income solutions. The Academy is attempting to tackle this problem by helping advisers become “general practitioners” in this space whilst increasing the support consumers can tap into for information and guidance.

11. Trust

The Institute of Fiscal Affairs have tracked which institutions individuals trust in giving financial advice. It is interesting that the sources they trust most do not give financial advice in a regulatory sense[vi]. Banks and Independent Financial Advisers come towards the bottom of the list. Unfortunately their data ceases in 2012, so RDR, introduction of PensionsWise and other changes may influence the result today.

However apart from the above observation which could be an important point, the question was phrased around advice, but sources of information are scored as giving advice. If the public cannot distinguish between information and advice it feels to us we should stop referring to regulated advisers as such. A much better description would be "Personal Financial Consultant" or "Personal Financial Practitioner" which is more akin to what their profession actually does.

We are also as an industry falling into a trap. Often the public is told the best way to avoid scammers is only to deal with Financial Advisers regulated by the FCA. However, many who cannot afford or are unwilling to pay for such advice are left with no one to "trust" going forward. A new way of giving reassurance to the public as to who they can safely deal with needs to be found.

12. Pensions are not complex

Defined Contribution pensions are not complicated as far as individual members are concerned. Contributions from the individual, the employer and the government (tax relief) are accumulated in a pot and then drawn upon in retirement. It is the pensions industry that makes pensions complicated often in the public's eyes by giving too much weight to technical issues that make a small difference to the outcome.

Going back to the car buying analogy, the technology within a modern car is probably far more complex than pension technicalities. The car industry is able to concentrate on what the technology does for the purchaser rather than how it works.

There are basically 4 options as to how to take your money from your pension.

1. To buy an income for life (annuity)
2. To keep the money invested and drawdown on investments
3. To take a lump sum
4. To take a series of lump sums.

There is a 5th option and that is to do nothing, maybe reduce working hours but use part time work as a way to fund the early period after full time working , and defer taking the above pension options until later.

The complexity is the individual themselves. What is their state of health? What are their retirement objectives? What else do they have, in particular, by way of Defined Benefit pensions and housing wealth? What is their tax position? What is worse, an individual's circumstances will change over time meaning their objectives will change. They then have a process to review what they have put in place.

It is matching the individual's circumstances to their options that introduce the complexity. A financially competent person will have an idea of what they have by way of wealth, and the other factors that influence their personal options. They will value the help of a coach who shows them how it can all be brought together to meet their plans. The next stages are the recommendation of specific products that may be suitable and the monitoring of those products to ensure that they deliver as intended.

13. For many defined contribution pensions are inadequate

Defined Contribution pension savings are often inadequate on their own to provide the retirement income desired by the individual. Where a defined benefit pension, housing wealth or other investments are held the defined contribution pension may not be the dominant driver in delivering retirement income.

The latest ABI statistics[vii] show the average amount used to buy an annuity is £53,300 and amounts going to income drawdown are £65,000. As these are averages, if it is assumed that an individual is on the average earnings, around £27,000 a year; assuming a 5.5% withdrawal rate the income generated is likely to be £2914 per annum if an annuity is purchased or £3,575 per annum if the customer is an average drawdown customer.

If we assume the target replacement income is 50% for an average earner, i.e. £13,500. £7,000 is provided by the state pension and £6,500 is required from private pension provision to reach the target replacement income. The average retiree therefore is only receiving between 73% and 78% of what is to be a modest target replacement income with the only inflation protection being provided by the state pension. This is will result in a continuing erosion of living standards.

The average retirement pension pot is much lower. The average cash lump sum drawn by 166,700 individuals was just under £15,000. Twice as many took cash lump sums as invested in Annuities and income drawdown combined. The numbers indicate that the average DC Pension Pot of those moving into retirement is a little shy of £30,000. This is an inadequate amount to provide a reasonable replacement income for many.

The Pension Policy Institute estimate that by 2030 this will increase to £56,000[viii] in 2015 terms. This still is not sufficient to provide a reasonable lifetime income. Whilst pension savings are so low, the advantages of seeking help and advice are not apparent to the individual.

14. Defined benefit pensions

Many of today's retirees have defined benefit pensions in addition to their defined contribution pension fund. This means that for them the pension position is not as bleak as the picture painted.

Again we refer back to the Institute of Financial Studies research. Total Pension Wealth peaks in the 55 – 64 age group, those approaching retirement. There is a vast disparity in pension wealth in this age group. The top 10% have total pension wealth in excess of £400,000 yet the median is around £150,000[ix]. This is far short of the equivalent annuity value of the state pension. [x]

The concern must be that, across the spectrum, the amount of pensions wealth accounted for by pensions in payment is approximately twice that of pensions not in payment. Taking account of the methodology used to value pensions in payment in the research this illustrates that those who have yet to retire have significantly less than the current retired generation to live off in retirement.

Again across the spectrum DB pension wealth dwarfs DC pension wealth. This is as expected but even after Auto enrolment has matured this research appears to evidence that for some time to come there will be a large gap between what retirement income consumers expect from their pension savings and what those savings will provide. Only a third of individuals aged 55-64 expect their pension savings to be their predominant source of income in retirement[xi]. However will the other two thirds be able to constrain their spending to match their income in retirement see Section 20 below?

For the fortunate, who have a defined benefit pension which when combined with their state pension is adequate to provide their necessary household retirement budget, they may decide to keep their DC pension invested and just draw on it when big spending events occur. Examples could be a replacement car, house repairs, or a celebratory holiday.

This is one way option 4 under the heading "pensions are not complex" can be used in one of its guises.

However if the defined benefit pension is insufficient (Pensions Policy Institute[xii] use £5,400 per annum as an indication) then they are only a little better off than those who have a DC pension only.

15. Housing wealth

According to Age Concern 81% of 60 – 64 year olds were house owner occupiers[xiii]. In 2010 the mean value of homes owned by those aged 65-74 was £164,828. In 2015 terms this would be £196,000. This dwarfs the amount held in defined contribution pensions by such individuals. That is more than 6 times as much on average.

For those only a small pension and housing wealth it is hard to see, how they can have anything approaching a reasonable retirement without drawing down on their housing wealth.

For these people Option 4 may take the following form.

Personal allowance = £10,500; State Pension = £7,000;
Remaining tax free allowance = £3,500 25% tax free = £1,167
Draw £4,667 from pension tax free.

This gives a total tax free income £11,167. For someone with a £15,000 pension pot this could continue well into year 4 before their defined contribution pension money runs out. They receive the total £15,000 plus any investment growth over the period of drawdown tax free.

Once again how many schemes would permit this method of withdrawal?

If the £15,000 was drawn down as a single lump sum as many are doing, £1,550 would be deducted in tax unnecessarily.

The above could be operated in conjunction with the desired method of drawing down on the housing wealth to reach the level of desired replacement income that meets their household budget needs.

16. **No defined contribution pension**

Even after auto-enrolment has been in place for several years there will still be a large number of persons who will have little or no defined contribution pension benefits. This could be because of periods of self employment or business ownership; disability; or a large proportion of the working career being spent in the public sector. Any government financed support for retirement income guidance should not exclude these individuals.

17. A message from the ABI data

Many commentators have jumped upon the fact that only 20,000 individuals have had interviews with PensionsWise. The ABI statistics cover just over 250,000 pension pots. 17.5% used went into income drawdown; 16% purchased annuities whilst 66.5% took a lump sum.

If an individual has the choice between £15,000 now and £15 a week for the rest of their life what is the probability of them talking to someone before making a decision? We believe it is unlikely. This assumption creates a concern because it implies there are some who will have disqualified themselves from income related state benefits due to lifting their non pension savings beyond the £16,000 threshold. We deal with this issue in paragraph 17.

If you assume at least 50% of those who took lump sums "could not see the point of talking to anyone". That reduces the original population by 33.25%. Also, at the other end of the spectrum are those who are confident in their financial adviser and therefore not see the value of PensionsWise, or who are employed by large employers who provide retirement counselling services as part of the employment package.

Assume that these account for 20% of those who entered income drawdown or purchased annuities and you get close to 40% for whom it is going to be very difficult for PensionsWise to create an appeal.

This reduces the population that would consider using PensionsWise to 150,000 pots. We do not know how many individuals this represents as some will have two or more pension pots which were not consolidated but taken in separate transactions. But even assuming that each individual had 1.5 pension pots then from a standing start the fact that 20% used PensionsWise could be the beginning of a possible success story. This possible success needs to be built upon by making PensionsWise the go to brand for support and help with pension advice. Not just at retirement.

What we don't know is what they did next. Did they see a financial adviser? Did they shop around? Did they feel the next step was too complicated? Cost too much money? Or that they had better things to do with their time?

The true success of PensionsWise should be measured by the numbers that do that do engage further with organisations that provide more detailed information guidance and advice, before taking action. Also, because of consumer resistance to obtaining full advice it should ensure that individuals are aware of the different types of assistance that are available so that they use a service appropriate to them.

18. Too much granularity

It is a fact that wealthier people live longer than poorer people on average. Annuity providers assume the larger the pension pot the wealthier the annuitant is. This assumption begins to show itself in annuity rates at a surprisingly low amount, around £80,000. Therefore an individual with close £300,000 available to buy an annuity would usually be better off by splitting it between the top 3 annuity providers on a comparison table than giving the whole amount to the annuity provider with the best rate.

For many the flexibility to do this is not available. In any event if individuals' started to behave in this fashion, annuity providers would introduce more complicated underwriting methodology to ensure they were not being selected against by those who purchase annuities.

We make this point to illustrate there is no perfect solution for arriving at the ultimate retirement income. Every extra penny comes at a cost because of the additional effort and work involved. The success of government sponsored retirement income guidance should be the eradication of bad decision making, not the pursuit of the impossible Nevada. Government funded services should have this objective in mind.

19. Pensions Guidance

Individual s should be making informed choices about their pension savings throughout their membership. This could be as their circumstances change; and as they decide on their retirement plans when approaching the end of their full time working life. Although PensionsWise is available from age 50 it only comes to prominence in the wake up period that is 6 months prior to expected retirement. We say expected retirement as many only decide to stop work in the two months before they actually do.

Changes in circumstances mean a review in pension contributions. However as retirement approaches, it is necessary to ensure that the investment strategy is consistent which the options that may be taken. Individuals that enter lifestyling, when they do not know when or how they intend to take their retirement options can seriously damage their retirement income.

After the pension pot has begun to be drawn upon changes in circumstances, e.g. receipt of an inheritance, declining health, or proceeds of a house downsize, may require further assistance and support.

20. PensionsWise

The above could lead to the conclusion that Pensions Wise should be extended to include defined benefit options and housing wealth. We do not believe that is right.

TPAS is a successful organisation. The PensionsWise brand should belong to a service, primarily telephone based, which is there to aid the understanding and consequences of pension scheme decisions whenever they occur. This is one of the reasons TPAS was established. PesionsWise should become a brand for the education and support services TPAS offer.

Conversations TPAS have with individuals should be restricted to Pensions options. The conversations should however encourage individuals to consider using their pension savings in conjunction with their other wealth to generate their retirement income. Also it should cover Longevity, inflation, risk of decisions on family members; particularly spouse's and partners with no pension, and the possibility of needing care.

The key part of the service should be to help the individual to understand what to do next, including giving details of commercial help agencies whether they give full advice or not. The point is that individuals should be encouraged to go as far with the coaching process as they feel it is necessary to get value from the services on offer.

Although we say TPAS services should predominantly be telephone based, it should consider how it can provide the same level of service to those who, due to disabilities or other issues, are unable to benefit from a telephone based service.

As part of the proactive debt management service everyone on income based state benefits should be proactively offered a session with the local Citizen's Advice Bureau in the months before they reach state pension age. Making the wrong decision on their pension options will be proportionally more costly for this group. This can start a spiral leading them into serious debt. Therefore by helping them to understand their options and their impacts is important for this group. TPAS through our suggested PensionsWise brand should support the Citizen's Advice Bureau in the delivery of this proactive service.

21. Retirement Spending

The Employee Retirement Benefit Institute in the USA has recently published the results of a detailed study of how much retirees' spend in the first 6 years of retirement compared with their spending in the year before retirement[xiv].

The key findings of this study were:

- In the first two years of retirement, median household spending dropped by 5.5 percent from pre-retirement spending levels, and by 12.5 percent by the third or fourth year of retirement. But the spending reduction slowed down after the fourth year.
- In the first two years of retirement, 2 in 5 households (39.3 percent) spent less than 80 percent of their pre-retirement spending. By the sixth year of retirement, a majority (53.1 percent) of households did so.
- Although average spending in retirement fell, a large percentage of households experienced higher spending following retirement. In the first two years of retirement, 45.9 percent of households spent more than what they had spent just before retirement. This declined to 33.4 percent by the sixth year of retirement.
- In the first two years of retirement, 28.0 percent of households spent more than 120 percent of their pre-retirement spending. By the sixth year of retirement 23.4 percent of households still did so.
- Households that spent more in the first two years of retirement were not exclusively high-income households; rather they were distributed similarly across income levels.

It is difficult to envisage that the results of a similar study in the UK would be that much different from the USA. If the results were repeated in the UK the following issues need to be addressed in any advice process –

a. For those whose spending reduces, is their a balancing act going on between available income and spending? However it takes time for that balancing act to get to equilibrium (6 years before a majority get to less than 80% of pre retirement spending);
b. Even after 6 years almost 1 in 2 is still spending more than 80% of their pre retirement spending.
c. The median spending is 87.5% of pre retirement spending by the 4th year.
d. Alarmingly almost 1 in 4 is spending more than 120% of their pre retirement spending in the 6th year of retirement.

During a holiday more is spent than during a normal working week. Therefore what happens to spending when 2 weeks holiday a year becomes a 52 week holiday. This is what we need to guard against.

What is not known is the amount of income that went into savings and investments immediately before retirement. Mortgage repayments are treated as saving for the purpose of this survey.

The challenges this presents are-

- For nearly 50% of the population a 80% replacement income is unlikely to be a satisfactory substitute. Therefore unless large amounts were going into savings and mortgage repayments many are going to be unable to provide that income from their savings without resorting to their housing wealth.

- The level of spending for a large number of retirees is not sustainable and will lead to many pensioner households getting into debt

- A linear income stream will not always reflect the spending patterns of retirees over the remainder of their life. Flexible income solutions will reflect what the will meet consumer demands.

22. The Household

Whilst composing this response it becomes apparent the income and wealth is measured in terms of households. Yet advice and guidance is given to individuals.

Many in a partnership will have joint bank accounts and joint ownership of property. Information, guidance and advice should be given to the household i.e. that is the partnership. If one partner has a generous defined benefit pension the outcome of the combined advice may be different to that than if neither partner had a defined benefit pension.

Similarly if one partner has a large defined benefit pension, and the other a small defined benefit pension the advice may be different as to whether to transfer the small pension to a defined contribution arrangement.

We accept that some will object to this approach, but in a world where many decisions are taken jointly, and outcomes are better if they are, we would recommend that this be adopted as a best practice as a result of this review.

23. **Defined Benefit to Defined Benefit Transfers**

Many individuals retiring now and in the next decade will have defined benefit pensions from periods of employment that terminated before April 1988. Before this date it was common for schemes not to provide spouse's or partners pensions or increases in payment. It is common for post leaving marriages not to qualify for the spouse's pension. Even after April 1988 some schemes restricted spouse's benefits and pension increases only to the Guaranteed Minimum Pension.

Where a subsequent defined benefit accrual exists there may be two reasons for wishing to transfer the earlier scheme benefit to a later scheme. These are

- the shape of the benefits is more relevant to family circumstances
- to mitigate impacts of any Lifetime allowance charges

However anecdotal evidence is that it is very difficult to find a regulated adviser to provide guidance in this area. If as we suspect this is an advice gap it is a serious one. Many individuals now are retiring with several defined benefit pensions and with modern family circumstances and reducing Lifetime Allowances it is important that they are helped to achieve maximum efficiency from their pension entitlements.

Summary of Responses

1	**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?**	We do not have sufficient knowledge or experience of the issue to be able to respond to this question
2	**Do you have any thoughts on how different forms of financial advice could be categorised and described?**	Individuals generally appear unable to distinguish between information and advice. We would therefore recommend such regulated financial advisers are referred to as be "Personal Financial Consultants" or "Personal Financial Practitioners" which is more akin to what their profession actually does. Individuals require a number of services ranging from basic information through guidance to full advice and implementation. There are probably at least 5 steps on this journey.
3	**What comments do you have on consumer demand for professional financial advice?**	Would consumers act differently if they had more information? Although it is felt that there is less of an "advice gap" in the protection market, there is a protection gap where many risks are under insured. We are convinced that if consumers were better informed they would engage more with the financial services industry and the range of services suggested under Q2.
4	**Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers?**	The IFS report we refer to in our main response[xv] shows that the internet is growing in popularity. "The Martin Lewis effect?" However it is surprising that Newspapers are declining as a source of information (advice) that is trusted. There is also a trend among certain age groups to want to do more themselves. Going forward the industry needs to be able to provide the "guide rails" that enable them to do so without turning them away from the industry.
5	**Do you have any comments or evidence on the financial needs for which consumers**	As can be seen from our main response we are generally in agreement with the analysis. We would however make the point that individuals need nudging. For example, if they receive a sizeable inheritance during retirement should

	may seek advice?	they review their income delivery strategy? Also this list is very product sale driven. Soft issues such as having a will; a power of attorney in place; etc... Should all be part of a financial planning review? Events such as default lifestyling kicking in and reaching state pension age need information and decisions about how to proceed. It is what this means to them and the alternatives they have that many individuals feel is the level of advice they require.
6	**Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?**	Roughly 600,000 people reach state pensions age every year. They will have had almost half a century of adult life to get there. They will be able to tell 600,000 different stories and by then will be in far more situations than the paper envisages. How does a 50 year old suffering from Multiple Sclerosis fit into this analysis? Over generalisation leads to solutions that do not fit individuals and therefore leads to those with pressing needs being overlooked. It is possible to categorise but a matrix taking into account many other criteria needs to be developed. Also consideration should be given how people move from one category to another by ageing, changing wealth, changing health, or an event (for example child birth, or divorce). Financial Services are about supporting individuals on their journeys through life and planning for future eventualities.
7	**Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?**	See Q6 above.
8	**Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?**	The greater the income the more likely an individual will pay for advice. This is not always the case, there are many skilled tradesmen who receive high incomes but do not appreciate what advisers can do for them. On the other hand there are high paid individuals who have spent their career in defined benefit schemes and apart from mortgages do not go close to financial advisers. This does over look, the need for advice is just as important, especially at retirement, for income sectors. In fact it could be argued it becomes more important at lower

		income levels. We would take issue with the constituents of wealth that have been included. We believe housing wealth and pensions should be taken into account. The APFA analysis[xvi] shows that in 2014, 72% of advisers' business volumes were pension related. Demand for advice should be compelling for those in retirement who have moderate savings, pensions and investments but a large amount of equity in their home.
9	**Do you have any comments or evidence on why consumers do not seek advice?**	We believe there are three key issues. • financial competency – not being able to appreciate the value of advice; • lack of investable assets including pensions • shortage of advisers These 3 issues contribute to many of the factors you mention. We would also add 2 further ones of which we have anecdotal evidence – • A poor prior financial outcome after using an adviser. • Poor personal inter relationship with an adviser in the past. The importance of personal relationships is not brought out in the call for input document.
10	**Do you have any information about the supply of financial advice that we should take into account in our review?**	Yes we are in much the same place as the description in the call for input document.
11	**Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?**	First class financial advice can result in a "do nothing" outcome. The scenario we give would be a healthy individual approaching state pension age who concludes after advice to continue working for a further 2 years' defer their state pension and continue to save into their pension. This advice can often only be paid for by a cheque, and could attract VAT which is not appealing to some advisers.
12	**Do you have any comments or evidence about the role of new and emerging technology in delivering**	We would draw attention to our proposals for a digital personal finance hub in our main input. Whilst it is possible to use technology for the management of investments once a solution has been found, we must

	advice?	not lose sight of the fact that as individual's age they become more diverse. Therefore the process of what they have, what they need, what they want becomes more disparate. This is going to make that part of any technological process more difficult to manage. There is also the psychology of completing questions on line to overcome. When does "test syndrome" kick in? Anecdotally we quote from an individual "I am a risk category 8" as if a dress size to be worn with pride, without any understanding of what that meant.
13	**Do you have any comments on how we look at the economics of supplying advice?**	If the capacity of those who supply advice is less than demand then its cost to the consumer will rise. In our response we indicate that advice is rationed to households with total wealth in excess of £1m. The average age of advisers is 58 therefore there is a challenge of a reduction in supply in the coming years. Also the consumer sees advice differently to the industry, therefore an increase in quality information and guidance could help alleviate the supply issue and make "advice" available to many more.
14	**Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models?**	The Academy is looking at providing a range of integrated information and guidance facilities available to consumers. We would wish to integrate these services with PensionsWise outputs. Also they would pave the way for full advice from an Academy accredited advisor where this becomes necessary. Information would be free, guidance will have to be paid for but be far less costly than full advice.
15	**Which consumer segments are economic to serve given the cost of supplying advice?**	The Academy's belief is that all should have access to the advice they need. Whilst the model we are trying to build should benefit more, we remain concerned about the bottom 20% on the wealth ladder. Making the wrong pensions freedom choice at retirement can have disastrous impacts on those on income related benefits.
16	**Do you have any comments on the**	We would question how skilled is the advice industry in marketing itself? With a few exceptions most participants

	barriers faced by firms providing advice?	expect the consumer to come to them rather than go out tell the consumer why you need me and what I will provide for you.
17	**What do you understand to be an advice gap?**	Our understanding is consumer access to information and other services that enables the individual to adopt financial solutions appropriate to their circumstances and objectives. The "gap" is the extent to which the consumer does not /cannot access such information and services which results in poor decisions being made. In our response we highlight that advice is generally given on an individual basis rather to couples. We believe that best practice should be to look at the couple in partnership. i.e. the Household budget. We also supply anecdotal evidence that individuals who want guidance on Defined Benefit to Defined benefit transfers may find it difficult to get guidance and advice.
18	**To what extent does a lack of demand for advice reflect an advice gap?**	Demand is created by the value perceived by purchasing the product or service. If consumers due to their lack of financial capability are unaware of that value they will not purchase the product or service offered financial advisers.
19	**Where do you consider there to be advice gaps?**	We are concerned about the segmentation as it will lead to cracks through which many will fall. See response to Q6 where it becomes less easy to categorise the older the client is. The heat map is designed around having identified a need or having a desire to buy a product. . The stage before that is more important recognising that I have a need or may require to buy a product. Also, there is no life style input. For many inadequate pension savings may lead to the advice "keep working, keep contributing to a pension, and defer your state pension". Our market segment is preparing for retirement, moving into retirement and managing my retirement. All require advice no matter how you segment them. Health and Care and dependency needs are clear criteria that also need to be segmented. We don't believe there is adequate information and guidance in these areas particularly due to an absence of advisors who can advise on pensions, investments, equity

		release and care. The above is the short term issue. Longer term saving for later life and investing those savings need addressing.
20	**Do you have any evidence to support the existence of these gaps?**	The small numbers who seek advice at the life stages mentioned compared with the numbers that should.
21	**Which advice gaps are most important for the Review to address?**	The stages we mention in Q 19. For example preparing for retirement, how many are blindly following default lifestyle options when they will not retire at their designated retirement age; or buy an annuity. This is the point where diversity in outcomes starts to become apparent.
22	**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?**	Broadly yes. However we feel saving into a pension is too narrow. Saving for retirement is more appropriate, particularly for self employed with capital intensive businesses, who may wish more accessible savings to be available than a pension. Similarly such a definition would include accumulation of housing wealth. There are large numbers of people in their 50's who believe they will downsize to fund their retirement. Is that a workable strategy? If it is how will those who do access the investment advice they need, or will the proceeds be placed on deposit.
23	**Do you agree we should focus our initial work on consumers with some money but without significant wealth (those with less than £100,000 investible assets or incomes under £50,000)?**	Yes. However we believe that significant wealth should include housing wealth and pension wealth in line with the Institute of Fiscal Studies methodology. e.g. DB benefits valued at present value of annuity income. Our straw man would have £60,000 in their pension, a house worth £200,000 plus £10,000 of other savings and investments.
24	**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?**	Place more emphasis on the customer needs, we go back to "do nothing" rather than product recommendations. This will lead to more innovation in how advice is delivered and the products on offer.
25	**Are there aspects of EU legislation and its implementation in the**	None of which we are aware

	UK that could potentially be revised to enable the UK advice market to work better?	
26	**What can be learned from previous initiatives to improve consumer engagement with financial services?**	No comment
27	**Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?**	No comment
28	**What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?**	Improve financial capability of individuals so that they appreciate the value of advice and what it can do for them.
29	**To what extent might the different types of safe harbour described above help address the advice gap through the increased incentive to supply advice**	We believe the time limit on any actions for compensation which should be 6 years after the event or 3 years after the complainant could have first possibly realised that negligence or poor advice has occurred should be the longstop. A reasonable adviser test should also be introduced to cover unexpected events. That is were reasonable contingencies factored in to the advice or would a reasonable adviser had anticipated such eventualities. In many situations we are not dealing with absolutes. How many individuals, who were incorrectly transferred to personal pensions, were subsequently reinstated into their defined benefit scheme, only to find it subsequently wound up and resulting in reduced benefits as a result of the scheme entering the PPF? The way to avoid such liabilities is to have clear processes with quality customer communications.
30	**Which areas of the regulatory regime would benefit most from a safe**	See Q 29

	harbour, and what liabilities should a safe harbour address?	
31	**What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?**	See Q 29, the time limits should provide sufficient consumer protection.
32	**Do you have evidence that absence of a longstop is leading to an advice gap?**	The current longstop is adequate as stated in Q29. The point re longevity of contracts is not relevant. The world is fast moving, could anyone anticipate the effects on financial markets the 2007 crash has caused. This is where a reasonable adviser test should come in, what would a reasonable adviser have recommended?
33	**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?**	No comment
34	**Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?**	"I have had 5 car accidents in the past 3 years; if you are going to drive you must expect to have accidents". This is an actual quote which we are sure would worry many. The request for input reads like the above quotation. If we want to get consumers to engage with the industry we must raise standards and cut the number of "accidents" so that compensation becomes a rarity rather than the norm.
35	**Do you have any comments or suggestions for an alternative approach in order to achieve an appropriate level of protection for consumers?**	We do not believe them to be necessary
36	**Do you have any comments on the extent to which firms are able to provide consistent automated advice at low**	Elements of the advice process are currently able to be automated. For example stochastic cash flow modelling with tax optimisation capabilities.

	cost? Are you aware of any examples of this, either in the UK or other jurisdictions?	
37	**What steps could we take to address any barriers to digital innovation and aid the development of automated advice models?**	Encourage development of a personal digital finance hub. Encourage the use of tools such as mentioned in Q 37 to enhance the customer experience.
38	**What do you consider to be the main consumer considerations relating to automated advice?**	Consumers could get into a “gaming mentality“ whereby to get the winners results they up their risk rating and end up with solutions that are totally inappropriate to their attitude and capacity for risk.
39	**What are the main options to address the advice gaps you have identified?**	Increase consumer competency so they understand why advice is valuable. Increase interaction of consumers with financial advice by creating a digital personal finance hub. Enable the provision of a range of information, guidance and full advice that enables consumers to get the level of support they need and are willing to pay for.
40	**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?**	By putting the consumer at the heart of the solutions competition will follow. Competition issues arise were markets do not function properly due to poor participation of consumers e.g. their lack of knowledge or what to expect from advice. The industry has a large number of participants and barriers to new entrants are not overly onerous.
41	**What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?**	Define what is expected by different levels of advice That is information, guidance, solutions, and recommended product advice. A holistic approach to wealth (that is reference to total wealth) which must take account of pensions including defined benefits and housing wealth.

[i] Association of Professional Financial Advisers – The Financial Adviser Market in Numbers Edition 3.0.
[ii] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 7
[iii] Association of Professional Financial Advisers – The Financial Adviser Market in Numbers Edition 3.0.
[iv] Index Mundi – United Kingdom Demographics 2014
[v] Institute of Fiscal Studies Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 2
[vi] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 7
[vii] ABI press release 3/11/2015 - £4.7 billion paid out in first six months of pension freedoms
[viii] Pension Policy Institute – The Future Book 2015
[ix] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 2
[x] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 3
[xi] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 7
[xii] Pension Policy Institute – The Future Book 2015
[xiii] Age Concern - Homes and housing briefing 2010
[xiv] Employee Benefit Research institute- Change in Household Spending After Retirement: Results from a Longitudinal Sample – November 2015
[xv] Institute of Fiscal Studies - The Evolution of Wealth in Great Britain: 2006-08 to 2010-12 –Chapter 7
[xvi] Association of Professional Financial Advisers – The Financial Adviser Market in Numbers Edition 3.0.