Response of the Income Protection Task Force to the Financial Advice Market Review

Remit

The Income Protection Task Force (www.iptf.co.uk) was set up in 2005 to promote the value of income protection as one of the means of combatting the financial vulnerability of those who become unable to work for long periods, through sickness or accident.

We have published two White Papers looking at the future for Income Protection , held a Summit for the industry in 2012 and have recently launched a campaign ' Seven Families' (www.7families.co.uk) which provides practical insights on the financial and emotional aspects of long- term disability.

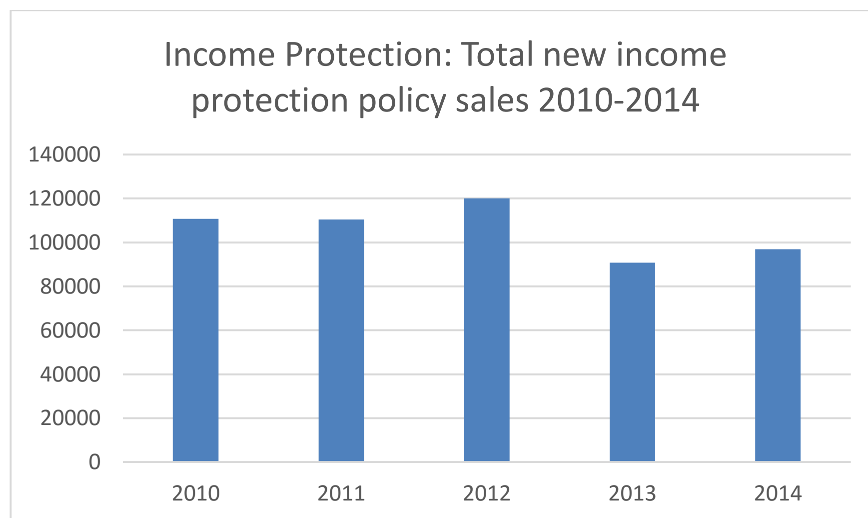
Because of the restricted remit of the Task Force we will confine our comments and observations to matters that impact on income protection although we may reference other protection products as well.

Matters under review

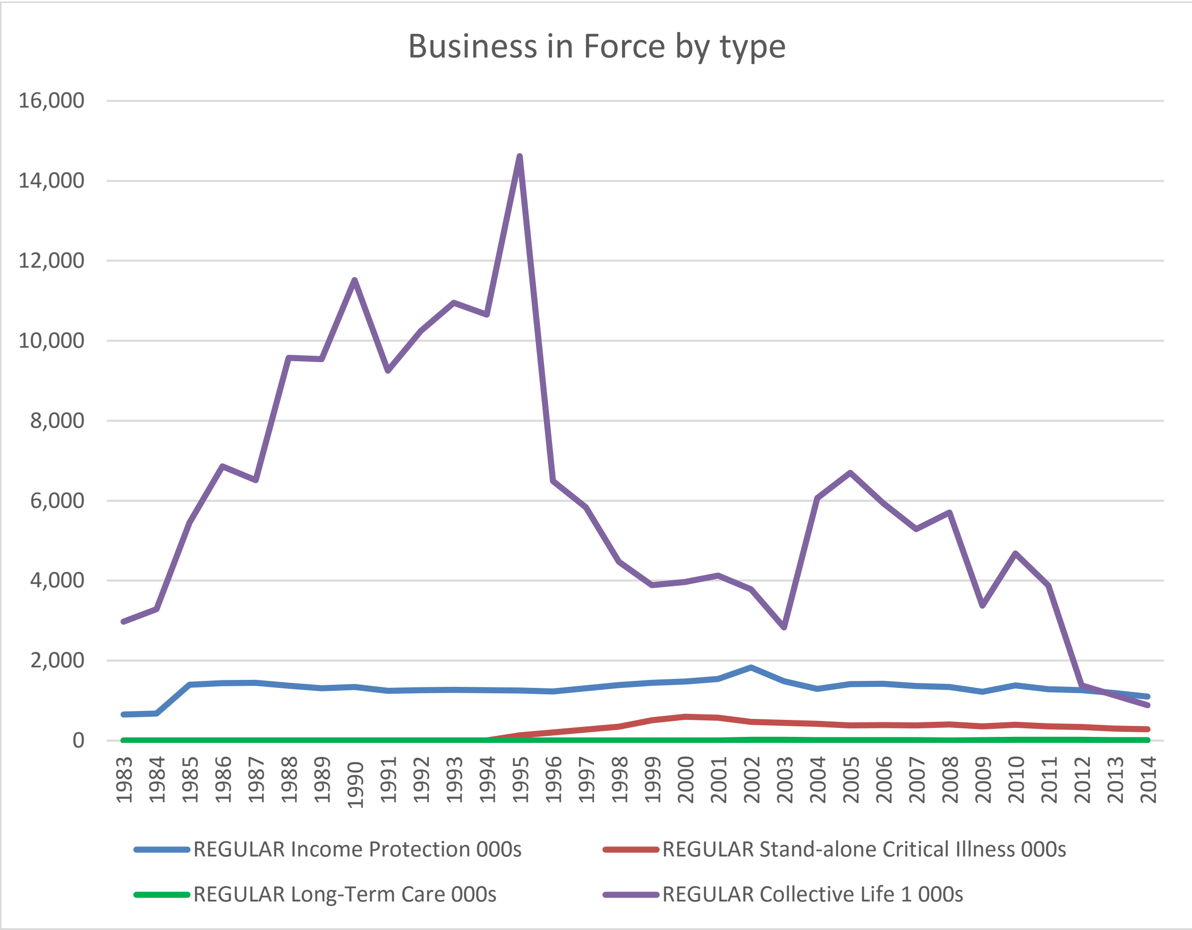
This FAMR consultation is tasked with getting views and input on the following areas:

- 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

Size of the UK income protection market



Source: Swiss Re Term and Health Watch 2015



Source: ABI

These figures indicate the importance of these markets. Current estimates suggest that the individual IP market will grow by a considerable amount this year. At the half-year the market was showing growth of over 16% and this figure appears to be increasing because of greater adviser awareness fueled by the Seven Families campaign and an increased industry focus on this aspect of financial planning.

Structure of this response

This response will focus on the following areas:

- Concise history of income protection in the UK from early origins to present day situation with ---brief reasons for its current position. Means- testing and income protection
- Impact of RDR on protection
- Research on the potential size of the income protection market sourced from research on Simple products and original work by IPTF, MacMillan and other organisations
- Lessons from Seven Families , the Government's Resilience agenda/ trend of welfare reforms and importance of stimulating individual IP sector as part of solution
- How FAMR might reference and support this going forward, specific answers to the matters under review in this consultation

The history of income protection in the UK

The origins of income protection (which was formerly called Permanent Health Insurance) lie in the friendly society movement. The Original Holloway Society developed a product to provide sick pay and income in retirement (known now as Holloway policies) to agrarian workers in Gloucestershire in 1880. From these beginnings the product has developed and is written in various forms in the UK.

More precise figures are contained elsewhere in this paper but the UK Group IP market covers over 3 million people, the individual long- term income protection market has in- force numbers of over a million and there are an unknown number of people covered under short- term income protection products. The number is unknown because participants in this market have no trade association which collates numbers at the present time. There is often confusion between the 'long- term and 'short- term' categories in the IP market. Some individual IP policies run until retirement age but the benefit paying period may be restricted to one, two or five years to reduce premium costs. These are long- term products. Short- term IP is annually renewable and normally provides cover for one or two years. In this submission we are primarily representing the interests of the long-term individual IP market.

These definitions on the ABI website clarify the differences between the products:

- income protection (IP)
  replaces your salary if you are off work for a long period of time (potentially up to the expiry date of your policy)

- short term income protection (STIP)
  gives you a monthly income for an agreed amount of time (usually up to 12 months)

This report from Legal and General, ' Deadline to the Breadline' illustrates very clearly the financial vulnerability of the average British family http://www.legalandgeneralgroup.com/assets/portal/files/pdf_182.pdf.

Given necessary constraints on the level of social welfare benefits there is clear need for people to protect themselves from the consequences of extended (and possibly permanent) periods of ill-health or disability.

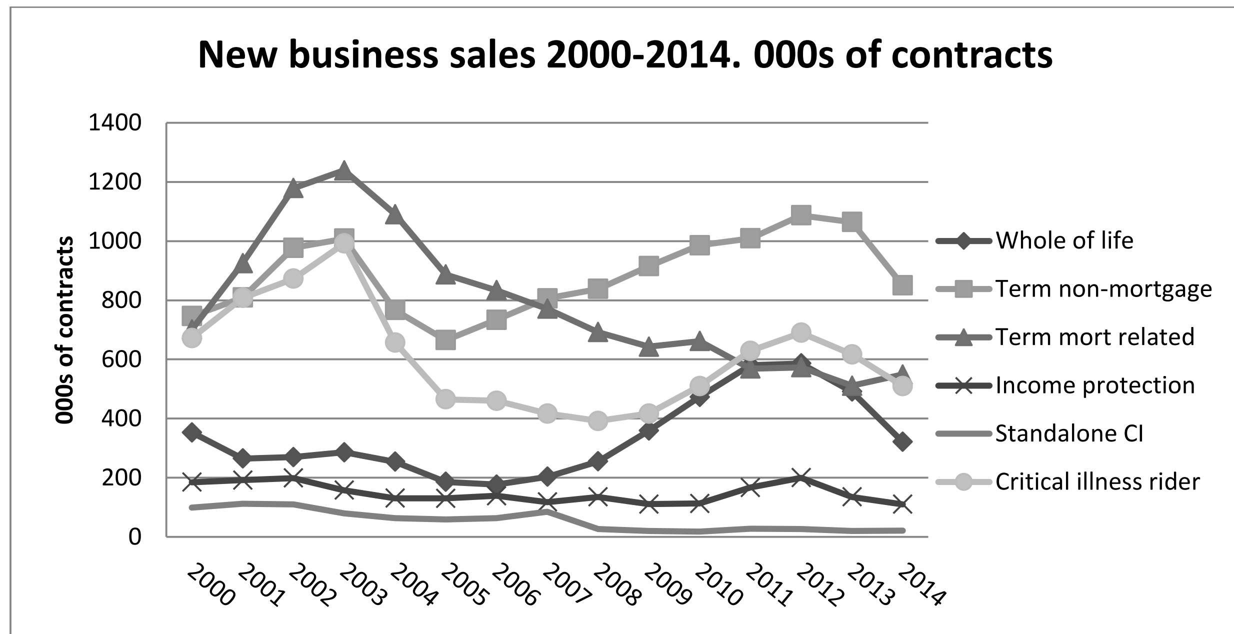
The Simple Products initiative attempted to look at the potential number of people who would definitely benefit from an income replacement product. As this extract from the report indicated the market was sized at around 23million people. The in- force market for Income protection covers barely 20% of this number.

At the moment the Employment and Support Allowance (E&SA) is the most common benefit paid to those unable to work through sickness or accident. The current rates of this benefit are as follows:

Work Related Activity Group	£102.15 per week
Support Group	£109.30 per week

The overall effect of these various factors is to leave a significant part of the UK working population very vulnerable to the risk of financial meltdown if they become unable to work through sickness or accident. As earlier figures indicate insurance sales that mitigate against this risk are frustratingly low. Our contention at IPTF is that protection sales generally have been hampered by the influence of the Retail Distribution Review.

RDR and its impact on protection



Source: Protection Review:
http://protectionreview.co.uk/images/uploads/Chapter_AC_Sales_Indices_2015.pdf

It is estimated that since the Retail Distribution Review, sales of protection have been negatively impacted. The figures above indicate the trend in protection sales which show a general downward trend since the RDR came into force. The main impacts of RDR were reviewed in a briefing paper for the House of Commons Library

http://researchbriefings.files.parliament.uk/documents/SN05528/SN05528.pdf

Among the key findings were estimates by FCA consultants that;

- there would be an 11% reduction in the number of advisers

- an 11% reduction in the number of advised clients as a result of market exits

- a 25% reduction in the number of adviser firms especially those with ten advisers or less.

The combination of a shrinking adviser markethane a focus on investment business at the expense of protection, contradicts the idea propounded by many people that RDR would lead to an increase in the size of the protection markets because of the desire by advisers to preserve a chunk of commission earnings.

Exacerbating this is the likelihood that some segments who need income protection would be unlikely to be accessed in the new landscape. This segmentation model created during the Simple Products consultation illustrates how the market might be segmented in terms of income levels.

Source: Scottish Widows

This does not correlate well with the need and demand for protection products especially income protection and it is our contention that the current distribution landscape creates major customer detriment.

Seven Families

The Seven Families Project was conceptualised in 2014 and began in October of that year (www.7families.co.uk). The last payment to a family under the scheme will come in August 2016. The idea of the project is to underline financial vulnerability by taking seven families where someone has been struck down by severe ill- health or accident. None of the families had income protection. We have supported them as if they did have IP and have also provided some of the add-on benefits like Best

Doctors and Red Arc that provide second medical opinions or emotional support for families trying to cope with the trauma of disability.

Financial Advice Market Review (FAMR)

The IP Task Force believes that the FAMR is long overdue and needs to address the consumer detriment described in the previous paragraph. It also supports the agenda outlined in this government publication from May 2015 issued by the Cabinet Office:

'Building a more resilient society will help ensure that we are better prepared for and able to recover from emergencies. This responsibility needs to be shared between central and local government and the emergency services, the private sector (particularly those providing essential services to the public), civil society and communities.'

This is an admirable aim. The provision of income benefits through insurance is both vital and very effective but will only be feasible if the marketplace and more particularly the adviser base for products like income protection does not contract. The initial scoping of the market for the Simple products initiative suggested that 23 million people would struggle if they lost their main source of income. If anything we believe that this could be an underestimate and that if can definitely be seen that we have two important issues developing;

A system of financial advice which is skewed towards wealth management and the needs of the top 10% of the population in terms of earnings and a very clear requirement for access to a means to protect income which will not be delivered effectively by the distribution system which is evolving in the UK.

There has been considerable speculation about the 'advice gap' both before and after the Retail Distribution Review came into force. The law of unintended consequences regularly manifests itself in financial services as markets move contrary to the presumed direction. We believe that the flat production figures for protection reveal a market that is not working in the best interests of a UK population that is already vulnerable to financial problems should they suffer illness or an accident which prevents them from working for a prolonged period.

Key challenges of the consultation paper

Responding to the specific questions you ask for opinions on, our comments are as follows:

This FAMR consultation is tasked with getting views and input on the following areas.

The extent and causes of the advice gap for those people who do not have significant wealth or income

It is difficult to calculate any ' advice gap' precisely because it relates to something that doesn't exist ! The key concern must be that a fee based adviser environment is likely to both discourage people from accessing products that they need and make financial advice the province of those who are perhaps more financially astute already. The predisposition to receive fees for advice has caused the distributor base to increase its focus on wealthier segments most able to pay those fees. This is disenfranchising a

significant part of the population from access to financial advice. Certainly any extension of RDR to cover protection would be potentially a significant blow to that part of the industry but more importantly may mean that many financial obligations undertaken by people in the lower sociology-economic groups would not be covered.

The complexity of protection sales particularly those where medical underwriting becomes problematic might make a time - based fee system totally impractical. Protection products are mass market products designed for a range of segments and not just a market where there is high disposable income.

The regulatory or other barriers firms may face in giving advice and how to overcome them

We have already alluded to the reality of selling protection business. Advice is important in buying protection as few people have detailed understanding of how to match product to need and which package of price and features represents the best combination for them . It is necessary to deliver advice economically and the use of telephone based advice has proved very effective in selling protection business. The challenge in developing an advice model that is cost- effective but meets the needs of customers is a big one but is vitally important in providing the right environment to enable people to effect very necessary cover.

How to give firms the regulatory clarity and create the right environment for them to innovate and grow

It is reasonable to suppose that a high level of regulation may discourage innovation as the priority for companies becomes compliance. General management thinking suggests that the key to achieving client satisfaction is to create a culture that focuses on customer need and fulfil those needs as effectively as possible. The current regulatory system is failing to do this and one of the consequences is the relative downgrading of protection as a priority in regulatory thinking and consequently in distributor attention.

The opportunities and challenges presented by new and emerging technologies to provide cost-effective, efficient and user-friendly advice services

The opportunity to use technology to facilitate protection sales is a large one. We have seen the development of underwriting models which reduce the time taken to complete sales and there is considerable potential in harnessing the data collected from the vast array of wearable technology that is developing. This can facilitate more efficient processes which can dovetail effectively with online protection sales. This is a burgeoning area of opportunity which may accelerate a major change in the way that protection can be bought and may provide a much more user- friendly buying experience that is closer to buying other forms of mass- market insurance like motor and household insurance. This may prove particularly interesting to younger buyers who might find the traditional way of accessing and purchasing protection cover somewhat off-putting.

How to encourage a healthy demand side for financial advice, including addressing barriers which put consumers off seeking advice

This response has focused on protection, particularly income protection. This is an area that receives relatively little promotion in the media and it would seem unlikely that there would be great interest in buying protection cover without it.

However protection websites and online propositions report considerable interest from consumers in purchasing protection online. Google enquiries for protection insurance have doubled over the course of 2015. The obstacle to increasing sales has been converting this interest into a product purchase for reasons articulated previously.

The conclusions that appear to emerge for a healthy protection market are the need to retain commission as the main form of remuneration, to encourage models that provide robo advice for simplified products that can be sold online or in conjunction with telephone based advice.

One particular concern that is related to the juxtaposition of advice and regulatory change is the sale of mortgages. Since the advent of the Mortgage Market Review sales of protection alongside mortgages have dropped to an estimated 7%. In the Republic of Ireland it is compulsory to buy term cover to protect a mortgage. We believe this would be a prudent step to take in the UK as well. Advisers selling mortgages feel that the process adopted since the MMR came into force makes the additional sale of what is a very necessary form of protection practicable. This is another example of potentially serious customer detriment and one that needs to be considered alongside the other concerns being articulated in this consultation process.

We welcome this consultation and would be keen to put our experience and product understanding at your disposal if you feel this would be of value to you.

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17th December 2015

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Canary Wharf
London E14 5HS

By e-mail: FAMRSecretariat@fca.org.uk

Dear FAMR Secretariat

Financial Advice Market Review: Call for input

Thank you for the opportunity to respond to this consultation. We strongly support the Government and FCA's aim of ensuring that consumers have better access to the advice, guidance and information they need to deliver better outcomes and, ultimately, better financial household resilience.

As you know, L&G, established in 1836, is one of the UK's leading financial services groups. At 30th June 2015, we had £715 billion in assets under management. We've over nine million UK customers who rely on us to help them save for the future and to protect their families and their homes; this includes providing information, guidance and advice either directly or via a range of partnerships. We're one of the UK's biggest providers of auto-enrolled pensions with 1.4 million members, and are proud to offer a charge cap of 0.5% to all our auto-enrolled customers investing in our default option. We've also made a commitment to invest c£15bn in UK infrastructure, with £6.6bn already invested in, for example, housing, student accommodation, care homes, hospitals and urban regeneration in cities such as Salford, Plymouth and Cardiff.

We have set out in Annex 1 our responses to your specific questions. We have also appended to this e-mail a copy of our response to the "Public Financial Guidance" consultation because we firmly believe it is not possible to deliver the necessary policy interventions without looking at both public and private provision together.

Within this context, we set out below both the principles which we think should underpin these consultations, as well as our view on the potential solutions to help evolve the advice market – both for public and private provision.

Four Principles

The Government and FCA should ensure that any policy development meets four key principles:

1) **Consumer-led:** Any policy proposals should be thoroughly tested and work with the grain of both consumers wants, needs and preferences. We believe any policy should support household financial resilience for all. In practice this means ensuring that policy interventions work for all income levels, not just the wealthy.

2) **Commercial:** The policy proposals must be capable of being implemented in a cost effective and profitable manner. In practice this means that any government provision must meet the Government's "financial appetite" to invest in this policy and that the private sector is able to make a reasonable return while remaining within a firm's risk appetite.

3) **Creative:** Any solution must recognise that increasingly consumers of all ages, backgrounds and financial capability want to access products and services in a digital way. Clearly not all do, but if digital solutions are not at the heart of policy proposals we do not think they will deliver the desired policy intent. In addition, innovative thinking is required – we set out below our own suggestions on how this might be delivered.

4) **Credible:** To ensure that the policy proposals are taken forward, and learning from previous reviews, we strongly recommend that the proposals are publicly endorsed and accepted by HMT, FCA, FOS, the Financial Services Industry and providers of Public Provision. If the policy proposals do not have the support and commitment of all these stakeholders, underpinned by robust consumer testing, we do not believe that the policy proposals will be deemed as credible, and therefore deliverable. In particular firms need certainty of regulations, guidance and the expected interpretation to be able to operate within their defined risk appetite.

Delivering financial resilience: information, guidance and advice

As set out in our response, we fully support the Review's conclusion to prioritise both (i) saving and investment provision and (ii) decumulation. Our analysis suggests these are the two priority markets where the barriers to entry are highest for consumers (i.e. cost) and where the financial cost and regulatory risk are highest for providers. Our observation is that the unintended consequence of the RDR has been to make advice in these markets more the preserve of the wealthy. In tandem we have seen an increase in the regulatory risk of providing goods and services in these markets which means that Board's in firms like ours would potentially rather, for example, build houses than provide financial advice. The advice profession (in its broadest sense) also needs to be increased to meet the demand. We set out below the five policy steps, which if delivered with full regard for the above principles, could radically improve consumer access, provider supply and in turn greater household resilience.

1 – Review the definition of advice: The UK operates two definitions of regulated financial advice – principally the EU definition set out within MiFID and a broader definition of advice which is UK-led via the Regulated Activities Order (RAO). The application of both definitions means that financial services companies, and in certain circumstances providers of public provision, are either extremely limited in the information and guidance they can provide or are unwilling to take on the regulatory risk associated with providing guidance or advice services. We believe that HMT and FCA should conduct a review which answers the question "what would the FCA regulated advice landscape look like for savings, investments and pensions (including decumulation) if we only applied the EU definition?" Our initial analysis suggests that firms would have more confidence and be more willing to provide more information and guidance services to support consumers in making informed decisions. As part of this process we also see the benefit of putting all the UK's advice requirements (both for public provision and financial services companies) within a new "Advice COBS" rulebook so that, for the first time, there would be a consolidated rulebook.

2 – Create a Financial Health Diagnostic: Every adult in the UK should be encouraged to have a financial action plan. We believe that the FCA, through its Project Innovate and Sandbox initiatives, should lead the co-creation of a digital financial health check, a diagnostic tool, which can be syndicated and used by anyone. The tool should cover all of customers' potential actions, and include their attitude to risk. For example, the diagnostic may generate for one person the need to get a will, open a cash ISA and purchase protection (life cover and critical illness cover). Alternatively it may suggest immediate debt advice or that a consumer has a risk attitude of "Level 4" and that a stocks and shares ISA of this "Level" should be something for them to explore.

We believe this personalised diagnostic could revolutionise the advice sector, by complementing existing provision. It could be syndicated by FS providers (who would be in a position to fulfil any resulting call to action), Public Providers or used directly by consumers. It would help citizens to prioritise their actions and also allow firms to promote and use it with the confidence that it was endorsed by the FCA and the FOS.

3 – "Everyday" savings products and advice: Building on the diagnostic tool, we believe that there is very strong merit in looking at the creation of "certified" savings and investment products and "certified" advice, initially within the FCA/MAS-led Project Innovate/Sandbox.. In essence, this would build on previous initiatives such as stakeholder products and basic advice. We believe for many citizens, certified savings and investment products (cash ISA, Stocks and Shares ISAs and Stakeholder pension for those with no access to auto-enrolment) would be able to meet their financial needs. The products could be purchased "off the shelf", via certified advice or the current "RDR advice" routes and could be offered online, via the high street, workplaces etc. It is possible that many existing products and services could be used as at least the basis of thinking in this area.

What is key is that certified advice needs to be supported, endorsed and recognised by the FCA and FOS. Previous initiatives have not been as successful as hoped because firms have been concerned that the regulatory risks associated with this type of provision are similar to those related to "RDR advice". This has added complexity and cost to the potential delivery models and ultimately meant that they have not been provided, which has reduced consumer access. If this could be created it would help to enhance access to millions of people who cannot currently afford advice, as well as provide confidence to firms.

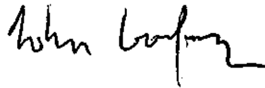
4 – Supporting Retirement: One of the "chapters" of the diagnostic tool has to be to help consumers ensure they can decumulate their wealth in the way that suits their lives best – this means it needs to take account of all of their wealth – from their state pension to any housing, savings, investment or private pension "assets" – this holistic approach is essential, and needs to included lifetime mortgages/ equity release. We strongly support the work of TPAS and PensionWise and would suggest that, jointly with FCA and TPR, they take forward a Project Innovate/ Sandbox initiative to demonstrate how best to create this diagnostic as well as to suggest whether a certified advice/ product solution could work for this sector. We believe that this, in tandem with a review of the definition of advice, could lead to a much greater market of co-ordinated and customer-focussed tools, information, guidance and advice to support consumer decision making.

5 – Awareness: Underpinning all of the above steps is a need for consumer awareness of the new landscape. We would suggest that HM Government leads an overall campaign, learning from successful initiatives such as "Think!" for drink-driving through to "we're all in" for auto-enrolment to get national awareness of the policy steps we've suggested. To deliver change will take time, so therefore awareness will need to be a long-term activity. In addition, some simple "rules of thumb" to empower consumers to understand, for example, realistic savings ambitions in the accumulation phase and a sustainable rate of cash erosion in the decumulation phase are also required.

If all of these five steps were delivered, it would act as a substantial catalyst to achieving our shared ambition of a more financially resilient society where advice, information and guidance were more widely available and affordable for all. L&G is strongly committed to supporting this work and would be delighted to support its delivery and implementation. We believe that the FAMR Expert Panel could usefully continue throughout the delivery of this policy.

We would of course be delighted to discuss this further with you or your officials and if you have any questions please don't hesitate to contact me.

Yours sincerely,



John Godfrey
Corporate Affairs Director

Annex A: Responses to specific questions

Please note that all of our answers are based on our support of the FAMR prioritising savings, investment and decumulation. As a result, our responses are focussed on these sectors of the market.

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?

Vulnerability could affect nearly anybody at some point during their lives – it could be either short-term or long-term vulnerability. We therefore believe that information, guidance and advice needs to be accessible to all. Individuals with single or multiple vulnerabilities will require additional support and access. For example, online only provision would not necessarily work for people with severe dyslexia or early-stage dementia. Equally, telephone provision could be more beneficial for those with impaired mobility rather than being asked to attend a face-to-face meeting away from their home. It is therefore our expectation that provision will have to continue to be multi-channel, utilising the huge opportunity that digitisation provides, as well as ensure that service providers are attuned to looking out for, and then working with, consumer vulnerabilities.

The provision of information, guidance and advice can also help vulnerability to be reduced. For example, guidance in advance of a life event, such as death of a main wage earner, may help people to have the necessary protection insurance in place to make themselves and their families more resilient.

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

We agree that the current regulatory labels for advice have evolved over time and could benefit from being consumer tested. For example, should the policy proposals we set out in our covering letter be taken forward, you could have "specialist advice" which would be "RDR advice", EveryDay Savings and Investment Advice (certified advice) and "Guidance". Guidance would in turn mean that Public Providers or FS Firms could call some of their colleagues "Money Guides". Equally, lessons could be learnt from the medical profession where you have specialist consultants, GPs, Nurses, Pharmacists and NHS online. Each provides a different level of service and most of the population instinctively know the difference. Such a structure could also provide career progression for those within the advisory profession and help to deal with the current low level of new entrants.

If any changes are suggested they need to be under-pinned by detailed consumer testing and thereafter firms given at least 12-24 months to adopt any changes.

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

Whilst we support the aims of the RDR, our own experience is that it has created barriers to entry for many consumers because they either cannot or are unwilling to pay the associated costs. In many other markets, from food to aviation, differentiated propositions are usually provided with differential pricing. For example, full RDR advice may be more akin to the costs of a five star hotel. But what most consumers can afford (or willing to pay) is some form of more budget accommodation. We need the same differentiation in the provision of financial advice which is why we have proposed the measures set out in our covering letter.

We believe it is the role of the regulator to set out a framework for advice which enables this differentiation, not to only create regulatory advice which serves a pre-defined market. A broader framework would support innovation by market participants and therefore differentiation that better met the needs of a diverse population. In turn that would allow both known and unknown demand to be served. Indeed, many people have a strong need for financial advice but this does not translate necessarily into demand as it would with other consumer goods, for example.

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

We know from our own experience that customers want access to affordable (in some cases free) information, guidance and advice from multiple sources before they make a decision on a specific course of action. Our own view is that the barriers to entry (cost) for consumers are highest in the investment market (savings, investments, pensions and decumulation). This is also the same market where we also see the highest regulatory costs and risks as a provider. It is why we regard these markets as those which the Review should be prioritising.

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

At any point in a citizen's life they are likely need to advice on something – from purchasing life cover, opening a current account, to buying a home through to planning for retirement and deciding on how to decumulate their life savings. As we set out in answer to Q4, consumers have lower barriers to entry in markets where information, advice and guidance is readily available through multiple channels at an affordable price. In turn, this supports consumers making the right decision. It is because of this that we have set out the suggested policy interventions we have in the covering letter.

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

We agree that it is a useful starting point, but would also suggest the segmentation and analysis undertaken by Public Providers is also looked at alongside the experience of the industry. It is because of this that we believe that any initiatives are taken forward through the FCA's Project Innovate/ Sandbox where the FCA lead a cross-stakeholder initiative to take forward the policy proposals.

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

Please see our covering letter.

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

Wealth is not a proxy for financial capability. That is why advice, information and guidance should be available to all at an affordable price. However, the regulatory landscape should enable a different cost model to operate that makes advice proportionate and affordable for those with less wealth, as is the case in other retail markets.

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

See our response to Q4 and our covering letter. We also agree with the list provided on pages 12-13 of the consultation document. In addition, we know that many customers do not realise that they have a need in the first place, how to access products or

services, or in some cases do not have the available resources to feel that the current market is right for them. That is why we believe this Review needs to work hand-in-hand with the Public Provision Consultation and also strengthen awareness.

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

The consultation provides a good articulation of the decline in the number of advisers. The RDR, whilst necessary, has created an unintended consequence of increasing the barriers to consumers accessing this market.

Importantly, the RDR regulations introduced a requirement for advice to be profitable on a standalone basis to ensure a level playing field between product providers and IFAs. Whilst this may be appropriate in the wealth market, the preclusion of any cross subsidy from products is a key reason why mass market advice is increasingly not available from high street banks. We are not seeking for this rule to be changed, but it demonstrates clearly that the cost of wealth advice regulation cannot be met through advice charges that either consumers are willing to pay or appear to providers to be value for money given the smaller investable amounts in the mass market. The regulatory requirements need to be defined in a way that is proportionate to the market. We believe that the policy proposals we have set out will facilitate this if the proposals are seen as credible, as set out in our letter.

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 further comments to make. See previous comments.

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

Please see our covering letter. We believe that technology provides a huge potential to revolutionise the information, guidance and advice markets if our policy proposals are put in place. Technology can enable both more effective delivery of current advice models as well as new models, such as certified advice.

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

Please see our answer to Q10.

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?

We believe that the guide provided by Unbiased is useful and it can be viewed here: https://www.unbiased.co.uk/cost-of-financial-advice-guide.

In addition, we note that if the UK only adopted the MiFID definition of advice there are many information and guidance services which could be offered by firms either free or as ancillary services – for example, as part of a digital information portal available to all of a firms existing customers.

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

Please see our answers to previous questions. Our view is that the RDR has made advice more the preserve of the wealthy, and does not easily allow profitable or affordable solutions for the mass-market – the majority of the UK adult population.

We concur with the barriers set out on pages 17/ 18 of the consultation. One of the concerns has been clarity about what constitutes regulated advice (RAO definition) vs. MiFID advice vs. purely information. A lack of clarity leads to firms providing less and less help and guidance for fear of regulatory sanction.

Whilst we are not calling for a safe harbour for any of our suggested policy proposals, we do strongly support the need for absolute clarity. For example, it will need to be clear in rules (and supported by the FOS) that if a firm offers a certified product through certified advice then they cannot be found to be at fault unless they have not followed the certified advice process fully.

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

No additional comments to make. Please see our previous answers.

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

We see a noticeable "gap" in the savings, investment, pensions and decumulation markets; the latter though being positively supported by, for example, PensionWise. We think the best way to look at the advice gap in these markets is whether or not the regulatory landscape creates unnecessary barriers to providers creating advice, guidance and/ or information services. This is because any current or future gap could be "filled" based on consumer demand or the creation of new products or services. In terms of a perceived gap, our view would be that the RDR reduced both capacity and capability to provide advice and guidance products and services, and many consumers could not afford the new propositions. In turn, we expect many will have turned to non-traditional sources of help. Whilst that may be OK, we think that consumer detriment can be caused by the withdrawal of provision – getting no product can be far more detrimental than getting a product that is suitable rather than 'most' suitable. We also believe that the sandbox proposals set out in our covering letter could also be useful for other markets, such as protection, and indeed be informed by these markets.

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

See previous answers.

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

See previous answers.

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

See previous answers.

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

See our response to Q17.

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, we fully support the Review's analysis.

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)?

We agree. The need is greatest for those with least resources to spend on advice services but who could arguably benefit the most. Our own analysis suggests that the average earner takes home c£1700-£1800 per month. Advice services which take this into account are essential to support UK financial household resilience.

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 see our covering letter which covers our response to this in detail. In particular, having one "Advice COBS" rulebook with all the requirements and expectations set out in one place would help both existing suppliers of goods and services as well as reduce the barriers to entry for potential new entrants. As we have already said, creating clarity on requirements is also essential to reduce the regulatory risk associated with advice provision.

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?

Please see our covering letter. Our view is that undertaking a review to set out what the Regulated Advice landscape would look like in the UK if only the mandated requirements of MiFID were in force needs to be undertaken. Our initial view is that this would make the guidance and information "space" much broader and allow firms like us to provide more guidance and information services without providing what is currently deemed to be regulated advice.

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

Please see our covering letter. No additional comments to make.

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

Please see our response to Q25.

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

We agree that many customers do still want face-to-face services, but equally many do not – especially younger generations who are far more willing, indeed prefer, to use digital channels. We also know that webcam/ video conference facilities which re-create face-to-face provision are also proving popular.

The best way to resolve any perceived biases would be to have greater clarity in the regulatory framework to allow digital innovation. Where provision is then provided, more will readily adopt it.

Indeed our own experience points to some customers wanting to access different types of engagement at different points in the journey. For instance, undertaking research and

getting guidance on the internet and then seeking face-to-face advice or guidance through a chosen provider. To provide these services cost-effectively would require the regulations to allow us to rely on a single diagnostic approach widely available and 'endorsed' as set out in our covering letter.

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

The phrase "safe harbour" is often interpreted as meaning different things to different people. Our view is the phrase can be mis-leading, and our preference would be to use the word "clarity". We believe clarity of rules, clarity of guidance and clarity on what is/ isn't permissible and expected is what is required. There also needs to be a reasonable expectation that this level of clarity will remain consistent over the medium to long term as well as not be applied retrospectively. That is why we have suggested the 5 policy steps in our covering letter – please see our covering letter.

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

Please see our answer to Q29.

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

Please see our answer to Q29.

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

Clarity is what is required to reduce the future potential risk associated with providing services today. Should any long-stop be considered we suggest that the Review look at how other professions treat this issue and consider adopting a similar approach. For example, do other markets provide solutions to getting adequate professional indemnity cover at a more reasonable price?

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 see our answer to Q29 and Q32.

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

We agree that consumer access to the FOS is important. But our concern is if the FOS is making determinations based on unclear FCA rules or guidance, it can create unintended consequences and high regulatory risk for providers. FOS decisions can rewrite expectations and create immediate back-book risks, which in turn reduce the industries willingness to innovate or provide goods and services at all.

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

Please see our covering letter.

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 additional comments to add – please see our previous responses.

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

Please see our responses above. Our only additional point would be that it would be helpful for the regulator to issue commentary based on examples as to "what good looks like".

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

See the response in our covering letter for our suggested next steps.

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

Please see our covering letter.

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

Please see our covering letter. We believe that competition could be enhanced if the regulatory environment allowed all market participants to provide greater information and guidance products and services.

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

Please see our covering letter. We believe that utilising the FCA Project Innovate/ Sandbox is the best way to take these proposals forward.

The Low Commission

Financial Advice Market Review Call for Input

This is an important and timely review. The Low Commission, which was established by LAG in 2013 to independently review and make recommendations about the advice landscape in light of legal aid and other funding changes, and we view the development of statutory levy funding to support free money advice as a positive innovation and good example of applying a "polluter pays" principle. In our final report, we concluded that "an increase in the levy should be accompanied by a review of how MAS operates, including looking at how money is divided between financial capability and debt advice work. Such a review should be conducted in conjunction with other organisations such as Citizens Advice to avoid duplication and to ensure best use of resources."[1] Some of these issues were highlighted in the HMT review of the Money Advice Service earlier this year, but this further review is a good opportunity to address wider market and unmet needs issues.

We believe that is important to see advice provision as a "continuum" whether the advice is paid for or not and regardless of the regulated category of advice provider. If increasing access to financial advice and bridging the advice gap is the objective of the review, then sustainable models for low-cost paid for advice, and funding for free advice both need to be looked at. The review fails to highlight though that the market is still having to adjust to the loss of two key sources of public funding – legal aid and the financial inclusion fund, which amounted to some £50 million of debt advice funding annually.

Questions 1 and 2.
What do consumers need and want from financial advice? Do you have any thoughts on how different forms of financial advice could be categorised and described?

A key point we would wish to highlight is the close relationship between different forms of financial advice and legal advice. This is especially the case for consumer, housing and debt issues. The unmet need both social welfare advice and advice on broader civil and family justice issues is considerable, and more acutely felt since the reforms to legal aid; surveys of legal need have consistently found that over a third of the population have unresolved problems - these problems "cluster" around family, housing and work issues with a high proportion reporting multiple problems, and a third unable to get the advice they need.[2]

[1] http://www.lowcommission.org.uk/dyn/1389221772932/Low-Commission-Report-FINAL-VERSION.pdf
[2] Civil and Social Justice Survey 2004-2010; these findings are repeated consistently in further analytical papers by Pleasence and Balmer.

There are plenty of other sources on advice needs and latent demand, According to the Money Advice Service's own baseline research there are 6.6 million 'over-indebted' households in the UK that perceive debt as a heavy burden or have had arrears of three months or more; of which: 2.1 million will actively seek debt advice but 2.2 million **would** benefit from debt advice (latent demand), 1 million could benefit from broader money advice, and 1.3 million are unlikely to ever seek debt advice.[3] We also note Stepchange's most recent research which highlights how some needs and debt risks are changing due to developments in the labour market, welfare reform, pricing of essential services and increased use of high cost credit; according to StepChange's recent figures 2.6 million people are in severe problem debt and 8.8 million people are in moderate financial difficulty. StepChange's research illustrates how "income shocks" can very suddenly tip millions of people into problem debt where families don't have savings, financial resilience or safety nets that they can rely on.[4]

In short the overwhelming issue is how to address this unmet need, rather than how to categorise advice. Debate over the regulatory categories should take secondary priority to this. However access and consumer need could be better served is the advice offer to the public is holistic and integrated, ensuring that specialist advice provision is well networked an joined up to wider networks of advice and support providers with seamless referral pathways. Financial capability and public legal education should also be part of the advice offer.

Questions 3- 5:
What comments do you have on consumer demand for professional financial advice? Do you have any comments or evidence on the demand for advice from sources other than professional financial advisers? Do you have any comments or evidence on the financial needs for which consumers may seek advice?

Interesting findings have come out of the most recent MAS financial capability survey, which involved behavioural scoring across domain questions about managing money and preparing for life events. Scores were lower amongst the following groups, some of which overlap and are linked to lower incomes;

- 18-24 year-olds and people aged 75 plus
- recipients of benefits being replaced by Universal Credit (UC),
- unemployed people (who are a smaller sub-group within future UC recipients); and
- tenants in social housing.

By contrast those scoring highest were

- 25-54 year-olds;

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[3] https://53b86a9de6dd4673612f-c36ff983a9cc042683f46b699207946d.ssl.cf3.rackcdn.com/debt-advice-services-in-the-uk-final.pdf
[4] http://www.stepchange.org/Mediacentre/Researchandreports/Thenewnormal.aspx

- people in higher social grades, especially ABs (which in itself is linked to higher household income); and
- people with mortgages

The high scoring groups are those who are already likely to be accessing financial advice from regulated financial advisors, insurance brokerage or solicitors. It is the low scoring groups we should be more concerned about. This re-enforces the case for the not-for-profit voluntary and community sectors which have considerable experience and knowledge in helping “hard to reach” groups, to be central to the delivery of money/debt advice and guidance. The sector has developed particular expertise and specialism in serving the needs of low income consumers; for example in developing specialist services to administer debt relief orders as a low cost alternative to insolvency. The voluntary advice sector provides support to some of the poorest and most vulnerable people in our society e.g. disabled people, those facing homelessness, young people from disadvantaged backgrounds, people newly arrived in the UK and older people. People who seek advice from voluntary services often have complex and multiple problems involving more than one area of law or debt, and may also be experiencing personal, medical or financial crisis.

Questions 6-7
Is the FCA Consumer Spotlight segmentation model useful for exploring consumers’ advice needs? Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

The segmentation approach is a useful tool especially for quality assurance purposes, but it is only a tool, and as with the development of different categories of advice segmentation should be deployed in a wider context. For example advice which focuses on the resolution solely of a debt problem could create other issues if the person giving advice does not understand the range of other advice areas (for example welfare benefits or housing). Vulnerable clients experience of debt and financial management problems are often due to poor decisions made and can result in low financial resilience, living on very low incomes for a long time. For example, benefit sanctions can create money management issues whilst lack of financial robustness, lack of access to paid employment can make clients vulnerable to promotions for financial products which may apparently offer a short term gain, but which in the long term are very costly. Pay day loans for example as well as the ‘meter premium’ paid by pay-as-you-go customers.

It would therefore be a profound mistake to view the market for debt advice work only within its own silo – debt advice like other forms of advice takes place within a wider context. Advice on effectively dealing with debt and money management, will also income maximisation strategies, savings, employment rights and benefit entitlements, as well as dealing with housing costs and issues. Again the link between debt and civil law issues needs to be

made, as evidenced by the Legal Services Research Centre's extensive body of work.

The review should also adopt the approach that paid-for and free advice be considered together within the same context, and again looking at the overlap between money and legal advice, and how to deliver preventative service that address root causes of over-indebtedness. For example, prevailing models of financial education often have little if any content about the law or legal processes. Financial education would be greatly improved and enhanced if both supported and supplemented by Public Legal Education (PLE). It is important to build in the basics; currencies are not just a means of exchange, but also of contract. All debts are legal obligations, and consumers need to be aware both of their rights, their obligations and the legal consequences of these. Inclusion of PLE within financial education would help debtors for example to distinguish between priority and non-priority debts, and consumer empowerment in respect of creditor behaviour and responsibilities and would make creditors far more wary of over-stepping the mark by using legally threatening language etc, and short circuiting pre-action protocols. Bailiffs in particular, as well as other debt collection agencies, pay day loan companies etc, have been shown to habitually overstate and over-step their legal powers – empowering citizens to challenge such routine illegality should be specific objective of financial education.

Finally the review , two trends and risks stand out – firstly the growth on non-credit debt to pay for essential services or what one might call "cost of living" debts, and secondly the vulnerability of mortgaged households to any slight variation in interest rates. On the first issue, there has been a 156 per cent rise in cost-of-living related debts according to authoritative debt data from the Money Advice Trust.[5] Stepchange also estimate that 15 million people across the country are currently falling behind on bills and using credit to pay for essential costs.[6] The changing anatomy of personal debt should itself open up questions about how debt advice is funded and delivered; a recent Centre for Social Justice Report *Restoring the balance: Tackling problem debt* for example has suggested that a wider body of creditors (ie not just the financial industry) should be contributing to the funding of money and debt, and that such funding should be built into existing and new regulatory structures.

Secondly, the risks that future interest rates decisions pose to the de-stabilisation of an overly leveraged mortgage market has been explored by the Resolution Foundation and other financial think-tanks, and whilst the Bank of England are clearly aware if the risks, they may not be able to delay interest rate rises in perpetuity. This combination of cost of living debts and interest rates triggering a massive deleveraging of consumer debt is a potentially explosive cocktail, especially a time when social security entitlements and job security protections have been weakened. Many of the worst impact predictions associated with the recent financial crisis (which many commentators believe have only been delayed rather than mitigated or resolved by policy interventions since 2008) could yet come to pass.

[5] Money Advice Trust, Changing Household Budgets, London: MAT, 2014
[6] StepChange.

Advice gaps: Questions 17-23

The review rightly identifies that there can be a range of barriers to accessing advice. The biggest gap remains for those living at or near the poverty line, who experience a number of problems simultaneously but have limited options for changing their personal circumstances including increasing their income through, for example employment. This group are more likely than the general population to suffer a disability or a health problem (mental and physical or both), to have language problems including English as a second language, literacy or cognitive problems, to lack confidence in addressing problems and to have a very limited understanding of how digital channels can be used to access accurate and appropriate information or services. Many have difficulty in judging the right people to trust in gaining information, particularly if they have experienced poor outcomes from contact with people in official positions.

Below we summarise further evidence on unmet need with reference to key risk groups or problem cohorts.

- **Youth:** Young people who are NEET (not in education, employment or training) or socially isolated have been found to be twice as likely as other young people to report mental illness. Where young people also experienced 'everyday' social welfare legal problems (e.g. concerning debt, benefits, housing or employment) they were five times more likely to report mental health problems. Social welfare legal problems were a clear predictor of mental health problems and longitudinal data showed that young people's mental health deteriorated as new social welfare legal problems emerged.[7] Youth Access research also shows how providing advice may result in the reduction of two GP visits, that would equate to a saving in GP costs of £108,108 per 1,000 clients of youth advice agencies (or £108 per young person)

- **Cycles of criminal re-offending and victimisation:** A study for the Centre for Crime and Justice Studies using CSJS data, found 21% of respondents to the 2004 CSJS reported being a victim of one or more offences. Of the 33% of respondents who reported one or more civil justice problems, incidence varied greatly depending upon whether respondents were or were not socially excluded and/or victims of crime. Socially excluded victims were substantially more likely to experience civil problems than non-socially excluded non-victims, with 60% of the former group reporting problems compared to 28% of the latter group. Overall, 69 per cent of victims of assault, 54% of victims of criminal damage, 47% of victims of theft and 42% of victims of burglary reported experiencing one or more civil justice problems.[8] A further analysis of CSJS data found that of respondents who had recently been arrested or released from prison, 63% reported one or more difficult to solve civil law

[7] http://www.youthaccess.org.uk/uploads/documents/Health_Inequality_+_Access_To_Justice.pdf
[8] http://www.crimeandjustice.org.uk/sites/crimeandjustice.org.uk/files/EverydayprobsWEB.pdf

problems over the past three years, compared to the 35% average.[9] The figure rose to 70% if people had also been a victim of crime, and over 80% for those who had recently been released from prison. Those who had recently been arrested were significantly more likely to report civil law problems concerning, for example, employment (10% v 5% average), rented housing (11% v 3% average), homelessness (13% v 1% average), money/debt (21% v 6% average). They were also more likely themselves to have been victims of crime (38% v 20% average). Furthermore 67% of recently arrested people who reported civil law problems had experienced multiple problems, reporting an average of 2.7 problems, and a greater likelihood of stress related ill health

- **Mental Health:** Mental ill health is the largest single cause of disability in the UK, contributing almost 23% of the overall burden of disease (compared for example to about 16% each for cancer and cardiovascular disease).[10] There is considerable evidence linking social welfare law problems with mental ill-health, and significant evidence around the links between problem debt and mental ill-health. The Civil and Social Justice Survey found that over half (50.3%) of respondents who had experienced a legal problem suffered an adverse consequence, including physical ill-health and stress-related illness. Of those people suffering from the health-related consequence of a legal problem, over 80% visited their GP or other health service as a result.[11] Further studie conducted by Pleasence & Balmer found significant associations between rights problems and mental illness, both when experienced in isolation and in combination with physical illness; drawing on data on 2,628 adults in England and Wales their research found that rights problems were reported to have led to stress-related illness.[12] Research undertaken by the Centre for Mental Health (CMH) has highlighted the links between poor mental health and frequent experience of welfare problems such as unmanageable debt and difficulties with housing and benefits.[13] This research has specifically found good evidence that specialist welfare advice is likely to save mental health services money by improving people's health and reducing hospital admissions; the report looks at the experience of Sheffield Mental Health CAB (SMHCAB), which offers a real world example of how specialist welfare advice can cut the cost of mental healthcare in three main ways: (i)

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[9] http://webarchive.nationalarchives.gov.uk/20100210214359/http://lsrc.org.uk/publications/FactSheetCriminalOffend_July2009.pdf

[10] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/215808/dh_123993.pdf

[11] English and Welsh Civil and Social Justice Survey, spanning 2006–2009

[12] Pleasence, P., N. J. Balmer (2007) 'Mental health and the experience of housing problems involving rights'. *People, Place & Policy Online*. 2007(2/1) 4–16.
(2009) 'Mental Health and the Experience of Social Problems Involving Rights: Findings from the United Kingdom and New Zealand'. *Psychiatry, Psychology and Law*. 16(1). Pleasence, P. N. J. Balmer & A. Buck (2007) 'Health Professionals as Rights Advisers: Rights Advice and Primary Healthcare Services'. Legal Services Research Centre.
(2008) 'The Health Cost of Civil-Law Problems: Further Evidence of Links Between Civil Law Problems and Morbidity, and the Consequential Use of Health Services'. *Journal of Empirical Legal Studies*.5(2). Pleasence, P. et al. (2004)'Civil Law Problems and Morbidity'. *Journal of Epidemiology and Community* Health. 57(7).
(2007) 'A Helping Hand: The Impact of Debt Advice on People's Lives'. Legal Services Research Centre.
2007) 'Mounting Problems: Further Evidence of the Social, Economic and Health Consequences of Civil Justice Problems'. In Pleasance, P. A. Buck, A. & N. J. Balmer (Eds) *Transforming Lives: Law and Social Process. Norwich. TSO*

[13] Sheffield Mental Health CAB (2014) 'Review of Sheffield Mental Health CAB and Advocacy Service 1976 to October 2013'. Sheffield Mental Health CAB.

Reductions in inpatient lengths of stay through resolving complex housing problems such as possible eviction or repossession; (ii) Prevention of homelessness: as people with mental health issues are at a much higher risk of homelessness than average, a specialist advice service can help to prevent this, for example by negotiating directly with landlords and creditors in cases of rent arrears; (iii) Prevention of relapse into severe mental illnesses or episodes. Finally empirical data collected to date on the relationship between indebtedness and poor mental health has found a statistically significant link.[14]

- **Troubled Families:** Data from the Troubled Families programme illustrates that social welfare problem clusters have a multiplier effect and spill over into other problems.[15] Of the 1048 families the TF programme had engaged by 2014, they had on average 9 problems related to employment, education, crime, housing, child protection, parenting or health. 40% had 3 or more children and 49% were lone parent households, compared to 16% nationally, and 82% of families had a problem related to education – such as persistent unauthorised absence, exclusion from school or being out of mainstream education. In 83% of families, an adult was receiving an out-of-work benefit – compared to around 11% of the population nationally, and 70% were living in social housing compared to 18% of the population nationally, with 21% having been at risk of eviction in the previous six months. 29% of troubled families were experiencing domestic violence or abuse on entry to the programme compared to national estimates of 7%.
- **Advice needs of private sector tenants:** New research commissioned by LEF has found that many renters do not realise that their housing problems are legal issues, 47% of respondents characterising them as 'bad luck' and only 15% saw them as legal problems. A key finding from the study is that private renters also had high levels of social welfare law problems which were not directly related to their housing, such as domestic violence, divorce, welfare benefits and personal injury.[16] The research also stresses the importance of early advice with housing law problems

Questions 36-39: Closing the advice gap

The not-for -profit sector is exploring alternative modes of advice delivery, particularly using websites and email. This is a good addition to the current modes of delivery and each new website that is opened or email facility produced leads to an increase in traffic. Year on year increase there is an increase in number of people accessing advice in this way. However whilst

[14] Fitch, C., S. Hamilton, P. Bassett, R. Davey, 'The relationship between personal debt and mental health: a systematic review', *Mental Health Review Journal* (2011), and Skapinakis P, Weich S, et al (2006) Socio-economic position and common mental disorders. Longitudinal study in the general population in the UK. British *Journal of Psychiatry* 189:109–117, and Fitch, C et all, Debt and mental health, Royal College of Psychiatrists (2009).

[15] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/336430/Understanding_Troubled_Families_web_format.pdf

[16] http://www.thelegaleducationfoundation.org/wp-content/uploads/2015/12/ULPR_report.pdf

this is extremely beneficially to the public and to the ability of individuals to access impartial information (and hence make reasoned decisions about their own financial situation), it also has limitations. As an ‘open’ advice channel it is most likely to be used by people to supplement other information they already have or who could otherwise afford to access paid for advice. All our research and experience with advice bodies suggest that clients who may be vulnerable or marginalised is that that face to face advices services, delivered by trusted organisations in places where people usually go is the most effective way of getting financial help and support to those who need it, when they need it.

According to Citizens Advice’s only around 22 per cent of consumers are willing to pay even £200 for advice, so cost also remains a major barrier for accessing advice.[17] Bringing down the price of advice is part of the solution which could be achieved by making greater use of digital technology, and reducing “lead generation” and other intermediary referral costs. But advice still needs to be easier for people to find and there will still be a need for free advice. In our view the funding total for debt advice remains inadequate. In our final report we recommended that the Financial Conduct Authority should increase its levy on financial institutions from £80m to £100m pa to reflect the high incidence of debt and the demand for advice this produces. We also recommended that the FCA should use its powers under the legislation to impose a greater levy on payday loan companies to fund debt advice services, to reflect the greater consumer detriment in the high cost credit market.

Secondly we would emphasise the importance of ensuring that is embedded in the services people use in their day-to-day lives and the services they engage with, especially at major turning points. This is far more important than the invention of new advice brands; indeed the Treasury’s recent review of MAS concluded that the MAS offer around information had potential for duplication; the MAS strategy for consumer education, information and advice was over-ambitious in trying to establish itself as the “go to” body for money advice, with a model overly focused on directing as many people as possible to its website. “Much good quality generic information is now available elsewhere on websites that consumers visit and trust. While this isn’t ‘impartial and set up by government’, we believe that this isn’t an absolute requirement and that it is more important that consumers can access good quality information and make better decisions. Given this, we consider it not to be good value for money for MAS to seek to duplicate other provision”[18]

The Low Commission’s reports have set out the case for welfare, legal and money being seen as a continuum from universal consumer education through a go-to website and community legal and financial education (just as public health education is provided through NHS Choices); through telephone and digitally enabled advice and locally based face to face advice and assistance, including pro bono; to targeted face-to-face advice for the most

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[17] Citizens Advice, The Affordable Advice Gap, October 2015.

[18] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/414812/PU1736_MAS_review_document_19_March.pdf

vulnerable. It recognised that the most vulnerable would probably be engaged with a plethora of publicly funded local services. We recommended:

- A national strategy, led by MOJ and including Cabinet Office, DWP, BIS and DCLG to maximise current advice funding at national level and to exploit the opportunities offered by new technology and the provision of universal web and phone resources useable by all but the most vulnerable.

- DCLG and LGA should encourage local strategies to maximise local sources of funding and provision, drawing on resources across a range of public sector programmes (e.g. Troubled Families, Universal Credit support, Better Care Fund, the Money Advice Service) as well as Big Lottery Projects, and working in partnership with privately paid for legal services, legal expenses insurance and pro bono provision. This would reserve scarce and valuable resources for those least able to help themselves and most likely to become a continuing burden. Other resources that could be tapped might include Housing Associations, Clinical Commissioning Groups, charities, the Big Lottery Fund, lawyer fund generation schemes and trusts and foundations.

- Targeting provision so that information and advice is located in the places – real or virtual – where people already turn for help or to access services (such as GP surgeries, Children's Centres, Libraries). Our third report on social welfare advice in health settings highlighted the positive impact on health outcomes (both mental and physical) and health service efficiencies (fewer GP appointments, earlier discharge reducing bed blocking), and the growing trend for social welfare advice to be commissioned by Clinical Commissioning Groups, Public Health, and in mental health and acute services.

- Effective structures should involve strategic co-ordination between different funding channels, and consideration of how funding and delivery might be better consolidated. There are multiple programmes and associated funding channels working across Government nationally and locally which engage the added value of social welfare advice. A strategic framework and strong leadership would assist these programmes to join-up both nationally and locally. The delivery structure needs to be devolved, joined-up and working around local needs analysis and community demographics, with both virtual/remote and real (e.g. GPs, Children's Centres, and Libraries etc) access points within communities.

Libertatem's Response to the Questions created by the FAMR Team

Libertatem – The Impartial Advisers Association

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The Introduction

The FAMR Team has asked Libertatem to answer the questions it has issued. We have done so from Page 3 onwards.

The tone of these questions seems to presume any issues can be can be cured by a minor tinkering with the current system and the injection of new players.

Libertatem could not disagree more.

FAMR exists because of the catastrophic failure of RDR in which the regulator decided that social engineering and the creation of a "perfect market" was more important than widespread availability of advice to consumers. The denial of advice to 16m consumers was predicated by respondees to the TSC 2010 Review and ignored by the FSA who sought to mislead the Committee and ignore its findings.

If there was true accountability; FSA staff would have been dismissed. Similarly had the real focus of the FCA been on consumer protection RDR would not have happened.

This becomes the real issue not included in these questions.

Does regulation exist to protect consumers or is it a mechanism to ensure failure in the City or Government Policy can be laundered by a regulator which can be influenced by the Treasury but is not truly accountable to it or the Parliament that created the regime?

Similarly, there is a case to say that whilst all distributions should be regulated by the same regulator; some players are treated differently than others. The recent failure of the FCA to act in time to fine the directors of HBOS adds to that perception.

When the FAMR was announced Libertatem was faced with a major decision. Did it play the system or did seek to make real change?

In consultation with our membership we decided to promote a separate regulator for Professional Advisers – PAR.

It is our belief that the FCA is too compromised to be reformed. If others wish to try that is their privilege.

We also believe that Profession Advisers are better regulated in their own body specifically designed to address the risk offered by them and is funded at rate which can be afforded by their clients.

We also believe that an alternative to commission is needed to start to re-engage with the Pre-RDR transactional clients.

So Libertatem has three documents to offer the FAMR Team

1. This question document
2. The Case for PAR
3. The National Advice Scheme

We would be delighted to take our part in this incredibly important Review

Reponses to the questions

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

Yes. Thanks to partially to commercial market forces and more explicitly to the regulatory demands of RDR the numbers of consumers able to receive advice has severely declined in the last few years. This is explained in detail in the Heath Report 2 (THR2) which is already in the FAMR team's possession. Other copies can be downloaded from http://www.libertatem.org.uk/about-us/downloads/

The UK market can be explained as per this Table:

Historical Capacity

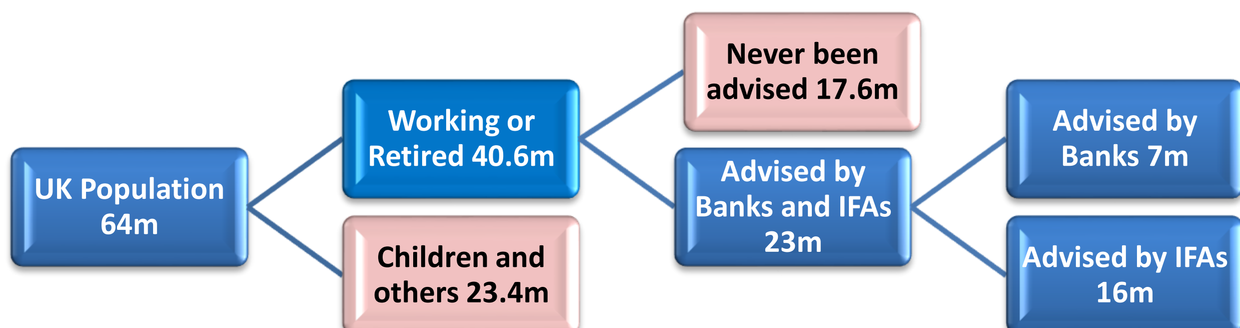
64m represents the UK population but that includes those like children who generally do not seek financial advice. **ONS**

40.6m are consumers are either working or retired making them potential consumers of financial advice. **ONS**

23m represents those who have accessed advice at some time or another. **BBA & Gfk**

This number can be further split down into:

16m represents those who have used the independent sector. This figure emanates from consumer attitude surveys and is backed up by the ABI Statistics Dept. which places the number of clients accessing Insurance companies via the IFA sector as 12m. **Gfk & ABI**



7m have used advisers employed by banks. This regularly quoted number is believed to have come from the BBA. There may be an element of double count between the IFA sector and the banks as it possible that over the years a single client may have accessed both. We have no way of quantifying this. **BBA**

It is an unavoidable paradox that those who need financial advice the most - can least afford it.

Finally, 17.6m have never accessed advice from the IFA sector or the banks. A few may self-advise, some may have been clients of the "Industrial Branch" which is now defunct, some have funds but lack the drive to invest or protect. **ONS minus BBA & Gfk.**

However: the biggest group must be those who do not have the regular disposable income to ever make private provision. This group is by definition only serviced within the Government's social services offerings.

It would be dangerous for the industry to attempt to involve itself in this non-market. Similarly, it is wrong for those who elect to pay for advice to have their costs increased by levies on MAS and the Pensions Advice Service.

Since RDR:

- Bank's Advisory capacity has dropped to 1m.
- Independent advisers' capacity has dropped to 6m.

17m consumers have lost access to advice because they are used to buying advice via commission. This creates major issues for ongoing servicing of existing policies and ongoing top up advice.

This 17m also represent the easiest group to reunite with the advice market. They are the typical Transactional clients but we need to find a new payment method which mirrors the good parts of commission whilst avoiding the traditional criticisms. (See National Advice Service)

The second part of the question asks for issues around Equalities Act 2010.

Generally, the Professional Adviser sector is well placed for those who might fall under the Act and who have the disposal income to seek advice. The sector consists of small, agile companies seeking new marketing opportunities. Thus for instance there have been specialist advisory companies focussing on the Gay community for over 20 years. Similarly, there are many firms based on advice specifically for females.

The seminal issue is not the category but the ability to pay. Those for whom the Act was created are not any more disadvantaged than anyone else in the same predicament.

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

Type of adviser: The current UK Independent and Restricted labels are confusing to consumers and singly unhelpful.

Independent should denote whether the adviser is free to suggest solutions from across the whole market and is not unduly influenced to sell a particular product which may be delivered from another part of the same company structure. Currently part of the proof of being independent is being able to advise on a number of "exotic" products which are rarely wanted or needed, even by HNW clients. This is dangerous and unhelpful.

The restricted nomenclature sounds significantly inferior to the Independent but essentially it is the same thing for the average consumer. Both grades tend to offer whole of market solutions and currently both are fee based only.

The second issue is the nomenclature surrounding advice and guidance. These are often interchanged or even worse mixed. For instance: Robo-Advice is actually guidance in the countries where it has appeared.

The public are confused by the use of guidance and advice and cannot see the difference. Equally concerning thanks to the disconnect between the FCA, FOS and FSCS there is a danger that a firm providing guidance may be found judged as if it is giving advice.

Its therefore crucial that the definition of Advice or Guidance must be the same and stable across all three bodies. It is this disconnect that has stymied the much trumpeted introduction of "Simplified Advice" as none of the potential entrants trusted FOS not to change the definition in retrospect.

The final issue is the misuse of the term "financial adviser" by the Media. Every week there is a court case of some unfortunate being defrauded by their "financial adviser". Most of the time the individual being prosecuted is not a professional financial adviser but a fraudster passing themselves off as such.

This undermines regulation and the reputation of advisers.

Libertatem would suggest: The UK adopts the MIFID II definitions which make Independent" advisers. Fee based, whole of market and Independent of undue influence via ownership or other agreement. This would allow most restricted advisers to re-join the Independent camp

Under MIFID II: Non-Independent advisers can receive commission, use panels of providers etc. As long as this is properly disclosed we feel that this may well provide access to advice for some of those who were disenfranchised by RDR. It may make sense to remove the term "Restricted" and use the term "Regulated".

Adopting MIFID II definitions would both realign the UK with Europe but also use terms which are more easily understood

That all the stakeholders agree a set of definitions for advice and guidance which are used by all to improve communication and avoid many of the current misunderstandings.

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

Thanks to THR2: We know that the historical market for Independent Advice was 16m. We also know that advisers could be split into three specific groups.

Table 1: Classification of adviser firms

Descriptor	Definition
Boutique	My firm only takes on a limited number of clients from a clearly defined target market, and for whom our service is specifically designed;
Segmented	My firm pro-actively seeks as clients people from one or more specific target markets, but will accommodate other types of clients.
Generalist	My firm provides financial advice to a wide range of potential customers and is continuously trying to engage with new clients
Other	Other

THR2 Identified the numbers of clients under each definition

Boutique advisers enjoy a per adviser range between 10 and 120 although the current average is 159. This is likely to drop significantly.

Segregated Adviser will be the way forward for the adviser who wants more than a lifestyle business as it can offer a capital exit in the future. The current per adviser average is 191

Generalist/Transactional advisers currently show 205 active clients per adviser. But they also have another 400+ old clients who may return.

Most of the 3,250 who have exited the sector since 2010 have been Generalist adviser and some had client banks in excess of 1,000 clients

Libertatem suggests: At least 4m consumers seem to have successfully made the RDR transaction to fees. Circa 2,500 – mostly attached to generalist advisers - may be less secure particularly if we continue to see Trail Commission being reneged on by providers.

If we are to see a reconnection between advice and the 10m ex IFA clients, we will need to recreate the new version of the commission based market (*See National Advice Service)*

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

There is no shortage of PR noise from a number of investment platforms that seek to deal directly with the client. But currently there is little evidence that this noise is converting into profitable business. Such firms will have resolved the matter in the next 3 years. Either they will have reached the tipping point into profit or their investors will have given up.

The missing link of many non-advised options is "the Challenge".

This is the first step to a client making private provision and the most important aspect of an adviser's day. The challenge comes twice in any client relationship. Firstly, when a client is challenged to seek advice and secondly when the client is challenged to accept the solutions are suggested.

This challenge can only be done by human interaction. We do not see it being done by computers, Robo Advice or other androids. It is possible via Skype but better achieved face to face. Much of the enthusiasm for new processes presumes that clients will challenge themselves – this is unlikely and unproven.

The price of RDR's commission free world is the removal of that challenge from the common man and with it any independence from the state when in need.

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

RDR has sought to push the adviser community towards the Boutique model. It presumed that all clients wanted an intimate relationship with their advisers in which there were regular reviews. In essence that the IFA sector should be restricted to financial planning.

The reality was that the vast majority of clients were transactional and wanted a once off or a once in a while advisory event or the solution of a specific issue. They did not seek regular connection. At the same time RDR sought to make all advisory firms the same and restrict their activities and the accessibility of advice

Post RDR - adviser firms had all the same qualifications and were trading in the same market using the same basic business model. So now advisers have difficulty distinguishing themselves from the competition.

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

No appears to be a complete waste of money unless you are a regulator seeking to increase your empire

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

No

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

This is a regular theme of our responses to a number of these questions. Unless the client has regular and dependable income in excess of their normal living expenses; the industry is not in a position to advise or deliver solutions. This is the territory of the welfare state.

There is a life progression that most clients experience.

1. The client spends all they have to exist
2. Next the client can reorganise their priorities to ensure they have some disposable income. In this stage they start to look at protecting what they have before moving on to strategic saving such as pensions.
3. Finally, probably thanks to that regular saving, they have lump sums to invest. In our experience the emphasis is usually on holding what they have in real terms rather than investing for gain.

Financial Advice should be in place to facilitate stages 2 and 3 but post RDR much of stage 2 is now missing. Recent changes around RDR have particularly impacted on regular saving - particularly monthly pension saving. Charging client's fees tends to work better when there is a lump investment in place.

Professional Financial Advice is dissimilar to most professional advice because most of it is preventative and elective. Clients seek financial advice in the hope that it will provide long term benefit.

Doctors and solicitors spend most of their time dealing with crisis. Theirs is a distressed sale.

If patients had to pay for preventative medicine at their doctors how many would do so.

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

Many are simply not challenged to countenance the future. They believe that the Government will always provide. Even those who have disposable income need to be challenged to make financial advice and provision a priority.

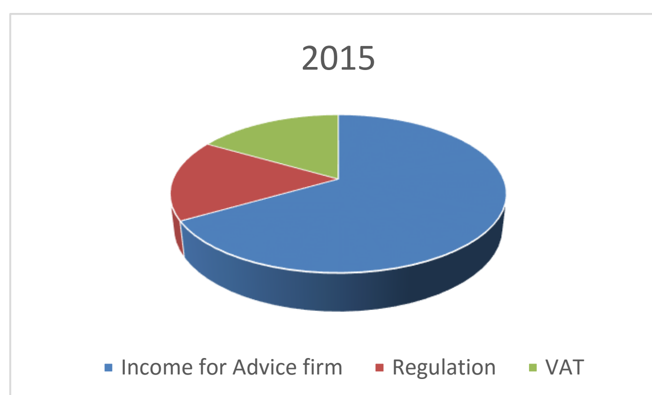
We live in a world of instant gratification so financial services has to compete with holidays, consumer durables etc. for the family purse. We are not aided by a regulatory regime which considers marketing and selling an anathema.

The other issue is cost and when it hits the family purse. Commission allowed the cost to spread across a period and allowed advice to be available when needed rather than when it can be afforded.

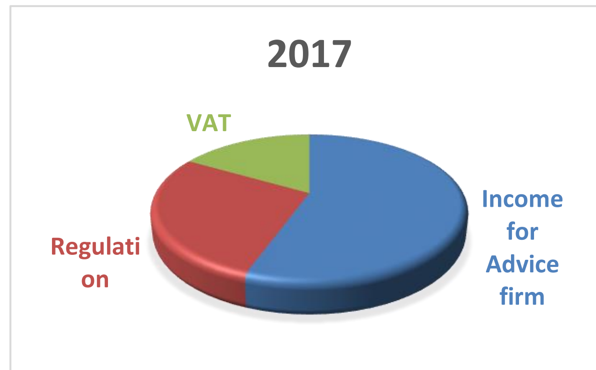
An increasing issue is regulatory cost which is generally understated and will increasingly become a factor. The current regulatory inflation rate is 40% compound (includes FSCS). Libertatem members have been recently contributing to a survey on regulatory costs.

Provincial advisers are charging circa £150 per hour plus 20% VAT= £180ph.

Currently direct regulatory costs account for £30 an hour.



In 18 months' time that cost will be over £50 per hour. So in June 2017: The client will pay to £30 an hour to VAT (Zero via commission) £50 will go to regulation and £100 to the adviser. By 2020, Regulation and VAT will be in excess of 50% of the average hourly rate



Cutting the cost of advice is a real priority if we are to increase those taking advice and we do not believe that the FCA is capable of doing it

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

See The Heath Report 2 for 50+ pages of information.

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?

Not sure this question makes sense.

If you are asking why Financial Services products are no longer sold - it is a mixture of cost and regulation. The cost of creating provider sales forces became increasingly marginal. The impact of regulation on this type of distribution has also been particularly problematic.

Unlike any other consumer purchases it seems regulators dislike the concept of consumers being persuaded to buy FS solutions. In other words – sold to. ***See Q9***

According to this philosophy; clients can only take FS products and advice if they volunteer for it without any persuasion. This gives other options for disposable income a huge advantage.

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

In terms of automated systems seeking to replace the advisory process; we doubt how effective this will be to fill the current void. It fails to deliver "The Challenge" so it may have no end of click throughs but whether that leads to real business being completed is the real doubt.

The other danger is that this presumes that clients are able to prioritize their needs unaided. For instance; this could lead to clients using part of their monthly disposable income on saving before they have provided protection for their family.

The danger of non-advised sales is that consumers can mis-buy with confidence

Technology does have a real role on providing generic information to advisers' clients. It also can be very valuable in cutting costs in terms of gathering client KYC information and delivering valuations.

If technology can be used to make adviser more productive then it's very valuable as productivity is the sector's real issue.

Libertatem suggests that there is a real danger in the FAMR team being overawed by unproven solutions which appear glittery and new but may not deliver. We advise that the Review should underpin the proven and then move to the new

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

Again the thrust of this question is unclear. If this alludes to the current fashion of Behavioural Economics; we advise the FAMR Team to avoid being over influenced by this non science

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?

Historically advisers used income derived from wealthy clients to subsidize less well-to-do clients. We cannot continue this application of popular socialism thanks to regulatory interference. Another possibility would be a National Wealth Service

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

Social Economic Groups are usually shown as below

- **A** = Senior or higher managerial, administrative, or professional
- **B** = Intermediate managerial, administrative, or professional
- **C1** = Supervisory or clerical, and junior managerial, administrative, or professional
- **C2** = Skilled manual workers
- **D** = Semiskilled and unskilled manual workers
- **E** = Everyone entirely dependent on public support (Chronically ill, unemployed, elderly, disabled, and other reasons)

Historically, with commission, IFAs serviced Marketing Groups A1 to D1 with the major emphasis on B's and C's. RDR has pushed advisers up market to groups A & B where fee based advice is more acceptable.

Unless we replace fees with a commission-like payment method C & D's will never access face to face advice again. (See National Advice Scheme)

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

Commercial Barriers to the Advisory Sector

Lack of Productivity

IFAs are almost exclusively SMEs and most are very small companies with some little more than cottage industries. A survey completed by the IFA Association in the 1990s showed that few advisers spent more than 15% of their time actually in front of clients. The other 85% being spent on research, administration, regulatory form filing, training etc.

Most advisers have tried to improve that level of productivity primarily by employing others – administrators and paraplanners to take on many of those tasks. This requires confidence in two aspects of the business. Regularity of income and access to working capital.

The profile of adviser businesses has changed immensely. In 1990, typically an adviser had one-part time administrator. Now one adviser can have up to 5 full time staff in support. Most have 3.

Further productivity is available with improved access to working capital. Current Capital Adequacy requirements do not help. However, the biggest potential improvement on productivity would come from a profound rationalisation of regulatory demands.

Lack of Capital

Again the structure of the adviser sector does not help bring in external capital. Many Private Equity Houses seek a minimum input of £5m - many start at £20m. Few adviser firms need capital at that level. Many advisers are solidly in the area of "Friends and Family" funding.

Historically many advisers received development payments from Providers. These no longer exist and nothing has arrived to replace them. Some PE and Venture capital houses are willing to consider investment, particularly in consolidators and new distributions, but rarely invest due to lack of confidence on the current regulatory regime and in particular the eccentric actions of FOS.

Poor Management

There are many excellent advisers but few are good businessmen. Many GPs who have resolved the issue by appointing practice managers. This is starting to happen either by bringing in outside management or by one adviser stopping giving full time advice and concentrating on management.

There is still a need for training need in this area.

Regulatory Barriers to the Advisory Sector

Uncertainty created by FOS

In terms of actual cases the IFA sector has a very good record with FOS with adopted claims of less than 1% and found claims around 2 in 1,000. This is despite the sector having in excess of 60% of all investment traffic with some business classes being closer to 90%.

However, FOS has a number of effects on advisers which are far more impactful than these simple statistics.

Perception: FOS is perceived as being out of control, not in concert with the FCA or FSCS, employing poor quality staff and wanting to lead a consumerist compensation culture. Some of this may be unfair but it certainly exists not only in the adviser community but also particularly amongst investment companies who do not wish to invest in an area which is prone to such bizarre processes.

Free Hits: The current FOS system allows a client often aided and abetted by a claims company to bring vexatious and hopeless claims as the client and the claims company has no downside to the claim. There is some evidence that clients are coached and each claim takes significant management time to defend. Time that would be better spent advising clients.

The claims company industry has grown expedientially thanks mostly to PPI which is starting to wind down. Libertatem fears that staff currently employed there will be transferred to claims in our sector. This view is supported by a recent change in claim company advertising.

Impartiality: We have received a number of apocryphal stories of FOS staff being over familiar with claim company staff (asking after each other's children for instance) at public hearings. This clearly gives the adviser a cause for alarm and the feeling of an uneven playing field.

The adviser perception is that FOS staff are trying to find a way of creating a pay out to the client rather than making an impartial judgement of the case.

The Eccentric Nature of Decisions: The current approach is unclear as the Ombudsman is not accountable to anyone and can make decisions as she sees fit. This could lead with 2 cases with similar characteristics having different outcomes. The origin concept of an Ombudsman was simply to create a low cost version of the civil court. Now it seeks to create its own unaccountable world in which anything goes. This leads to totally complaint advice being subject to successful claim. Given the maximum pay-out of £150,000 plus costs and interest - this is not a small matter.

Paperwork: The only antidote advisers have to the issues above is to cover their advice in suitability reports which are not just there to explain to the advice given to the client at the time but to try to second guess the actions of claim companies and the Ombudsman in 20 years' time. FOS regularly asks for these to be made simpler but this is asking advisers to open themselves up to greater risk of claims. There is a cost to all this and the client who is paying additional hours to ensure that the paperwork is in place to ensure the adviser cannot be attacked by FOS later.

Inward Investment and New Distributions: In 2012, the Author met nearly every Private Equity house in London seeking capital for a new FS distribution. More recently he has had discussions with another firm with similar aims. In both cases, the applicants had a crack teams ready to bring to deliver new and inventive ways of giving FS advice. Both had great numbers. Both projects were acceptable and passed all due diligence but could not raise the money due to the Investors simply not wanting to take the risk on the eccentric and unaccountable nature of both regulator and Ombudsman.

Unless we can access capital the sector cannot expand or create new ways of servicing Middle England.

Accountability of FCA, FOS and FSCS:

This group is not only not properly accountable to the Parliament that created it but to each other. When RDR was under scrutiny at the Treasury Select Committee; the FSA made great play that there was going to be "Simplified Advice" and this would take up the slack created by RDR. FOS refused to countenance a 2 tier advice standard and concept died on the spot.

The FAMR Team must beware of a similar card trick being played now. Unless accountability is restored to regulation in all its forms; the creation and funding of new distributions will be heavily compromised.

Long-stop: This a very heated area of debate for advisers as only their part of the industry is personally compromised by it. Advisers can find themselves pursued after retirement and have to hold documentation far longer than necessary

The answer is very simple. FOS must adhere to the law.

The Limitations Act of 1980 defines the limitations and it pre -dates the Financial Service and Markets Act 2000 and therefore informs and is part of FSMA's creation.

Despite misinformation emanating from the FCA and FOS there was no Parliamentary discussion on the application of the Limitations Act during the passing of FSMA and it does not contain any reforming clauses so the Limitations Act must be presumed to be in force. The current situation sees FOS and FCA acting illegally. This is an appalling example for bodies which are meant to be leading setting standards by setting example.

Libertatem suggests that:

- **A modest deposit of £100 is required from each claimant or their claims company which would be returnable if the claim is successful, This would cut down the number of vexatious claims allowing advisers more time to advise clients.**
- **FOS is constrained to deciding cases based on common law.**
- **That cases that are compliant with the rules at the time advice was given cannot lead to a claim.**
- **Any case leading to a potential payment over £25,000 is referred to a senior judge for approval.**
- **That FOS is directly responsible and accountable to FCA, The Treasury and Parliament**
- **Should the Treasury be moved to increase the Limitations under the Act it must bring forward Primary legislation. Otherwise FOS and FSCS should adhere to the Limitations Act.**

FSCS Costs

This is the primary driver of increased regulatory costs for advisers. On average it has increased 3 fold in four years at a cumulative rate of 118%.

The principle of FSCS is that within each sector the clients of that sector pay for those clients who find themselves in a moribund company. For those who hold client funds the methodology is easy as FSCS levies become a “tax” on each and every investor on a pro-rata basis.

Advisers uniquely to do not hold client money and so we expect current clients fund via initially commission or fees the claims of historic clients. Whilst we had Trail commission there was some sort of connection between those who claimed and those who were current clients.

Thanks to RDR; the number of current clients of the sector has dropped from 16m to 6m whilst the historic clients liable to create FSCS claims remain the same at 16m. The 6m current clients are now funding the potential claims of 16m via fees.

The rest are projections based on the current rates of increase.

If we take the current FSCS charges and divide them by the respondees - we create an "average" respondee. This happens to match a member in Chester with 2 registered individuals.

	Chester IFA
118%	**FSCS**
2010-11	
2011–12	**2,618**
2012-13	**4,783**
2013-14	**5,438**
2014-15	**11,798**
2015-16	**15,511**
2016-17	33,814.31
2017-18	73,715.19
2018 -19	160,699.11
2019-20	350,324.07
2020-21	763,706.46
2021-22	1,664,880.09
2022-23	3,629,438.59
2023-24	7,912,176.13
2024-25	17,248,543.97

The bold figures are actuals. Those in simple type projections. They show a 6-fold increase in 5 years

Next year their FSCS costs will be £33,814. In 2017 if these increases continue the sector will hit its FSCS maximums so either the FSCS will have to increase them or get the excess paid by other sectors. This is totally unsustainable

The only way forward is for the 16m clients to fund the 16m potential claimant via a charge on their investments. A red herring has been created which asks whether clients of direct sales and non-advised should be included in Independent clients' payments. As long as each sector can be properly identified there is no reason for this to happen.

This issue has been festering for over 20 years and has been used both by Insurance companies and banks to have influence over the regulation of the independent sector.

There are two Achilles Heels to the way the current scheme works.

Firstly, the claims are cumulative so that in its first year of operation FSCS only need to deal with claims from clients of companies that have failed in that year. In Year 2 this and last year and so on FSCS is now dealing with claims from clients of companies that may have shut down in good order sometime between 1986 and now. By the nature of the design of FSCS there can be no relief from the ever increasing claims.

Second, Clients claiming on a long departed company can claim in the sure knowledge that there will no evidence to counter their claim – This is a free hit for them and their claims advisers as there will not be any files to counter the claim. Thus the claim is unopposed.

Unless there is real change advisers will be caught in a spiral of decline which is not of their making. There is a finite cost for advice which clients are happy to pay. **See Q9**

Increasingly regulatory costs including FSCS are becoming a bigger percentage of the bill and there is a point in which either client or adviser decides that the process is no longer worth it. – leading to a further amount of decline and the same cost base shared amongst a smaller number of claimants

Regulatory Complexity and Mismatch

Post PIA; the current regime sought to regulate everything under one roof to satisfy the bankers' lobbying. This has already been changed by the creation of the PRA.

The current regime appears to suit the larger players who not only represent the vast majority of FOS Claims but also are the source of most of the major scandals – PPI, RBS, HBOS, and LIBOR rigging etc.

There does not appear to be the political will to make the cultural changes necessary to return a moral compass to the bigger players and so advisers regulated by the FCA suffer reputational damage by association

Why there is not the political will is a mystery to us. Is it just the power of big lobbying? Is it the demonstrable revolving door in which regulators move from the big players to regulation and back again? Libertatem has a list of where ex-regulators moved to and the adviser sector does not feature.

In contrast, Advisers have less than 1% of the claims and 2 in 1,000 successful FOS claims but are still regulated as if they are multinational businesses who are gaming the system and require complex rules in an attempt to stop this activity.

Libertatem believes that the FCA is so compromised it is there is no advantage for Professional Advisers to stay in the FCA. It is time to create PAR – The Professional Advisers Regulator which has a rule book specifically designed for professional advisers and regime which is costed for their businesses not the huge resources of the bigger players (See PAR Document).

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

There is a savings gap £9 Trillion in Pensions alone and a £2.5 Trillion Protection Gap. These numbers are getting worse and will continue to do so until Consumers are challenged to confront the issue.

This can be done either by making protection and saving obligatory by law which has serious political ramifications or by deploying advisers to challenge the consumer.

The downside is that currently we do not have the number of advisers necessary to make a difference as HMT discovered when it liberated pensions.

Q18: Where do you consider there to be advice gaps?

Yes Q.1 shows this as well as The Heath Report 2 which is devoted to the subject. 16m consumers have lost access to advice since the creation of RDR. Beyond that 16m; another 17m consumers have not accessed advice ever.

Q19: Do you have any evidence to support the existence of these gaps?

The Heath Report 2 is the bible on this

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

First we must restore advice to those who have lost it and then make in-roads on 17m who have never sought 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?

Yes, totally agree. But this will not be turned around quickly. FAMR is reaping the results of 20 years of unaccountable regulation and social engineering.

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?

Partially FAMR has THREE challenges:

Firstly; it must stop the rot and ensure the advice that is currently available remains available.

Secondly; advice needs to be returned to those 16m who had it Pre-RDR. This may require to replace commission with a similar structure (See The National Advice Service)

Thirdly; we need to find a way to allow those with a small pensions pot to receive some guidance or 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?

Yes, move professional advisers to PAR.

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?

Yes, using MIFID II definitions on independence is superior to the FCA version and easier for the consumer to understand.

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

The merger of MAS with other similar bodies would make sense. But if the Government wants this activity; it should pay.

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

I cannot think of any European country with the cost and intensity of UK regulation. It begs the question if HMG was funding FS regulation from taxation would it pay in excess of £700m of taxpayer's money to fund a demonstrable failed system.

We need to cut down this empire before it completes its destruction of advice and the public's trust in personal provision.

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

Computers are no substitute for personal challenge. Other options are likely to create activity but may not deliver solutions.

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

Concepts like "Safe Harbour" only works if firms believe that FOS will hold its side of the bargain and there is next to no confidence in that. It is pointless for the FCA to talk about safe harbours and sand boxes unless FOS is completely on side and will remain so in the future. This takes us back to the issue with FOS and its lack of accountability ***See Q15.***

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

Potentially there may be some place for this in simplified advice. But whether there are companies willing to take a chance of the long term use of this and investors willing to fund them is highly debateable. This return us to the introduction. You cannot tinker with the existing scheme. There must be root and branch change.

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

See Q30

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

See Q16 **–** There is significant evidence that the current lack of accountability is contributing to the advice gap. This cutting down inward investment, adviser confidence and the willingness of business owners to build their firms. Longstop is just one example of the lack of accountability

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?

See Q16 **–** There is plenty of evidence of Longstop causing issues with exit and in particular consolidation. It also increases the cost of FSCS.

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

As part of the FOS inspired compensation culture; we are seeing Claims Companies asking the question "Have you lost money? Rather than "Have you been mis -advised?".

This suggests a desire to move the conversation away from compliant advice and make advisers are somehow responsible for the outcome of a solution which may be heavily effected by Government policy and international crises or the post advice stupidity of a provider's management.

Advisers cannot be held for anything more than poor advice at the time it was given and judged by the regulatory standards of that time. They cannot be made liable for a lack of psychic power or be judged with the benefit of hind sight.

As an example: many 1980s advisers would have advised client to save for their pensions and projected an income based of the annuity rates at the time. Post the 2008 collapse; annuity rates and building society rates plummeted and have remained low for a number of years. Is that the fault of the adviser? or the economic policies of the world's governments? It appears that claims companies wish to make advisers responsible for outcomes and advisers have no confidence that FOS will not help them.

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

See Q16 – Just apply the law of the land The Limitations Act 1980 or change it by new legislation which can be lobbied for and against.

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. Certainly not one making a profit.

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

See Q16 and FOS

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

How is automated advice going to ensure that the clients identify the right priorities, invest enough to achieve their objectives and in particular having completed the research actually complete the deal?

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

See Q16 and other answers above

1. Create an accountable regulatory system
2. Kill the long stop issue by applying the law of the land -The Limitations Act 1980
3. Create specific regulation for professional advisers - PAR
4. Cut the cost of adviser regulation to a budget of £40m
5. Reform FOS so it flies in formation with the civil law.
6. Reform of the FSCS levies so that it is charged to investments not current clients
7. Public financial guidance such as MAS and Pension Wise should be combined and paid for by the taxpayer.
8. Improve the national curriculum to ensure that those leaving school are better prepared for the financial challenges they are likely to face.
9. If a version of simplified advice could be created – it may give the opportunity to create a junior adviser category thus creating a ladder for new entrant advisers to be commercially viable

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?

If there was some form of simplified advice; FAMR must look at the overall charges of those products to ensure that the client benefits from taking up the solution.

Previous experience particularly in ISAs require that clients have a fair share of the proceeds.

LifeSearch's Submission to the FAMR

Produced by

Tom Baigrie

CEO

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LifeSEARCH

1. Introduction

Albeit not in the pre-retirement space, LifeSearch looks in most respects very like the businesses the Treasury might want to FAMR to enable.

We advise on Life Insurance Protection, predominantly for people who type 'Life Insurance' into Google. In November we protected 2,213 families through advice and a further 610 through our price comparison service. Almost all of those were new to us and their average income was bang on the national average*. That's the sort of thing HMT is after in the pre-retirement market!

This very brief paper seeks not to answer your many questions, the deadline and pressures of running a fine business on tight margins precluded that, rather it looks at why we have succeeded in advising 'ordinary people' at such scale so successfully, in the hopes that the FAMR team might find our reasons for success and (the lessons of failure learned along the way) useful.

We would love to engage with the FAMR team, answer verbally any questions you might want us to, and to invite you to visit our MK site to see what mass market advice looks like in action.

2. Key Points

- **Do not expect online financial services journeys to lead to many transactions** unless buying is made compulsory as in motor insurance. Consumers do not behave in financial services the way they do in other markets. Proof of this comes from the sub 10% conversion rate achieved by the expert online journey managers of the UK's price comparison sites. Term Life Insurance is such a simple product the Sergeant review could not make it simpler except by reducing benefits and yet 90% + of customers who get a quote, do nothing about it, they get confused and stop. Pre-retirement choices are infinitely more complicated. The FAMR review should not be making any consumer behaviour compulsory, so we predict with confidence that **automated advice systems will not work to solve the FAMR scale of problem**, though of course that will change over time as solutions improve and the generations change.

- **Accept that consumers do like a trusted human guide through FS complexity and then still need persuasion to do the right thing.** Trust may be in short supply, but given careful promotion and some brand strength around 2/3s of consumers* will engage in a conversation about their needs, health and the consequently applicable products and providers. As the website above shows, those that do are delighted with the outcomes – in part due to their originally very low expectations. The net effect is to treble online conversion rates*.

- **To make sense to consumers their guide must be allowed a narrow focus – that way their questions and needs analysis seems relevant to the consumer.** The key regulatory enabler of LifeSearch's success is the relatively light touch regulation of ICOBs and our ability to ONLY advise on the areas we are expert in. Notwithstanding this our training effort is huge and continuous and our compliance and best practice teams form 1/5 of our entire workforce, but all that spend works to improve conversion rates as well, so we think of it as investment not cost.

- **Within narrower specialisms top class advice is perfectly possible to deliver cost effectively though a blend of digital and verbal communications.** Our advice, delivered by phone, with online support, by 20 and 30 somethings in the main, is of a market leading standard, often radically better than that offered by top class wealth managers and IFAs. That's specialism is action.

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3. Summary

In the view of arguably the UKs most successful mass market financial services adviser, the first step to improving consumer outcomes in pre-retirement planning and indeed all other areas of financial services is to expand the reach of advice, not through incredible online journeys, or simplified routes to purchase, but through the lightening of the regulatory cost, process and overall burden for advisers **and above all the allowing of defined advisory specialisations** and the promotion of same as the sensible solution for everyman. **There is no need to drop advisory standards at all**, nor to create safe-harbours or sandboxes. Consumers can be expected to understand the nature of their overall need for advice and thus they can be guided to those specialising in that area. The specialist they reach should be expected to give them full and proper advice, passing them to others similar if a need for different specialisms is revealed.

It would also help if government simplified the tax and benefits framework – given radical achievements there, online DIY solutions would be better able to advance. We won't wait up.

4. Last Word

The one absolute in delivering consistently good consumer outcomes is the culture of the firm delivering them. I do not believe large corporates can deliver that culture effectively. The model that does is one where the business leaders are emotionally invested in the outcomes and are able to convince their entire workforce that by doing things right one stays much happier at work and even makes more money in the long run. The world of the IFA is full of such people and your solution should be allowed to evolve from there. Banks and Insurers are run by excellent executives managing their careers in very large political environments, with constantly changing priorities. Advice needs to be delivered by those led with long-term consistency of purpose, perspective and ethos.

Trust and encourage those who have survived RDR, rather than those who have been fined out of markets, to deliver your solution.

Tom Baigrie
LifeSearch
18.12.2015

*all statistics are taken from current LifeSearch trading MI and that gathered over the last 18 years.

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Lloyds Banking Group Response To The Financial Advice Market Review (FAMR) Call for Input

December 2015

Executive Summary

Lloyds Banking Group welcomes the opportunity to respond to the Financial Advice Market Review (FAMR) Call for Inputs. The issues that the FAMR is trying to address are complex and challenging, however, we believe that there are clear opportunities to make real progress and ensure customers can get access to the advice they need.

We believe there a number of quick wins the Government can announce in its Budget in the Spring – such as the expansion of pensions auto-enrolment and the introduction of a pensions dashboard – but to get the market for advice working properly there will need to be detailed follow up with the FCA to ensure the regulatory regime supports the policy interventions being suggested.

We know that HM Treasury and the FCA have been giving detailed thought to the way 'advice' is categorised and the cliff edges that currently exist between advice and guidance. This is an important part of the overall conversation but definitional changes on their own or incremental changes to the rule book will not be the answer to the barriers posed by regulation. If the objective is to make advice more affordable and available to a wider group of customers the regime has to give providers more control over how advice is delivered and how it is paid for.

The most effective way to do this is for the FCA to move away from prescriptive rules and guidance and transition to a much simpler, shorter set of principles, supported by case studies and worked examples. The movement to principles would give providers greater flexibility over their business model allowing them to charge for advice over the lifetime of a product and also tailor the products and services they offer to the customer's level of knowledge and experience. Taken together this will help providers reduce the cost of advice making it more affordable for a wider group of customers. The FCA's regulatory sandbox can be used to quickly demonstrate what can be achieved under a new framework and help support further innovation, however, the sandbox cannot be relied upon alone to deliver a well-functioning advice market.

The FOS should continue to protect customers and compensate them for poor advice. But it should also be bound by the principles, case studies and worked examples published by the FCA. If they are not, the risk of a different set of principles or rules being applied for redress will prevent providers from responding to the new framework. Currently, providers feel they can follow the rules set out by the regulator but then find they are held to a different standard when sales are reviewed by the FOS.

We would like to continue to work with HM Treasury, FCA and the Expert Panel to develop these ideas further as the Review moves forward in the New Year.

The Advice Gap

Customers of all ages and at all life stages are faced with important financial choices regarding their future. Over the course of the consultation, we have tried to identify groups of customers who could be helped by positive changes introduced through the FAMR. Given the short timeframe of the consultation it has not been possible to undertake primary research into the precise nature and size of these groups but it's our belief that by taking bold and decisive action in a number of key areas the Government, industry and the FCA can make progress in ensuring more customers can get the advice they need.

Customers who want general help and support or a chaperone to support an electronic process

We believe there is currently a gap for customers who want general help and support with their finances and that there is scope for banks and other financial services providers to meet this need.

The assistance offered would differ from regulated financial advice and guidance and instead set out the range of options available to the customer based on their existing finances and their particular life stage, for example, leaving school, having a baby, buying a first house or thinking about retirement. A recent graduate might have a focused discussion around the benefits of paying down debt versus starting to save for a deposit on a house. These conversations could be supported by case studies and examples of what other customers have done in similar circumstances.

Combining advances in technology with the concept of general help and support could also have a powerful impact. For customers with relatively simple needs automated advice based on algorithms can be used to recommend simple, low cost investment portfolios based on the customer's goals, time horizon and risk tolerance. While this might be the right choice for many customers a large number will not feel confident relying on an algorithm - providing them with a trained chaperone to help them understand the underlying approach could make them more comfortable with the process and encourage take up.

Customers who have simple savings and protection needs that are not currently being met but are currently saving for the long term through pensions auto-enrolment

There are other customer groups who have relatively simple financial needs. This group are already benefitting from the roll out of pensions auto-enrolment which is helping them save for later life. The recent Scottish Widows Workplace Pension Report 2015 found that 56% of people in Britain are now saving adequately for their retirement. This figure is up from 45% in 2013 and the report attributes much of this improvement to the success of auto-enrolment which has now been rolled out to companies employing at least 50 members of staff.

The same report found that following the introduction of auto-enrolment employees are increasingly looking to employers to provide additional support and financial education. Providing these employees with access to simple sets of savings and protection products could quickly and efficiently help support this group in the event of changing economic circumstances or ill health. While auto-enrolment provides a solution to the challenge of customer inertia there are increasingly sophisticated behavioural solutions that can be deployed to improve levels of participation.

The UK could also look to incorporate ideas such as 'Save More Tomorrow' (SMT), an initiative that has been piloted in the US which allows employees to save more as their income increases to ensure an adequate pension in retirement. The SMT plan has four basic components: First, employees are approached about increasing their contribution rates approximately three months before their scheduled pay increase. Second, once they join, their contribution to the plan is increased beginning with the first salary payment after a pay raise. Third, their contribution rate continues to increase on each scheduled pay raise until the contribution rate reaches a preset maximum. Fourth, the employee can opt out of the plan at any time.

Customers who want advice and can afford it but don't know where to look

We believe there are also customers who want and can afford advice who are not getting the support they need. Recent research by Citizens Advice provides useful insights into what some of the barriers might be for this group of customers might be.

Their research estimates that around 8.5 million would be more likely to pay for advice if they had help getting an adviser. There will be elements within this group who are put off by the recent mis-selling scandals and don't know where they can find an adviser they can trust. Research from Citizens Advice bears this out as 57% of customers said trust was one of their top two considerations when choosing a financial adviser. The introduction of a price and service comparison web site or a form of 'Trip Adviser' site which allows customers to review and rate advisers could give people the confidence they need to get in touch with an adviser when they need it.

Customers who want advice but are put off by the price, by the prospect of paying upfront or by lengthy waiting and appointment times.

The same report finds that 5.4 million are unwilling to pay for advice at current prices. Many of these customers will not be used to paying for advice, particularly as current arrangements for pensions and investments are inconsistent with products such as mortgages where customers can add the broker and arrangement fee to the mortgage. As a result unless the customer has experience of using a solicitor or an accountant they could be resistant to paying an upfront fee for advice. Funds available for financial advice are possibly

also one of the first things an individual or family will economise on if finances are under pressure.

The introduction of the Retail Distribution Review has brought undoubted benefits through greater transparency and clarity for customers as well as improved standards for advisers, however, it is very reasonable to assume that the current arrangements are acting as a barrier to customer engagement and preventing customers from getting the advice they need.

Research around other retail products demonstrates the challenge of engaging customers in financial services. Many find financial matters complex and time consuming and will be put off by lengthy waiting and appointment times and also by complex jargon. It is for these customers that we need to find ways to simplify and streamline the advice process making it easier for them to engage.

We should also look to encourage the development of low cost advice models which utilise advances in technology and allow customers to receive advice over a shorter timeframe and at more convenient times and locations – this could take the form of web chat and video calling. Similarly, we know that the process of fact finding and verification for advisers is one of the most time consuming aspects of the advice process. Taking advantage of new technology to shorten the process could help reduce the amount of time a customer has to spend with their adviser.

However, technology is just one part of the solution – to meaningfully simplify the process for customers the FAMR will also need to look at the current disclosure requirements for customers to explore whether there are opportunities to streamline and shorten the process. This would be delivered by the move to a principles based framework.

Lloyds Banking Group Proposals

We believe the Government should announce the following proposals in the 2016 Budget.

1. **The creation of a Commission to oversee long term change in the advice market** - The FAMR is a good start and progress can be made quickly in a number of areas. However, ensuring customers can get the advice they need at all life stages is a long term challenge. To deliver change in the long term we recommend that the Government announce the creation of a Commission to oversee the outputs from the Review and monitor the implementation and effectiveness of its proposals. Membership of the Commission could be drawn from the existing Expert Panel and members asked to serve for a two year term. The Commission should also oversee plans to raise the quality, awareness and availability of free advice services for those customers who cannot afford advice. It should also be given the mandate to ensure the advice market is working well across all retail products.

2. **The expansion of auto-enrolment to be delivered by end 2016** - There is an opportunity to build on auto-enrolment for those with relatively simple savings and protection needs. Extending auto-enrolment to cover savings and protection, particularly for large employers in the first instance, could ensure the needs of large numbers of customers are met.

3. **The creation of a pensions dashboard to be delivered by end 2016 -** One of the most time consuming aspects of financial advice is for the adviser to establish their customer's existing arrangements and use that information to determine their needs before giving advice. This is particularly a challenge in pensions where customers can have several pension pots from different employers. The introduction of a Pensions Dashboard as suggested in the FCA's Interim Retirement Income Report could go a long way to make it simpler and easier for customers and their advisers to identify all their existing pension arrangements online. This has the potential to reduce the length of time it takes to deliver advice and also the cost. Over time there should also be a commitment to improve and develop the dashboard as technology advances and APIs become common place in banking. The introduction of a 'find my pension' function could help customers identify savings that they didn't know they had and encourage them to build on those savings.

4. **The introduction of a referral web site for customers who want financial advice to be delivered by end 2016 –** we believe a number of customers want advice but are unclear on where to get it and who to trust. A web site that allows customers to rate and refer advisers has the potential to overcome this bring more customers to the market. Vouchedfor.co.uk is a good start but needs to go further so advisers can be assessed on further dimensions of price and quality.

5. **The introduction of a new customer focused switching regime for personal pensions and investments by end 2016 –** substantial steps have been taken to improve switching in ISAs and Personal Current Accounts in recent years. Similar initiatives are required in pensions and investments. The process currently takes too long and is perceived as expensive by the customer. There may also be psychological barriers in the eyes of the customer who will be concerned that the process won't work and feel the risk of a transfer going wrong is higher than for retail products. Similarly, under the current upfront pricing arrangements transfers currently trigger an upfront fee by the new provider.

6. **Capitalise on the Government's 'making tax digital' initiative as trailed in the 2015 Autumn Statement –** the Government has announced plans to invest £1.3 billion to transform Her Majesty's Revenue and Customs (HMRC) into one of the most digitally advanced tax administrations in the world, with access to digital tax accounts for all small businesses and individuals to be delivered by 2016-17. The planned changes

provide a unique opportunity to improve and streamline the process for income verification around mortgages. Mortgage providers are currently heavily reliant on a customer's payslip to determine and verify their level of income. This is becoming increasingly challenging as different employers structure their payslips to take account of their unique employee benefits and deductions. Allowing providers to directly access digital tax accounts could also reduce the time customers need to spend in proving their level of income to their mortgage provider.

7. **HMT to instruct the FCA to move to a simplified more proportionate regulatory regime for financial advice by end 2016 -** many of the existing rules pre-date the move to digital channels and prevent providers from taking advantage of the very significant digital changes that have occurred in the market.

   The existing rules also encourage a 'one size fits all' approach to dealing with customers and do not allow providers to tailor their services based on their customer's level of knowledge and experience. A new framework could provide strong incentives for providers to understand their customers and tailor advice and disclosure based on the customer's knowledge and experience. It should also provide strong incentives for providers to simplify their products, for example, by reducing redemption penalties for products with longer time horizons that tie customers in. Combined with the proposed switching service for pensions and investments this could bring greater transparency, switching and competition to both these markets.

   This framework should, as the FAMR's terms of reference suggest, be 'principles' based and move away from the current framework of detailed, lengthy and prescriptive rules and guidance. A much simpler, shorter set of principles, supported by case studies and worked examples could deliver this and meet the objectives of the review.

   To support the movement to a principles based regime we recommend that the FCA take the following steps:

   a. **Aid the development of new simplified investment advice models** – by engaging the industry in a collaborative exercise to identify and agree core suitability assessment criteria. These would be more focussed on key risks and, therefore, less lengthy and more adaptable to the digital medium.

   b. **Assess and track the customer impact of its disclosure regime** – one of the challenges of the advice process is the requirement to make extensive disclosures to customers which behavioural economics learnings show are not fully absorbed. The FCA Smarter Disclosure exercise is a useful initiative in this context and it would be helpful to assess its progress over time. For example, through the collection of peer group data on the length of the advice process for different products. This would be supplemented with more granular data on the

relative proportion of time spent on information disclosure, suitability assessments, customer fact finding and product explanation.

This would provide an empirical basis for assessing the impact of the different aspects of the regulatory framework on the customer experience – including the length and cost of the process. As digitally enabled advice channels are developed, this comparative data will be even more useful to inform public policy and assist the industry.

c. **Commit to streamline the mortgage advice process in its ongoing work on mortgages** – we propose that as part of its follow-up work on the Mortgage Market Review and its proposed market review into mortgages, the FCA specifically assess whether there are opportunities to streamline the mortgage advice process. This could be achieved through assessing peer group approaches and include an assessment of customer experience and the length of the advice process. Any review should take account of behavioural economics learnings on information absorption.

   We would suggest that any review specifically look to provide guidance on the depth of income and expenditure data capture required in order to meet assessment of minimum term and allow fit for purpose information capture. We also propose that any review assess whether there are barriers to developing digital execution only mortgage offerings, where this is appropriate for customers.

   A commitment to look at mortgage advice in this way as part of the FCA's ongoing work will also reduce the pressure on the FAMR which is already being run on a challenging timeframe.

Using the FCA Sandbox to inform and support the development of a new regulatory framework and encourage further innovation

We think the suggested proposals could have a significant impact on the provision of advice. However, we understand that there may be reticence to move away from the existing framework without clear evidence that a new regime would deliver for customers. The FCA's regulatory sandbox provides an opportunity for the FCA and providers to demonstrate what can be achieved under a principles based regime. Over the course of the last 12 months we have designed and led a series of trials with both the FCA and the CMA to test ways in which customer engagement can be improved. We would be keen to quickly move forward with further trials in the area of financial advice and have proposed three early candidates for further exploration.

1. ***Proposed trial around the pricing of investment advice***

   As set out above, we are concerned that the requirement in the RDR to pay upfront for advice may be acting as a disincentive to customers who would otherwise be interested in looking for and taking up advice.

   Our proposed trial would test the impact of alternative approaches to pricing. In particular, the trial would set out a separate and transparent price for advice and amortise the whole price over the product's average life. In the event of the customer switching ahead of the average life, the remaining fee would be deducted. The customer would not, of course, be charged the fee once the amortisation period ends.

   Our experience with mortgages suggests that customers are comfortable with the inclusion of upfront charges in their ongoing pricing. We also believe that this could have a profound impact on demand by reducing behavioural and cash flow obstacles to upfront advice. We would propose that the test takes place on investments before consideration for accumulation and decumulation. We would be happy to lead this trial within LBG.

2. ***Trialling or piloting a form of 'general help and support' in the branch network***

   We believe there is scope for banks and other providers to be able to offer a form of general help and support to customers who either cannot afford or don't want full regulated financial advice. This would be targeted at serving customers at their different life stages rather than when they need a product. The trial would fall short of advising or recommending a particular course of action but seek to help the customer set out a range of options they should consider given their particular circumstances. This form of help and support could also be tested alongside forms of automated advice.

3. ***Trialling a form of simplified advice***

   Not all customers will want a full review of their financial arrangements, some will want to make incremental decisions or make changes to their existing holdings. Testing an advice model that allows them to get advice on limited areas of their overall needs should also be tested.

Section 1: Equality and Diversity Considerations

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 recognise that people with protected characteristics under the Equalities Act and other groups of vulnerable customers will have particular needs when it comes to financial advice.

We think the best way to ensure vulnerable customers are protected is to give providers greater freedom in how they tailor advice to their broader customer base. Currently a sophisticated customer buying a relatively simple product that they can easily switch out of is treated the same way as a customer who is relatively inexperienced and about to buy their first pension or mortgage.

We need to make sure we have protections in place for the customers that need them but make the process simple and easy to use for those who are comfortable making their own financial decisions. By doing this providers will be able to ensure the devote resources to the customers who need the most help with their finances.

The regulatory framework should provide strong incentives for providers to understand their customers and then tailor advice and disclosure based on the customer’s knowledge and experience and based on the type of product they are buying.

Section 2: What do consumers need and want from financial advice?

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

We believe the current regulatory definitions are likely to be confusing for customers many of whom are likely to take a much simpler view of what advice is and when they receive it. In particular, they are unlikely to be able to understand the difference between guidance and fully regulated advice. Moving to a much simpler set of definitions that are properly tested with customers would seem like a sensible way forward – we would be happy to work with the FAMR secretariat on this.

Given the complexity of the issue and the challenges around customer engagement and understanding we would encourage the secretariat to move beyond traditional market research methods such as quantitative surveys and qualitative interviewing as it tries to understand what customers want in this area of the market. Relying on these methods alone, unsupported by testing and trialling, is unlikely to deliver reliable results. Again, we would be happy to share our insights from previous regulatory inquiries.

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

As part of our work on the FAMR, Lloyds Banking Group has contributed to a report by the Social Market Foundation (SMF). In that paper we considered whether the traditional model of bespoke, face to face advice met the needs of the broad range of customers and whether a more segmented approach might help more customers get the advice they need.

The SMF report uses a medical analogy to think about access to financial advice. We think the analogy could help provide a vision for what the advice market could look like in the future.

At the moment, customers who want advice of any kind have to go and see a specialist, like a hospital consultant, and typically pay an upfront fee to do so even if they have relatively simple needs such as wanting to invest in a low cost tracker ISA. This is a bit like going to a pharmacy to ask for advice on having a cold and being told you have to go and see a consultant at a hospital to advise you.

In the same way that customers can get simple advice over the counter in a pharmacy for simple concerns they should be able to do this for simple financial advice. If what they need isn't as simple as it first appears they would be told they need to see a more specialist general advisor (like a GP). And if their situation is more complicated they might be referred to an expert like they would be referred to a hospital consultant.

Simple over the counter advice whether delivered face to face or digitally would serve most customers' needs throughout their life. They would be able to be advised on savings, simple investments, simple protection etc. Some may need to go and see their GP at important events such as having a child but very few would need to go and see a consultant.

Tailoring advice in this way would make it more available and more affordable to a larger group of customers. However, to do this we need a regulatory regime that supports this vision and allows the development of a market that serves different groups of customers in a way that suits them.

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

The Citizens Advice Report titled 'The Four Advice Gaps' provides a good framework to for understanding customer demand for financial advice and the nature of the advice gap. We have conducted our own customer research into the advice market in recent years and would be happy to share any relevant research if helpful to the Secretariat.

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

Depending on their circumstances and their level of confidence in financial decision making many customers will need help in the full range of financial decisions. For example, when borrowing to buy a car, buying a home, investing for the future and providing protection for their families. Other customers will be more comfortable acting without assistance and just want help with more complicated decisions.

It is important that the market provides for all types of customers and for all customer needs. The most effective way to deliver this is to give providers greater freedom to tailor advice through different channels to different types of customer. A principles based regulatory regime for advice would be instrumental in making that vision a reality.

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

The FCA Customer Spotlight Segmentation model is a useful tool and should help compliment providers' existing segmentation models.

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

In our executive summary we have set out a range of measures which we think if implemented could have a positive impact on the availability and affordability of advice for all the segments used in the FCA's model.

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

Customers with high incomes and high levels of wealth are more likely to want financial advice. Following changes to the regulatory framework through the RDR more providers, such as high street banks, are concentrating their efforts on serving more affluent customers. A priority for the FAMR must be to ensure that advice is available to a wider range of customers.

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

We have set this out in detail in our executive summary. We think there are a number of reasons why customers do not seek financial advice:

a) They want general help and support and cannot get it
b) They find financial matters complex, time consuming and choose not to engage
c) They do not know where to look for advice
d) They are put off by the price, the prospect of paying upfront and by lengthy waiting and appointment times

We have provided more details in our executive summary along with suggested policy measures to overcome these challenges.

Section 3: Where are the Advice Gaps?

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

The fall in the number of bank and building society advisers reflects the challenge posed by a combination of customer behavior and the new regulatory landscape resulting from the RDR. The move to an upfront charging model has been successful in bringing greater clarity to customers but the requirement to pay upfront for the full cost of advice has also led to mass market face to face advice becoming uneconomical. As a result a number of providers – particularly high street banks – have continued providing advice but only to more affluent customer segments more likely and able to pay for face to face advice.

One of the key challenges for the review will be making the economics of providing advice work for many more customers.

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

The RDR's requirement for the cost of advice to be paid for upfront at the point of delivery rather than over several years through trail commissions has made fees unaffordable for customers with smaller amounts to invest. As a result, customers that are unwilling or unable to pay these fees have moved towards execution only or have decided not to invest at all.

FCA research by NMG ("The motivations, needs and drivers of non-advised investors", 2014) found that attitudes to advice are very much influenced by the amount being invested, with an amount of £20k in any single transaction being a threshold amount for the need to take advice. Generally, willingness to take advice increases as the value of the investment and/ or complexity of the need increase.

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

One of the major challenges with financial advice is to make it affordable and accessible for customers with small amounts to invest, who have simple needs or who aren't sure whether they need advice in the first place.

Many customers want to speak to someone about their financial needs and technology offers great opportunities to do this at more convenient times and locations for customers whilst lowering the cost of delivery. Customers now use services such as web chat and video calling to buy many other goods and services.

For customers with relatively simple needs automated advice based on algorithms can recommend simple, low cost investment portfolios based on the customer's goals, time horizon and risk tolerance. This could be digital only but also supported by a financial chaperone or a telephone service.

One of the most time consuming aspects of financial advice is for the adviser to establish their customer's existing arrangements and use that information to determine their needs before giving advice. This is particularly a challenge in pensions where customers can have several pension pots from different employers. To overcome this challenge we have suggested the Government announce the introduction of a pensions dashboard to be delivered by 2016.

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

The move to an upfront charging model has been successful in bringing greater clarity to customers but the requirement to pay upfront for the full cost of advice has also led to mass market face to face advice becoming uneconomical. This approach to pricing is out of step with the mortgage market which is an equally large financial investment for the customer.

A 2012 survey by Rostrum Research ("The Battle for Consumer Trust") found that less than one in five (16%) respondents would be comfortable paying for financial advice. The survey also found that 9 out of 10 consumers would only pay up to £25 for an hour of financial advice – well below the level they would need to pay to cover the costs of face to face 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?

We believe giving providers greater freedom over how advice is delivered and how it is paid for could see the introduction of new business models that serve a broader range of customers.

In the executive summary we have proposed a trial to be undertaken as part of the FCA's sandbox programme to test an alternative approach to pricing. The trial would set out a separate and transparent price for advice and amortise the whole price over the product's average life. In the event of the customer switching ahead of the average life, the remaining fee would be deducted. The customer would not, of course, be charged the fee once the amortisation period ends.

We believe that there is an opportunity to develop pricing models that build on the transparency provided by the RDR but also allow providers to build more viable business models to serve mass market customers.

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

Following the changes introduced through the RDR a number of providers – particularly high street banks – have continued providing advice but only to more affluent customer segments who more likely and able to pay for face to face advice. Usually this means customers with over £100k investable assets.

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

Providers are currently bound by restrictive rules on disclosure and pricing. If the objective is to make advice more affordable and available to a wider group of customers the regime has to give providers more control over how advice is delivered and how it is paid for.

The most effective way to do this is for the FCA to move away from prescriptive rules and guidance and transition to a much simpler, shorter set of principles, supported by case studies and worked examples. The movement to principles would give providers greater flexibility over their business model allowing them to charge for advice over the lifetime of a product and also tailor the products and services they offer to the customer's level of knowledge and experience. Taken together this will help providers reduce the cost of advice making it more affordable for a wider group of customers.

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

Our executive summary tries to identify groups of customers who could be helped by positive changes implemented through the FAMR.

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

While it is difficult to diagnose a lack of demand we believe there are a number of factors preventing customers from getting advice. For example:

a) They want general help and support and cannot get it
b) They find financial matters complex, time consuming and choose not to engage
c) They do not know where to look for advice
d) They are put off by the price, the prospect of paying upfront and by lengthy waiting and appointment times

We have provided more details in our executive summary along with suggested policy measures to overcome these barriers.

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

Our executive summary provides examples of different customer groups who might not be getting the advice that they need and who might benefit from policy interventions suggested by the FAMR.

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

Our assessment and identification of relevant customer groups was based on our experience of the market and primary research conducted in recent years. We would be happy to share any relevant research with the FAMR secretariat. Our analysis was supported by a range of external reports which shed light on the advice gap, for example, the Citizens Advice report titled the 'Four Advice Gaps'.

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

We think it is important for the Review to consider the availability of advice across all retail products. While we recognise that the advice gap for long term savings might be an immediate priority we think that it is critical that the FAMR put steps in place to ensure customers can get the advice they need across the full range of retail products. For example, by ensuring the FCA looks at current mortgage advice process as part of its follow up work to the Mortgage Market Review and its planned review of competition in the mortgage market.

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 understand the reasons why the FAMR has chosen to focus initially on long term saving. Making sure customers can get affordable advice for retirement is clearly very important. But we think it is equally important that customers are able to get the advice they need at other important moments of their life.

For example when borrowing to buy a car, buying a home, investing for the future and protecting their families from changing economic circumstances or ill health. We would encourage the FAMR to continue to look at all retail products as the Review moves forward or at least encourage the FCA to look at the availability of advice and the length of the advice process for other retail products as part of its ongoing market reviews and wider work schedule.

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?

In the executive summary to this response we have set out a range of proposals which could help a large group of customers. We think that by moving ahead with those reforms the FAMR could improve the availability of advice for customers across the income and wealth spectrum.

Section 4: What options are there to close the advice gap?

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?

There have been substantial changes to the regulatory landscape since 2010. The new objectives, duties and powers of the FCA allow them to create a regulatory framework that delivers a more innovative, accessible and affordable advice market for many more customers while continuing to protect them from poor or inappropriate advice.

But the current rules surrounding advice, largely inherited from the FSA and pre-dating the increasing use of digital channels by customers and providers, need significant change. In particular, if we are to harness the opportunities created by the very significant technological changes happening in this market, the FCA needs to move away from a 'one size fits all' approach. A new framework could provide strong incentives for providers to understand their customers and then tailor advice and disclosure based on the customer's knowledge and experience. It should also provide strong incentives for providers to simplify their products, for example, by reducing redemption penalties for products with longer time horizons that tie customers in.

This could potentially transform the customer experience and encourage more customers to seek advice while also allowing providers to substantially reduce the cost of advice so it offers better value for money for a much wider group of customers.

This framework should, as the review suggests, be 'principles' based and move away from the current framework of detailed, lengthy and prescriptive rules and guidance. A much simpler, shorter set of principles, supported by case studies and worked examples could deliver this and meet the objectives of the review.

The FOS should continue to protect customers and compensate them for poor advice. But it should also be bound by the principles, case studies and worked examples published by the FCA. If they are not, the risk of a different set of principles or rules being applied for redress will prevent providers from responding to the new framework. Currently, providers feel they can follow the rules set out by the regulator but then find they are held to a different standard when sales are reviewed by the FOS. It is helpful that the terms of reference appear to explicitly recognise this.

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 think there is merit in looking at the range of European legislation which impacts the advice market and how it interacts with policy initiatives in the UK such as the RDR. We would recommend that any review include MiFID, MiFID 2 and the Insurance Distribution Directive and the Insurance Mediation Directive.

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

In recent years Lloyds Banking Group has played an active part in trying to improve customer engagement in retail financial services. Personal Current Accounts (PCAs) have been a source of concern for regulators in recent years, however, the introduction of the current account switching service and the development of APIs which enable the use of customer data to deliver more accurate comparison show the potential to substantially improve customer engagement. The current account switching service was first developed and recommended by Lloyds Banking Group and we have also worked with a price comparison specialist to develop a new form of comparison engine in PCAs that builds on the Government's Midata initiative.

We have also led a series of trials aimed at improving customer engagement with the CMA (as part of its retail banking inquiry) and with the FCA in its savings and credit cards market reviews. We would be happy to share the approaches taken and the results with the FAMR secretariat.

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

It has not been possible to evaluate other regulatory regimes over the course of the consultation, however, we are sure there are lessons to be learned from other jurisdictions that have successful long term saving schemes such as Sweden and Australia.

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

As set out in the executive summary, we believe there is currently a gap for customers who want general help and support with their finances. We think there is scope for banks and other financial services providers to meet this need.

Combining advances in technology with the concept of general help and support could also have a powerful impact. For customers with relatively simple needs automated advice based on algorithms can be used to recommend simple, low cost investment portfolios based on the customer's goals, time horizon and risk tolerance. While this might be the right choice for many customers a large number will not feel confident relying on an algorithm -

providing them with a trained chaperone to help them understand the underlying approach could make them more comfortable with the process and encourage take up.

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?

While we believe there are merits in considering different types of safe harbour and long stop we think the more important focus for the FAMR should be to reduce the risks of regulatory misalignment between the FCA and the FOS going forward.

As discussed in response to question 24 and in the executive summary, we believe the FCA should move to a principles based regime for financial advice and the FOS should be bound into those principles.

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

Please see response to question 29.

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

Please see response to question 29.

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

Please see response to question 29.

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 see response to question 29.

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

Having an impartial third-party to resolve disputes is an important part of the regulatory landscape that gives reassurance to customers. In this context the FOS has an important role to play in protecting customers and compensating them for poor advice. However, currently providers feel they can follow the rules set out by the regulator but then find they are held to a different standard when sales are reviewed by the FOS. To prevent this misalignment we suggest the FCA move to a principles based regime for financial advice and that the FOS be bound into those principles.

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

As discussed in response to question 24 and in the executive summary, we believe the FCA should move to a principles based regime for financial advice and the FOS should be bound into those principles to prevent regulatory misalignment.

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 have already seen a number of examples of innovative forms of automated advice in the UK and abroad. We think there is considerable scope for the development of these business models going forward. Combining these advances in technology with the concept of general help and support could make these providers more attractive to a wider range of customers.

We would be happy to share examples of automated advice models but other providers, particularly those represented on the Expert Panel might be better placed to do so.

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

As discussed in our answer to question 24 we believe that reform of the regulatory framework could help remove barriers to digital innovation and help the development of automated advice models.

Furthermore, simplifying the ongoing regime and reducing the costs of regulation such as the high fixed costs of meeting authorisation requirements and running an internal compliance function could also bring new entrants to the market.

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

Automated advice has an important role to play in the development of the advice market going forward. It's important to stress, however, that many customers – potentially even the more sophisticated – will want help and support to navigate an automated process. We, therefore, need a regime that allows the development of low cost advice models but also allows providers to provide general help and support if needed.

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

In the executive summary we have suggested a range of options to try and address the Advice Gap:

a) The Creation of a Commission to oversee long term change in the advice market
b) The expansion of auto-enrolment to be delivered by end 2016
c) The creation of a pensions dashboard to be delivered by end 2016

d) The introduction of a referral web site for customers who want financial advice to be delivered by end 2016
e) The introduction of a new customer focused switching regime for personal pensions and investments by end 2016
f) Capitalise on the Government's 'making tax digital' initiative (as trailed in the 2015 Autumn Statement) to deliver electronic income verification in mortgages
g) HMT to instruct the FCA to move to a simplified more proportionate regulatory regime for financial advice by end 2016

To support the move to a principles based regime we have suggested a series of trials which the FCA should take forward with providers as part of its regulatory sandbox. These include:

h) A proposed trial around the pricing of investment advice
i) Trialling or piloting a form of 'general help and support' in the branch network
j) Trialling a form of simplified advice

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?

The most effective way of delivering a competitive market for advice is to give providers greater freedom over how advice is delivered to different customer segments and how it is paid for. The most effective way to deliver this is through a movement to a principles based framework for regulation that gives providers greater control over their business model. The simpler and more predictable the regime the more likely new entrants are to enter the market.

To support this change it is important that we encourage greater transparency, comparability and switching both in the market for advice and for long term financial products. To this end we have suggested the introduction of a referral and comparison site for advisers and the creation of a switching service for pensions and investments to be delivered by 2016. The regulatory regime should also provide strong incentives for providers to simplify their products, for example, by reducing redemption penalties for products with longer time horizons that tie customers in.

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

The most effective way to monitor the quality and standard of advice delivered to customers is through thematic reviews that focus on customer outcomes. These reviews should be risk based in nature and focused on those parts of the market where customers are more likely to suffer detriment or where the size of the detriment may be greatest. For example, providers that offer pensions with high redemption penalties should be subject to greater regulatory scrutiny as they lock customers in and prevent them from switching out if

they are unhappy with the level of service they are receiving or feel they are getting a bad deal.

We would recommend that these reviews focus more heavily on customer outcomes and less on inputs, wider business processes and business strategy discussions – much of which is focused on how things are done rather than what outcomes are delivered for the customer.

From:
Sent: 16 December 2015 16:41
To: FAMRSecretariat
Cc:
Subject: Macbeth Financial Services Ltd

FAMR was recently launched by the Treasury and the FCA has highlighted the need for more people to gain access to good financial advice, especially following the recent pension freedoms. The Review recognises that one of the challenges in making financial advice more widely available is the rising cost of delivery which sadly makes it too expensive for many people who deserve/need to access advice.

The Association of Professional Advisers' (APFA) recent survey on the 'Cost of Regulation' shows that direct and indirect cost of regulation translates to about £160 per client before the adviser has sat them down. The cumulative effect of the cost of compensation, FSCS levies, professional indemnity insurance, together with countless regulatory fees has made financial advice expensive and the prerogative of the wealthy. I'd like to see this change and for advice to be more readily available to a wider range of people.

Liability and the cost of regulation has pushed financial advisers to focus on progressively higher net worth individuals over the last 10+ years. Therefore, it seems that the obvious solution is to reduce the cost of giving advice to ensure the continued existence of financial advisers, new advisers choosing this as a profession and more consumers receiving professional financial advice.

There are a number of issues to review that could all help to reduce the cost of regulation, which in summary include:

- the ever-increasing Financial Service Compensation Scheme (FSCS) levies
- the lack of a 'longstop', which means that possible claims can hang over advisers indefinitely;
- the uncertainty and systemic problems relating to the Financial Ombudsman Service (FOS);

Financial Services Compensation Scheme (FSCS)

FSCS levies have increased significantly this year, with fees jumping by over 100%. The combined levies for investment and pensions and life intermediation were higher (£216m) than the retained profit in the sector last year (£171m). The soaring levies are detrimental to consumers themselves as they ultimately bear the costs and the unpredictability of the levy and the need to find funds in such a short time frame, puts severe pressure on firms' finances.

The scope of compensation should be limited to certain products. At the moment, consumers are compensated for non-regulated products because the advice is regulated. The FCA should consider directing that FSCS compensation is only available for advice on investments in products suitable for retail customers, or a 'whitelist' of appropriate products.

Longstop

In the current system, there is no time limit as to when a claim relating to financial advice can be brought before the Ombudsman. Much of the cost of advice is driven by the need to manage future liabilities and having an open-ended liability significantly increases the uncertainty and the ability of firms to model and manage that risk.

In addition, firms' Professional Indemnity Insurance (PII) is affected. Many insurance firms are not willing to provide cover for financial advisers; those that do, are able to charge inflated prices or demand higher excess levels. There

needs to be a compromise between consumer protection and unlimited liability for firms in order to ensure consumers can still access advice.

The Limitation Act 1980, as amended by the Latent Damage Act 1986, provides every UK citizen with an end date after which no legal action can be brought in negligence. I thought that Parliament decided that 15 years was the right balance between consumer protection and the duties of firms. This should surely also apply to a dispute resolution service that is providing a free alternative to consumers?

APFA have been campaigning for a 15 year longstop for the advice profession. I hope the FCA consultation regarding this will act as evidence gathering alongside the FAMR consultation culminating in a resolution for this issue and create a fair time limit on when claims can be made to the Ombudsman, just as exists in UK civil law.

Financial Ombudsman Service (FOS)

The advice sector has concerns about the way FOS handles complaints. These relate principally to a lack of clarity as to processes and procedures, inconsistency of decisions, lack of training and guidance provided for adjudicators and a bias towards complainants.

Whilst I recognise the need for a dispute resolution service for consumers, the advice sector needs to have greater confidence in the way complaints are handled. The systemic problems in the FOS decision-making process have a significant impact on advice firms.

First of all, the problems regarding the liabilities advisers' face and compensation costs have an impact on professional indemnity insurance premiums. This pushes the cost of advice up, making it less accessible and viable.

FOS does not follow the law, only makes decisions with regard to it. It seems to have scope to find against advice given that was fully compliant with FCA rules.

In recent years there has also been a worrying growth in claims brought by Claims Management Companies. A large number of these cases are of course frivolous and unfounded but still cause a significant cost to advice firms in investigating and defending them. A clampdown on these "ambulance chasers" would surely save our industry the huge costs they create and stop the have a go litigious culture we have seen unfold.

FOS should be a fair process and follow legal principles. There should be a completely separate and independent appeal panel or the right to appeal to the civil courts to ensure a fair and transparent process, in which the advice sector can have faith in.

Conclusion

I believe that there is a role for the financial advice profession to play in addressing these problems, if the FCA, MPs and the Government work with us to make the necessary changes to make financial advice available to a larger number of consumers.

I do hope that my thoughts are taken into account in the positive manner in which they are meant.

Yours faithfully

Simon Claxton Dip PFS
Managing Director
Independent Financial Adviser

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Submission to the FCA Financial Advice Market Review

WE ARE MACMILLAN. CANCER SUPPORT

Purpose:	**To provide Macmillan's response to the FCA Financial Advice Market Review**
Author:	**Emma Cross, Financial Support Partnerships Manager, Macmillan Cancer Support**
Date:	**21st December 2015**

Introduction

Thank you for giving Macmillan Cancer Support the opportunity to respond to the consultation on *the Financial Advice Market Review.*

About Macmillan

Macmillan Cancer Support improves the lives of people affected by cancer, providing practical, medical, emotional and financial support. We work to raise awareness of cancer issues and have been campaigning for a better financial deal for cancer patients who, as a result of their condition, face a number of increased costs at a time when their income has often decreased.

There are over 2.5 million people in the UK who are currently living with cancer expected to rise to 4 million by 2030.[i] In addition to the physical and emotional effects most commonly associated with cancer, it also brings with it a substantial risk of falling into financial hardship. Four in five people with cancer are affected financially and are, on average, £570 a month worse off as a result.[ii]

Many people struggle to cope with this impact, which can leave them in serious financial difficulty, including inability to pay bills and spiralling debts. For many, it can take several years after treatment ends to recover financially.

We currently have a specialist team of Financial Guides providing generic financial advice on insurance, pensions and mortgages as part of the Financial Support team within the Macmillan Support Line. We also provide an in-house Welfare Rights telephone service across the UK and have a network of 224 benefits advisers hosted within partner agencies. In 2014 £240m was secured in additional financial payouts to people affected by cancer.

About our Financial Guidance Service

The Financial Guidance Service was launched by Macmillan in late 2011 in response to an identified need to support people affected by cancer with navigating the financial services sector and improve their financial capability. This need was a reflection of the complexity and lack of equity of financial products and services for people affected by cancer, as well as reflecting issues of financial capability in the

UK population as a whole. The vulnerability caused by financial exclusion or lower financial capability is greatly exacerbated when a customer is experiencing a serious ill-health issue.

The service is provided by 13 specialist Financial Guides who have experience of financial services and who are trained to understand cancer and its treatments. The team is accessed by the general public via our free Macmillan Support Line or via signposting or referrals from our Macmillan nurses, benefits advisers, cancer information services and other roles in hospitals and the community. Support provided can range from information up to casework. We do not provide regulated financial advice and thus do not make product recommendations but provide specialist guidance which allows the customer to make informed decisions on their options. The service is part of an integrated financial support model which also features telephone and face to face welfare benefits advice, energy advice, Macmillan's printed information, online tools and referrals to partners including Stepchange Debt Charity. The model is designed to encourage people to access financial support at key pathway points, with an emphasis on early interventions to minimise the risk of people falling into financial difficulty.

Question 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?

People with cancer and their carers and relatives, who themselves can be vulnerable due to the impact of a cancer diagnosis, often need to make unexpected and urgent decisions on key financial products following diagnosis. In many cases it is difficult for people to access specialist and cancer specific guidance to help inform these decisions. This is why Macmillan created the Financial Guidance Service.

We know that 4 out of 5 people are £570 per month worse off following a cancer diagnosis because of the increase in costs and drop in income.[iii] Our research has also shown that the financial burden does not fall equally, with factors such as the type of cancer and a person's income at the time of diagnosis influencing how they are affected. It also suggests that support is not always accessible or comprehensive.

We know that delays in accessing support soon after diagnosis may mean that despite surviving cancer, an individual's long-term financial future is compromised due to issues such as an impaired credit record. Difficulties in accessing timely support can also generate considerable stress and anxiety. Research into working age patients found that 51% felt some level of anxiety due to their financial situation during cancer treatment.[iv]

A cancer diagnosis is often sudden, creating a significant financial shock. Many people affected by cancer lack awareness of the need for financial guidance or support, an understanding of what their options are, or where to go for support. In an independent evaluation of our Financial Guidance Service a number of people

reported that they did not appreciate the long term impact and we know many people just "try to get by".[v]

Cancer can also lead to complex journeys which are often unpredictable and make it difficult for people to plan and access the right support. This is often made more difficult as a result of the physical, mental and emotional impact of cancer and its treatment. This is recognised in our financial support strategy and range of services and information that Macmillan provides, ensuring support is integrated within the cancer pathway and a range of accessible channels are available to meet the different needs of people affected by cancer.

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

Our Financial Guides often find that clients misunderstand what financial advice is, and can therefore be unclear on whether they need or even received financial advice due to the terminology used not only within the financial sector but also the social welfare sector and beyond. For example, money advice, debt advice and benefits advice are often considered by clients as being synonymous with financial advice. This can make it difficult not only for them to access the support needed but also for professionals working seeking to support them.

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

Our Financial Guidance Service supports people with a range of problems, many to casework level. This includes tackling issues that would not typically be addressed by a regulated financial adviser.

The service does signpost people to regulated financial advice, however our Financial Guides have found that some clients are reluctant to use a financial adviser. This is often down to lack of trust resulting from a previous bad experience or negative publicity.

People affected by cancer can also often have concerns over quality or the value for money that the advice represents, with some unwilling or unable to pay for advice upfront.[v] Some clients have indicated confusion in relation to charging models since the introduction of the Retail Distribution Review.

Question 4.

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

As set out above, Macmillan's Financial Guidance Service was launched in late 2011 in response to an identified need to support people affected by cancer with navigating the financial services sector and improve their financial capability.

From its launch in late 2011 to the end of August 2015 the service had helped almost 17,000 customers directly, with another 30,000 using Macmillan's online tool. In that time, the service has secured over £16 million in additional funds for people affected by cancer.

Many people will go to our Financial Guidance Service before seeking regulated advice. An independent evaluation of the Financial Guidance Service found this that those who approached Macmillan did so partially because it is a trusted brand. However, many didn't do so immediately upon diagnosis for a variety of reasons including:

- They didn't know about the service
- They were not ready: expected to get their life "back to normal" soon
- Finances were not a priority on diagnosis: difficult & depressing
- They felt a conversation may create worry, fear & stress

In addition, many had poor experiences previously when first attempting to deal with the financial impact of cancer including:

- Policies can be very difficult to understand
- Long, complex documentation
- Being treated coldly, and insensitively

In order to reduce the risk of falling into financial difficulty it is essential that people feel able to consider their finances as early as possible but there are significant barriers to doing so. The Financial Guidance Service has been developed to help overcome these and facilitate a better informed subsequent contact with a financial adviser or financial services provider if required.

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

The most common issues that the guidance service deals with are: supporting people considering ill-health retirement and explaining pension scheme rules (25%), supporting customers with insurance policies and the claims process (23% of issues), mortgage options for people concerned about making payments (20%), and estate planning (10%).

We also receive a large number of enquiries regarding travel insurance which is a particular problem for people having received a cancer diagnosis. Navigating the market is particularly challenging, resulting in numerous phone calls and often considerable distress. Furthermore, people will often forgo cover due to the

prohibitively high premiums or end up taking 'an exclusion' in relation to their cancer, without necessarily understanding the potential implications of doing so.

Macmillan has also found that some people wrongly assume that their cancer diagnosis excludes them from certain financial products thereafter e.g. getting a mortgage or car insurance. Without the right guidance they will not receive the best options for their circumstances and may experience ongoing financial disadvantage as a result of a diagnosis.

A cancer diagnosis not only affects the options available to customers – often making them more limited and complex – but can also mean that those options cannot be effectively accessed, identified or resolved through generic information or online tools. This includes "shopping around" which for many general products which often aren't appropriate or responsive to the needs of people with a cancer diagnosis.

The support provided by the Financial Guidance Service ranges from explaining financial jargon and personalised guidance, up to casework and advocacy for more complex cases where the customer is particularly vulnerable. Examples of the casework and advocacy provided are: helping customers resolve disputes with, or make complaints against, financial services companies when, for example, a health related insurance claim has been declined, or a lower level of ill-health retirement benefits has been offered by a pension scheme. Where appropriate the guidance service will provide advocacy, and act on behalf of, customers in these situations. This includes helping the customer access their mortgage lender's specialist support teams and negotiating with these teams on behalf of the customer. The service will also signpost or refer customers to sources of more appropriate specialist support, such as to The Pensions Advisory Service, Financial Ombudsman Service or for regulated financial advice when appropriate.

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

In practice, regulated financial advice is typically only accessed where a customer has significant assets to manage or wealth to invest. For some people affected by cancer seeking to make financial decisions with comparatively smaller sums, for example due to an insurance pay out or pension lump sum, such advice may be inaccessible or unaffordable. However a poor prognosis may mean that there are more limited investment options and a need to make key and unexpected decisions quickly.

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

We know that it is important that people receive advice early on in their cancer pathway in order to limit the long term impact of cancer, however research found that the proportion of patients who said they received or accessed advice decreases

significantly with the time since diagnosis, with 35% of those still undergoing treatment seeking financial advice, dropping to just 17% of those diagnosed more than 10 years ago[vi].

The independent evaluation of Macmillan's Financial Guidance Service found that many people did not initially access advice because of a lack of awareness and struggling to cope with the stress of financial decisions due to their cancer diagnosis. Macmillan has a comprehensive financial support strategy to address increased awareness not only amongst people affected by cancer but also those who support them with their cancer journey. This includes the provision of integrated financial support at key points of the cancer pathway and ensuring that the level of support a person can access is appropriate to the level of complexity and vulnerability of the person needing support. This also aims to address access issues where people affected by cancer can struggle to use different channels of support.

The evaluation also found that some clients lacked trust in financial advice providers due to previous bad experiences or were put off from seeking advice due to negative publicity.

Our Financial Guides report that some clients are unwilling or unable to pay for regulated financial advice and this can make it difficult for people to receive the support that they need beyond generic information. The Guides speak to a lot of clients who feel they have been mis-sold products or know someone who has. They also report that some clients can be frustrated that there is no robust way to judge the quality of a financial adviser before agreeing to have a meeting.

In addition many of the issues that customers seek guidance for are issues where regulated financial adviser are not able, or willing, to help customers such as support with claiming on an insurance policy, or claiming a pension under serious ill-health rules. In the experience of the guidance service customers associate financial advice with the sale of regulated products, rather than post-sales service or support resolving the type of issues they seek guidance on.

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

As part of Macmillan's Financial Support offer, this includes the role of digital and online tools and services alongside other channels including telephone. The needs of people affected by cancer can vary according to where they are in their cancer journey and impact on what level of support they are able to access and is appropriate for their needs. It is important that people are still able to access personalised advice, guidance and support to help them with their options particularly where a client faces additional barriers such as poor health through a cancer diagnosis. This makes it difficult to assess and decide upon the most appropriate option without guidance or advice because of the specialist needs of the person against what may appear as generic options. Digital exclusion and capability

must also be considered to ensure that those who are unable to use digital channels are still able to receive the support that they need.

Question 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?

Following a cancer diagnosis a person's financial situation can dramatically change both during treatment and after, with changes to their options. It is important that they are able to access advice about the complex issues that they may face and the best options to help them manage their immediate and long term needs as a result of the impact of the cancer diagnosis and prognosis. Our Financial Guidance work shows that there are a range of issues that require guidance and advice and for those with particular vulnerabilities and life changing events such as a cancer diagnosis this may also include annuity options and the impact of a terminal illness.

Question 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)?

A number of people affected by cancer who will need advice may have pension pots or insurance payments which could remove them from this eligibility, but insufficient wealth to access advice. Wealth and income are relative to outgoings and options both of which can be reduced as a result of a cancer diagnosis and its long term impact. This could particularly impact on vulnerable groups such as those with a terminal illness but also those with limited financial options e.g. as single pensions.

For example, many people affected by cancer may have pension pots, life insurance, annuities or other products can mean that they appear to have high wealth. However a poor prognosis may mean that there are limited investment options and a need to consider the financial implications for surviving family members if the prognosis is poor. Estate planning would also be a key consideration in this context and services need to be personalised to ensure that the prevailing circumstances are fully understood to inform decision making.

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

People affected by cancer have varied needs depending not only on their wealth and financial options but also as a result of their cancer diagnosis, treatment and prognosis. This can impact on their ability to use channels of advice but also willingness to access and ability to understand and act on it. In addition to generic advice and guidance people affected by cancer also need personalised advice to reflect the complex needs and support required.

For further information, please do not hesitate to contact

Emma Cross, Financial Support Partnerships Manager, Macmillan Cancer Support

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[i] Prevalence in 2015 estimated from Maddams et al (2012). Prevalence in 20130 taken directly from Maddams j, Utley M and Moller H 2012. Projections of cancer prevalence in the UK, 2010-2040 British Journal of Cancer 2012; 107: 1195-1202

[ii] Macmillan Cancer Support (2013) *Cancer's Hidden Price Tag*. Published report available here

[iii] Cancer's Hidden Price Tag: Revealing the Cists Behind Illness. 2014

[iv] Macmillan You Gov survey of 1495 adults living with cancer, August 2011.

[v] People Tree Independent Evaluation of the Macmillan Financial Guidance Service

[vi] Macmillan YouGov survey of 1,495 UK adults living with cancer, August 2011

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Financial Advice Market Review – Call for Input

London, December 22nd 2015

Dear Sirs,

We welcome the publication of the *call for input paper* (the "***Consultation Paper***") *on the Financial Advice Market Review* (FAMR) by HM Treasury and the FCA (the "***Authorities***"). We appreciate the opportunity to provide you with our comments.

Introduction

Markit[1] is a leading global diversified provider of financial information services and financial technology solutions.[2] Founded in 2003, we employ over 4,000 people in 11 countries and our shares are listed on Nasdaq (ticker: MRKT). Markit has been actively and constructively engaged in the debate about regulatory reform in financial markets, including topics such as the implementation of the G20 commitments for OTC derivatives and the design of a regulatory regime for benchmarks. Over the past years, we have submitted more than 130 comment letters to regulatory authorities around the world and have participated in numerous roundtables.

In the context of the Consultation Paper, Markit's most relevant service is our Markit On Demand service which supports mostly investment managers, wealth managers, and brokers in creating solutions to facilitate their clients' investment decisions.[3] As a managed technology service working closely with our customers, we create innovative engaging designs that are easily implementable and support investment decisions. We believe Markit is one of the world's largest employers of web designers focused solely on the presentation of financial information and workflows, and we are expert in presenting complex information so that users can understand and use it to make informed investment decisions in a timely manner. During a typical week, our services support more than 2.3 billion page views of dynamic content and more than 2.5 million unique users log into the pages we host. Markit On Demand's unique position as the provider of technology services to a large number of asset managers and other investment professionals in numerous jurisdictions means we have broad-based experience of how financial institutions connect and interact with their clients.

[1] Please see www.markit.com for further details.
[2] We provide products and services that enhance transparency, reduce risk and improve operational efficiency of financial market activities. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. By setting common standards and facilitating market participants' compliance with various regulatory requirements, many of Markit's services help level the playing field between small and large firms and herewith foster a competitive marketplace. For example, Markit's KYC Services provide a standardised end-to-end managed service that centralizes "Know Your Client" (KYC) data and process management.
[3] See https://www.markit.com/product/markit-on-demand for more details.

Comments

We agree with the Authorities that the way that people seek financial advice is changing. Technological, regulatory, and demographic change are driving new techniques that people use to interact with the financial industry and the way that they think about advice and how they access it.

Please find below Markit's responses to several of the questions asked by the Authorities in the Consultation Paper. Our views are based on the experience we have gathered working with our many clients in North America and Australia as well as the feedback we have gathered when working with potential users of our services in Europe. We would generally recommend that the Authorities aim to develop a framework that allows people access to a flourishing digital market and enables the benefits of technical solutions built for higher net worth individuals to be made available, with the appropriate protections, to people with fewer assets. We believe this would help reach a larger number of potential investors who may benefit from advice and guidance, but, with fewer assets, advisors may not target them specifically.

Such a framework should also cater for people throughout their lives, including periods of accumulation and of decumulation of wealth. We believe that investors need to be able to – and be encouraged to – stop seeing financial planning and advice as something that happens only as a one-off (i.e. a decision that is made and then forgotten about). Instead, advances in information technology now make it much easier to maintain a continual engagement and access to information about the performance of investments and initiate changes over time whenever desired or necessary.[4]

<u>Question 2</u>: Do you have any thoughts on how different forms of financial advice could be categorised and described?

We believe that the categories set out in the Annex of the Consultation Paper provide a helpful template for differing kinds of advice and are a useful reflection of the variety of advice that might be available.

However we recommend that the categorisation of the assistance available to investors specifically include "education" and "guidance", which is something many people browsing digital investment services are looking for, and which is the first step to developing more sophisticated investment behaviour. We also urge the Authorities to make it absolutely clear what kind of license is required for each category and ensure that a clear line is drawn between education, guidance and formal advice.

<u>Question 4</u>: Do you have any comments or evidence on the level of demand for advice from sources other than professional financial advisers?
<u>Question 5</u>: Do you have any comments or evidence on the types of financial needs for which consumers may seek advice?

The Authorities state that "some consumers make at least some of their financial decisions independently, using generic advice or using publicly-available information".[5]

From our experience we have observed that, even if they are seeking advice, users of the websites we have designed and host often also want to:

1) Educate themselves on an issue;

[4] Although it is important investors are fully aware of any costs of making changes to investments.
[5] Consultation Paper page 9.

2) Research possible solutions; and
3) Monitor the effectiveness of a choice they have made over time.

We believe that it is important that financial websites provide access to all of these functions, regardless of whether individuals seek advice or not. A recent study supports this view and also found that, while technology and social media are ingrained into the lives of younger investors, all age groups can make use of, and benefit from, information technology.[6]

Furthermore, through our experience working with clients that provide products to the retail market, we have found digital contextual education, including continued contextual education through the process of investment decision making, to be more effective than generic education that is provided separately from an investment decision.

<u>Question 6</u>: Is the FCA Consumer Spotlight segmentation model useful for exploring consumers' advice needs?
<u>Question 7</u>: Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?

We believe that the FCA consumer segmentation, as set out in the Consultation Paper, broadly captures the groups of people who may be seeking, or could benefit from, financial advice and guidance. However, we are concerned that it does not recognise some of the complexities of real life where people who could appear to be of similar background may actually be facing very different investment needs. This is because the FCA segmentation model does not seem to fully consider the objectives of savers and the circumstances of the individual (for example, the number of children or the number of earners in the household). These characteristics can vary between people who appear to be in the same category and could affect significantly which investments are most suitable for them. For example, some might have inherited money while others might have children heading to university in the near future. We believe that recent changes in the UK, including auto-enrolment or the provision of more flexibility around drawing down pensions, are likely to further to impact this.

We also recommend that any segmentation consider the fact that people of different ages and backgrounds are likely to be more comfortable with different types of portals. For example, younger, more affluent people are more likely to engage through mobile devices or social media, whereas others may prefer other kinds of contact.

<u>Question 8</u>: Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?

We believe that there is a minimum amount of savings or investments below which advice must be seen as prohibitively expensive. This has been evidenced in some recent research that found that only 6 percent of British people felt it was worth paying for advice on £30,000 of savings and were only willing to pay an amount of £314 for advice on a pot of £250,000.[7]

It is our experience that, generally speaking, individuals from households that fall into the higher income categories tend be more time constrained and so the lack of facilities that allow them to access advice and

[6] https://www.accenture.com/t20150626T121140__w__/us-en/_acnmedia/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Dualpub_8/Accenture-Generation-D-Europe-Investor-Survey.pdf
[7] https://www.aegon.co.uk/news/media-centre/pressreleases/cost-of-advice-is-major-sticking-point-for-consumers.html; Also see http://www.money.co.uk/press/half-of-those-making-pension-freedom-withdrawals-will-not-pay-for-advice.htm

check on investments quickly could be holding them back from seeking advice. We believe that the broader availability of high quality robo-advice and web portals could help address this issue.

<u>Question 9</u>: Do you have any comments or evidence on why consumers do not seek advice?

We broadly agree with the reasons set out in the Consultation Paper for why consumers might not seek advice. In addition, we believe it is also important to consider that some forms of advice or guidance can involve a lengthy process and be difficult to follow up on a regular basis. In this context we would like to highlight that technology can provide an efficient process that is much easier to follow up and remain engaged in (for example, automatic notifications could be sent to update when an investment plan is on or off track).

<u>Question 10</u>: Do you have any information about the supply of financial advice that we should take into account in our review?
<u>Question 11</u>: Do you have any comments or evidence about the recent shift away from sales based on professional advice, and the reasons for this shift?

Since October 2012 the auto enrolment scheme has increased the number of people receiving a workplace pension and this may be effect whether people believe they need to seek advice or not.[8] Also the banning of the commission-based sales model at the end of 2012 demonstrated to investors the costs associated with advice which, given the long dated nature of the value of the advice, could have created further reticence around engaging professional advice.

However, according to one study,[9] of those people who had money to invest but did not seek advice, the vast majority either did not think about advice or preferred other sources of information.

We would therefore recommend that the Authorities consider the educational benefits that web portals and robo-advice can provide for people, even when they are not seeking advice.

<u>Question 12</u>: Do you have any comments or evidence about the role of new and emerging technology in delivering advice?
<u>Question 13</u>: Do you have any comments on how we look at the economics of supplying advice?
<u>Question 14</u>: 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?
<u>Question 15</u>: Which consumer segments are economic to serve given the cost of supplying advice?

We believe that there are numerous potential benefits from applying new technology to assist consumers in their investment decisions, many of which have been well debated. However, this debate often overlooks the potential for less affluent investors to benefit from systems that have primarily been developed for higher net worth individuals. This is because technology and platforms originally developed for higher net worth individuals can, for relatively low marginal costs, be extended to work for other markets. It is the potential scalability of such solutions that means services could become available for the greater number of individuals with less complex needs (or lower investment amounts) that would otherwise not attract developers because of high costs of developing specific solutions. We therefore believe that the regulatory framework should encourage (for example by making it simple to extend services to different target markets) this kind of cross subsidisation.

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[8] For example: https://www.gov.uk/government/news/standing-ovation-as-auto-enrolment-hits-5-million-and-auto-transfer-launch-plans-are-unveiled
[9] http://www.cii.co.uk/media/5139793/pfs_rdr_consumer_report_feb2014.pdf

***Question 16**: Do you have any comments on the barriers faced by firms providing advice?*
***Question 17**: What do you understand to be an advice gap?*
***Question 18**: To what extent does a lack of demand for advice reflect an advice gap?*
***Question 21**: Which advice gaps are most important for the Review to address?*

A wide variety of portals open and available to potential investors are likely to provide a level of education that may not be available today. Simple to use, accessible websites can allow investors to receive examples of different investment options open to them and enable them to either make a more suitable investment decision or realise that it would be worth seeking more tailored advice.

We believe that the level of financial literacy in the broader population is generally low and that web portals, if appropriately designed, could help address this problem. However, the lack of regulatory clarity around the classification of these services can, in our experience, stop providers well short of being able to provide any meaningful insight, education or guidance. We therefore encourage the Authorities to provide the clarity that would allow portals to offer contextual information, education and customised guidance for potential investors prior to any sales process and formal advice process being offered.

***Question 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, we agree with this approach which appears to focus on the areas where people will need to take more personal responsibility for their retirement provision and where potential investor detriment exists.

***Question 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?*

As set out above, research suggests that advisors are not willing to offer advice for investors with savings and investments below £30,000 while investors with less than £50,000 to invest would typically see the costs of advice as too high to be worthwhile.[10]

In line with our other comments, we would suggest that the Authorities consider how the educational benefits of web portals and robo-advice can be maximised and how systems developed for higher net worth investors could be easily adapted to meet the needs of investors with less investible funds for low marginal costs.

***Question 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?*
***Question 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?*

As we have stated above, we believe that the Authorities should provide greater clarity to the industry as to what is "guidance" or "education" and what will be seen as regulated advice. Clear markers between categories would help. We believe that while investor protection is absolutely vital and asset managers should take

[10] https://www.aegon.co.uk/news/media-centre/pressreleases/cost-of-advice-is-major-sticking-point-for-consumers.html; Also see http://www.money.co.uk/press/half-of-those-making-pension-freedom-withdrawals-will-not-pay-for-advice.htm

responsibility for the information they provide to their clients, an overly protective system, especially around educational material, leads to detriment.

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

We agree that safe harbours can provide excellent testing grounds for innovative approaches and we believe that our experience and expertise would be helpful. Therefore we would be happy to work with the Authorities in developing them. We would also encourage the Authorities to consider how the development of financial advice could benefit from the Regulatory Sandbox initiative announced by the FCA recently.[11]

***Question 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?*

In the UK, LV recently launched Clear Online Retirement Advice (Cora). Cora aims at lowering the personal advisor cost by providing a simple limited automated advice service, but still allows LV customers to get further support via a phone line to aid the process. This is an example where technology has been utilised to lower the cost if the needs are simple and limited which is the market segment least supported at the moment.

We would be happy to discuss our experience developing web portals in other jurisdictions.

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

In order to promote the ability of web portals to be able to provide information in the form of education or guidance, the Authorities should consider whether it is possible to develop a standardised form of such information. This might work in a way similar to KIIDs which are standardised for each financial product. For web portals, a standardised presentation of generic options for answers to predetermined questions could be developed that would provide more certainty as to what was being offered to the user was guidance and did not constitute a personal recommendation.

***Question 38**: What do you consider to be the main consumer considerations relating to automated advice?*

We believe that it is vital for the FCA to provide as much clarity as possible around what is regulated advice (including what is simple advice and fuller programmatic advice) and what is guidance or education in order for the market to be able to provide innovative solutions. We recommend the Authorities also ensure that when solutions are provided for high net worth clients, they can be easily rolled out for less lucrative markets because of the lower marginal costs of doing so (compared to building new bespoke solutions). We further recommend that any regulation established by the Authorities focus only on the form of the advice and suitability to allow digital innovation to focus on solving the problems of how to get investors to access it. Finally, it is important that firms looking to move into the digital space are able to use third party expertise and shared

[11] https://www.fca.org.uk/your-fca/documents/regulatory-sandbox

solutions. This means that the solutions offered are likely to be of higher quality as firms can focus on the actual offer to the client rather than having to reinvent and duplicate services and recruit their own technical experts.

Demographically, a recent report indicates that 87% of high net worth individuals (HNWI) under the age of 40 in the US expect to conduct most or all of their wealth relationships digitally in the future.[12] The report also identified a higher proportion of this same age group as having less confidence and trust in their wealth management firms. Estimates from the report indicate that US HNWI individuals are willing to allocate up to $1.7 trillion to automated advisor models by 2017 (compared to $8.2 billion gathered in 2014). This combination of factors appears to indicate opportunities for digitally driven, automated advice solutions with sufficient flexibility for the more complicated scenarios of a HNWI. Conversely, those automated advice solutions will also need to provide sufficient transparency around their methodology, fees and other relevant information to provide these HNWI individuals with a sufficient level of confidence.

Some conclusions could be drawn from these findings for individuals with lower levels of investable assets. We believe confidence in wealth firms is at least as important as it would be for HNWI (who are likely to have a greater level of knowledge, or at least comfort, in dealing with their investments) so it is possible to recognise the role and value played by the firm. So while automated advice solutions may simplify the process around long term investment, sufficient education and disclosure remain necessary.[13]

<u>Question 41</u>: What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?

We believe that a holistic approach that considers the full spectrum of education, guidance and personalised advice would be most useful. Included in this, particularly for advice, the categorisation needs to specifically consider the objectives of the investor and their own personal circumstances, such as the overall amount of assets to invest and the proportion of investable assets they are seeking to use.

****

We hope that our above comments are helpful to the Authorities. We would be more than happy to elaborate or further discuss any of the points addressed above in more detail. If you have any questions, please do not hesitate to contact the undersigned or David Cook

Yours sincerely,

Marcus Schüler
Head of Regulatory Affairs
Markit

[12] United States Wealth Report 2015, Capgemini.
[13] Notably, the report also points out that 83% of HNWI under the age of 30 see availability of quality education as a top concern.

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23 December 2015

Subject: Financial Advice Market Review (FAMR) - Call for input

Dear Sirs

We welcome the opportunity to contribute our views to this Call for input.

Mercer is a global consulting leader in talent, retirement and investments.

Mercer helps clients around the world advance the health, wealth and performance of their most vital asset – their people. Mercer's 20,000 employees are based in more than 40 countries.
Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital.

In the UK retail advice market, Mercer's Personal Financial Planning team provides guidance on the design and implementation of a strategic financial plan, encompassing the main aspects of managing and preserving wealth, including pension planning, savings and investments, personal insurance, tax planning and estate planning.

Our response to some of the individual questions is attached. We would be happy to discuss it further with you if that would be helpful.

Yours faithfully

Martine Boogaerts
Compliance Consultant (Regulatory Developments)

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

Since the demise of polarisation, where advisers were either independent or tied to one provider, there has been a proliferation of different forms and descriptions of advice, resulting in confusion about what types of advice are available and what type a consumer should choose. Terms such as focused, simplified, limited, generic, independent and restricted show the range of options available, but add little to consumer understanding. Financial promotions and direct offers add a further layer of complexity when it comes to understanding different types of advice.

Consumers may also not understand terms like "advice" and “independent’ in the same way as the regulatory definitions provide. The description should lead to a clear understanding of what a consumer is getting and where responsibility for the suitability of a given course of action (if implemented) lies.

Mercer would favour simple, clear disclosure as to whether any personal recommendation is involved (as defined in the FCA Conduct of Business rules based on the MiFID definition) or if a consumer is making their own choice based on information played back to them.

Mercer would particularly favour a clear description of the requirements when offering targeted information and signposts to consumers who are not seeking a full advice service.

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

The list of common financial issues for consumers on page 10 of the FCA Call for input is quite traditional. Based on Mercer’s “Future of Work” sessions (a think tank with clients), we see additional financial issues which consumers will need to consider in the future, arising from the demographic of living longer and working longer:

- Advice on funding for career changes/re-training/reskilling for jobs of the future.
- Advice on funding to set up your own business.
- Advice on funding to accommodate flexible working patterns, although this has been flagged in Mercer’s Age Friendly survey[1] as something employers are also supporting – 81% of all respondents.

[1] Mercer ‘Age Friendly Research’ into age friendly employment practices, report October 2015.

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- Advice on funding to accommodate transitioning into retirement i.e. working past retirement but drawing down some pension
- Advice on funding for elder care (own care, elderly/sick dependent care).

Looking at gender issues, there is an additional financial issue for parents who take time out of the workforce to raise children and therefore lose out on accruing pension benefits. Most parents in this category are still women. Some preliminary evidence shows that an average career gap combined with an average pay gap knock about 40% off women's pensions.

The advice most relevant to, say, a mid-career working Mum, is managing short-term cash flow and how cash flow can be better managed to maximise savings opportunities. They may not have any debt other than a mortgage, but are not saving adequately due to demands on cash outlay resulting from children.

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?

As the FCA Call for input explains different consumers have different needs for advice and one of the factors mentioned is the consumer's stage in life. The segments used in the Consumer Spotlight model are broadly useful but some categories could be better defined, and we also believe that some segments are missing.

As longevity increases, the workforce will age. In her March 2015 Report to Government[2], Dr Ros Altmann, Business Champion for Older Workers, showed that by 2022, there will be 700,000 fewer people aged between 16 and 49 in the UK but there will be 3.7 million more people aged between 50 and the state pension age.

The nature of work and career planning is also changing. Rather than seeing careers come to an end with a hard stop at retirement, we believe that there will be shift towards a more phased move towards retirement, with more workers working part time or seeking income from sidelines, with plural careers becoming more common.

[2] 'A new vision for older workers: retain, retrain, recruit'

Mercer surveyed over 80 companies to find out how the issue of an ageing workforce affects them. Employers are beginning to face a real likelihood of a workforce that cannot afford to retire. Many employees need to keep earning to supplement an inadequate pension income, or to finance care needs.

As more people reach this 'transitioning' stage, they are likely to form a separate segment with specific financial advice and planning needs. They will be older employees who are still working but drawing benefits and employees who are changing careers/reskilling or setting up new businesses.

In the Consumer Spotlight model, the distinction between 'stretched but resourceful' and 'busy achievers' is a bit vague. We would recommend including the impact of high childcare costs in these segments, as many parents will be working full time. Lack of time also makes it harder to organise financial matters and plan sufficiently.

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

In the retail market, Mercer currently only provides regulated financial advice to higher-net worth individuals, for whom the cost of advice under the fee-based, post-RDR model is not a barrier. As wealthier individuals often also have more complex requirements a tailored, personal advice service is likely to remain attractive to them.

Over time, the delivery of this advice may happen less frequently face-to-face. When these individuals are also sophisticated and computer-literate investors, they will become increasingly comfortable using more online solutions but these would have to become more sophisticated to replace financial advice delivered via human interaction. Although they may attract clients who do not currently seek advice from an Independent Financial Adviser, the solutions would also have to offer a more cost-effective alternative with transparent fees to compete.

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

Combinations of the contributing factors set out in the FCA Call for input determine whether or not a consumer seeks advice.

In some cases, regulatory intervention can influence these factors. For example, since the introduction of the pension flexibilities in April 2015, seeking financial advice has become mandatory before transferring a Defined Benefit pension fund of over £30,000 and in December 2015 the Government unveiled plans for a

new secondary annuities market from 2017 and people wanting to sell annuities above a certain value will be required to take advice.

Then there is the mid-to long-term impact of the RDR on consumer behaviour, although this may be difficult to gauge in isolation. The FCA's own post-implementation review from 2014 reported that there already was a decline in demand for advised sales prior to the RDR in 2013. Real income and wealth had been in decline after the financial crisis in 2008, so there were lower levels of savings income to invest. Trust in the financial services industry had also broken down and growing confidence in using online services had already started the trend of consumers buying different types of products, including investments, on a non-advised basis.

The interplay of other factors, such as the lack of trust, lack of knowledge, and disengagement with financial services, pose real and considerable obstacles to seeking financial advice but changes in the regulatory regime will not remedy this. We refer to Question 28 for further explanation.

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

We would agree with the commentary in the FCA Call for input that market trends point towards a decline in face-to-face professional advice. Mercer has traditionally only provided retail financial advice to higher net worth clients – broadly speaking, higher earners and executives within our corporate clients.

The reasons for this position reflect the six contributory factors listed in the paper (page 16) in that the costs associated with provision of professional advice (including recruitment and retention of qualified staff and training) coupled with the regulatory impact and potential liabilities in the event of any future dispute, which could be many years down the line, mean that a wider, mass market advice offering is not currently an attractive addition to our core business services.

We believe that in the wake of pension freedoms in particular, there is a need in the mass market for financial guidance and/or advice. However supply may be restricted for the reasons already outlined, whereas in the post RDR world, the purchaser may be put off by the explicit cost associated with advice given that there may be no immediate tangible benefit: advice provides long-term gain and peace of mind rather than an immediate return or product in your hand. There is also a lack of trust based on historical issues and adverse media coverage.

We believe that whilst terms like "focused" and "simplified" advice may be intended to provide a more efficient service in certain circumstances, suppliers of advice are still subject to the same costs and uncertainties as already mentioned. Particularly, simplified or other advice is still advice in the regulatory sense, where a personal recommendation or any form of judgment as to suitability is made. Regulatory requirements around provision of advice and potential liabilities in the event of future disputes therefore remain.

Mercer has recently launched Mercer Harmonise, a service (in conjunction with selected providers) to help deliver financial services and selected products to individual consumers via existing relationships with sponsoring employers (see also Question 12). Harmonise is a digital platform enabling employers and employees to address some of the fundamental health and savings issues facing the UK's workforce. The platform helps employers to improve employee engagement, increase productivity and reduce benefit administration costs by allowing employees to manage their health, workplace benefits and financial affairs in one place.

Even where cost-efficient digital tools are used to supply guidance or advice however, there are still costs associated with development and delivery. Under the current regime, uncertainty also remains over what may retrospectively be considered as providing advice, and to what extent, in the event of future dispute.

Ensuring clarity of disclosure where genuine professional advice is not being provided requires a significant investment of time and effort. Therefore, whilst we believe that online guidance services and automated or "robo-advice" can help to deliver appropriate outcomes to consumers, uncertainty over regulation and future liability coupled with the cost of providing such services and their level of sophistication (see response to Question 8) will continue to act as a barrier.

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?

We refer to the responses to questions 10 and 12. The reason will be a combination of a lack of supply of professional advice, a lack of perceived value by consumers in relation to professional advice, the absolute cost of professional advice (especially since the introduction of RDR), a lack of trust in professional advisers and the amount of time spent to complete the advice process.

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

As the impact of technology grows, the FCA's activities to provide an environment where innovative tools, applications and business models can be developed while making sure that they deliver the right outcomes for consumers as well as financial services providers are welcome.

The millennial generation has come of age and will feel increasingly comfortable with other delivery models than face-to-face, financial advice. Mercer has noted the speech of Mary Starks, Director of Competition at the FCA, addressing the OECD in Paris earlier this year, which explained how already, disruptive innovation is impacting on the financial advice market and that technology will impact on the role of 'human experts', including financial advisers.

Millennials may expect financial services providers to play a different role or have a different client/adviser relationship and the industry will have to explore this and adapt to it. How different types of advice are described and regulated would have to be remodelled to fit new delivery models, whether it is automated or "robo-advice" throughout or whether it retains one or more elements of human intervention.

Clearly, automated advice comes with benefits as well as risks.

Benefits could include:

- Better use of technology can drive down the need for advice. With digital technology comes the ability to use data to create meaningful guidance for people that should not constitute advice. (See earlier comments on need for clear distinction between playing data back to people in a meaningful way versus advice).

- A significant cost driver of delivering face-to-face advice is the need to manually gather fact-find data, digital technology allows the use of real time data to keep fact-finding constantly up to date digitally and thus reduce the cost of fact-finding and as a result the cost of delivering advice.

- For less complex products, it can be more cost effective than face-to-face, human advice both for the adviser as for the consumer.

- It can give more people access to financial information, education and advice, including those who would otherwise not engage with a financial adviser. Financial services providers will gain access to a wider range of consumers through automated tools.

- It gives consumers access to financial advice anywhere, anytime. The content is also more easily controlled and will therefore be more consistent and based on up-to-date information.

- Having access to records of all the steps leading up to any transaction. This will make it easier for consumers to review but also for the firms and their auditors to monitor.
- It can give access to a wider range of products (although behavioural economics have shown that more choice is not always better if it simply overwhelms the consumer).

Risks could include:

- Consumers can make the wrong decisions for a variety of reasons, including because they provided the wrong or incomplete information or did not have access to further explanations during the process. Unless the range and quality of data provided is sufficient (aka, akin to a 'fact find') the risk of unsuitable recommendations remains high.
- Consumers may believe that the output has been tailored especially for them and treat it as a personal recommendation when in fact, it is not. Consumers may also make the wrong decisions because they do not understand the limitations of the tool. These issues also raise the questions around liability and the potential value of offering a 'safe harbour' to adviser firms. The availability of detailed, granular data is attractive but the more targeted the information is, the more it can appear to be a personal recommendation under the current regime.
- Automated tools can be manipulated so that there is a built–in bias that may be inappropriate and hidden from view for the consumer.
- Generating, using and storing personal data, and sometimes personal *sensitive* data, in the course of providing and receiving advice through the automated tool increases the risks for both the financial services firm and the consumer. Consumers may not be made aware or understand how and when their data is used and by whom, while the financial services firm needs robust systems and controls to manage these processes and keep the data secure from loss or attack. Equally, as mentioned above, the quality of the service will rely on the availability and use of high-quality, relevant data.
- IT failure of any kind that disrupts the provision of service.

It is also important that the regulators engage with action taken at international level. The Joint Committee of the three European Supervisory Authorities (EBA, ESMA and EIOPA) published a Discussion Paper on Automation in Financial Advice in December 2015, to determine whether any regulatory and/or supervisory action is needed at that level.

The FCA's Call for input looks at 'advice' in a broad and common sense rather than under a narrower definition under a particular piece of EU legislation, i.e. *any output generated by an automated tool that could reasonably be perceived by the consumer as financial advice should be considered within the scope.* The industry will benefit from FCA engaging with this process. The UK has seen high investment in and fast development of so-called 'Fintech' in recent years and the UK's role in shaping the European regulatory framework that supports it will be very important to the UK's financial services industry.

Finally, as shown in the response to Question 10, Mercer believes that one potential way to encourage more engagement with financial services is through the trusted relationship between employers and employees and is interested in exploring what role the workplace can play to improve engagement.

Employers have a vested interest in keeping staff both financially and physically healthy. They are well placed to provide a channel to help employees think about financial planning, in combination with a more overall wellness plan that includes health as well as wealth and this is what our Harmonise offering also aims to do.

Mercer attended an FCA round table discussion exploring these topics on 17 December 2015 and is keen to remain involved in this discussion where relevant.

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?

Mercer's current model is to charge a fee to the individual client. As we only have a small Personal Financial Planning business this is the only practical solution and it is not appropriate to cross-subsidise by other clients or work streams (see also response to Question 10).

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

For providers the economic issue is profitability and for consumers it is affordability. Currently the most economic segments to serve are those consumers typically categorised as high net worth.

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

Mercer agrees with the seven points set out in the FCA Call for input. It is expensive to offer advice and it carries a regulatory risk in terms of compliance at the point of sale and in terms of ongoing liabilities. There has also been an experience of retrospective regulatory actions holding firms to account for their actions against standards that were not in force at the time.

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

The FCA is using a broad definition of 'advice gap', namely that it is '*any situation where consumers cannot get the form of advice that they want on a need they have, at a price they are prepared to pay.*'
While correct, is it worth considering whether the definition also needs to include *the level of protection the consumer feels comfortable with*?

The advice gap perhaps not only exists where not all the types of advice a consumer **needs** are available in the market. It can also exist where what the consumer **wants** or expects is difficult for the industry to deliver, e.g. in terms of protection.

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

Mercer has limited direct experience of the advice gap as described in the FCA Call for input because in retail, we currently provide regulated financial advice only to higher-net worth individuals who are more likely to seek and afford professional advice.

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

As the FCA Call for input points out, there are markets that work well. The need for professional advice on general insurance is limited as this is an area where consumers are more comfortable making their decisions independently, often using online services, based on generic advice or information that is widely available.

The priority should be to address the gap in areas where the consequences of a bad decision are potentially the greatest and where the products and services are the most complex. This would include investments and any decision with a long-term impact, especially on retirement planning, as well as decisions on taking

an income in retirement. The existing gap will be most significant in the 'middle mass market' i.e. consumers with some money at their disposal but who would not be considered higher-net worth individuals.

Beyond that, as mentioned in the response to Question 17, it may be worth considering the gap between what the consumers wants and expects and what the industry can provide.

Good consumer outcomes benefit all parties involved and are the only way to restore long-term trust and confidence in the industry, damaged by the financial crisis. As well as taking measures to improve consumer protection and stamp out bad behaviour, regulators around the world say that they are now looking at the effectiveness of regulation and would be prepared to alter or remove requirements that do not work, which the industry will welcome.

At EU level, this is translated in the Better Regulation Agenda. International coordination is necessary but effects of these initiatives can take a long time to trickle down to the market. Domestically, Mercer notes the FCA's current review of the effectiveness of some mandatory disclosures for example, which is welcome, but what expectation does the regulator have of consumers making a reasonable effort to understand what the nature is of the service they receive and what level of protection they are or are not entitled to in relation to that service?

As the boundaries of what constitutes regulated advice are complex it is possible for consumers to claim that they have received advice if they were under the impression that they had, even if the adviser had told them that no such advice would be provided. An adviser firm with a large book of retail business will find it hard to balance risk and reward if which ultimately may result in those firms withdrawing from the regulated advice market altogether, making the advice gap, wider.[3]
Giving consideration to offering a form of 'safe harbour' to financial services firms would therefore be welcome.

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 but also the role of digital technology.

[3] This is also linked to Question 13, on the economics of providing advice.

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?

As outlined in our answer to Question 2, Mercer would favour simple, clear disclosure as to whether there is any personal recommendation involved or if a consumer is making their own choice based on information played back to them. The description should lead to a clear understanding of what a consumer is getting and where the future responsibility for suitability lies.

Simplification and clarity around the boundary between advice and information would be helpful especially when it comes to digital solutions.

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 mentioned under Question 21, regulators around the world are considering how effective existing regulation is and seem prepared to change what does not work. International coordination is beneficial but effects of these initiatives can take a long time to trickle down to the market. By the time MiFID II is implemented for example, it will be ten years since the start of the financial crises that shaped it.

Improving alignment of the UK legislation with EU legislation where possible would be helpful. It would certainly facilitate cross-border service delivery and competition, which the FCA as well as the EU wants to promote.

We acknowledge that this is a challenging task, as several UK arrangements need to work well with new and existing EU pieces of legislation.

Examples include:

- The FCA's Final Guidance on Retail investment advice: Clarifying the boundaries and exploring the barriers to market development (FG15/1) points to the differences between the definitions of investment advice under MiFID and the UK's Regulated Activities Order.

- RDR arrangements in the UK that need to work with the investor protection provisions under MiFID II, and consumer protections under the Insurance Distribution Review and the Regulation on Packaged Retail Investment and Insurance-based products.
- FCA measures that may flow from the outcome of the review of the pensions advice market following the introduction of the pension flexibilities in April 2015 should probably take the EU's activities on pensions and retirement into account.

Q26: What can be learned from previous initiatives to improve consumer engagement with financial services?
Q28: What steps can be taken to address behavioural biases that limit consumer engagement without face-to-face advice?

More clarity around public funded guidance, as delivered by the Money Advice Service, The Pensions Advisory Service and Pension Wise would be beneficial. This is subject of a separate HM Treasury consultation but we believe it is important to mention it in the context of addressing the advice gap.

Simplification and more clarity of what is provided by which organisation would make it easier to raise awareness and promote the use of such a service. Early reports on the use of Pension Wise show low take up for example, even though the consumer need is evident.

Lack of engagement and to some extent lack of trust in financial services, flows from a lack of knowledge. It feeds apathy, a sense that it is all too complicated and that those 'in the know' (i.e. an adviser) may just be keen to exploit this knowledge gap. As we've seen in Question 9, these factors are serious barriers and changes in the regulatory regime may not address this.

It calls for a long-term solution and something that tackles the problem at an earlier stage. Making financial education part of the national curriculum is a vital step in addressing this issue. Even some basic knowledge around budgeting and planning and understanding how important it is to take some responsibility for your long-term financial health will make a difference.

The need for better awareness and planning is greater than ever, as increasing longevity will start impacting on the number of years an employee will be working before taking a retirement income. Working patterns are also changing, with employees potentially working part time for a number of years during a 'phased' approach to retirement. (See also our responses to Questions 5 to 7).

Financial education from a young age would provide better insight and foresight. A better informed consumer is likely to engage more and while increased confidence may also mean that more consumers are prepared to use automated advice services rather than face-to-face advice, it could limit the negative effects of behavioural bias and lead to better decisions.

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?

Safe harbours may help. The use of retrospective regulatory actions has been of concern to providers and advisers. Removing this alone would be very helpful, and could be achieved by the regulator and the Financial Ombudsman Service ("FOS") modifying their approach. (See also response to Question 21).

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?

The impacts of having no longstop are that it can affect Professional Indemnity ("PI") costs with firms liable for advice given many years ago. In the case of pension advice, the liability could last over 40 years. This impacts advisers and can lead to increased PI costs or even difficulty in obtaining PI cover, creating and perpetuating an advice gap with fewer advisers available in the market. Some firms may also be reluctant to advise on products that require taking a long-term view, such as pensions, endowments and investments.

There is a perception in the industry that the FOS sometimes also uses the benefit of hindsight in analysing complaints. While the vast majority of FOS decisions seem reasonable, there have been a few occasions where the outcome has seemed surprising. The new regulatory requirements which compel consumers to seek advice in order to justify a pension transfer for example go well beyond past requirements.

The level of redress for incorrect pension transfer advice has also substantially increased over the past few years and this is likely to continue. With the proposed forthcoming review of the FOS limit in conjunction with the possibility of SME firms coming under the jurisdiction of the FOS as proposed in a recent FCA Discussion Paper[4], this could lead to even higher levels of redress which will almost certainly increase PI costs. Mercer dealt with a case last year where the advice had an estimated potential redress of £370,000. Whilst such a case may not have a huge impact on larger authorised firms like Mercer, this could be catastrophic for a small IFA firm.

FCA records showed that there were only 254 complaints in which the advice was delivered over 15 years ago out of a total of 6,297 non PPI complaints. For a firm like Mercer however, the exposure is proportionately much greater as virtually all our regulated complaints arise from legacy business undertaken over 15 years ago.

It is important that a balance is struck between protecting clients from incorrect advice and considering the proportionality of the risk borne by advisers. We note that FCA Consultation paper CP15/39 is proposing to give a deadline date of when PPI consumers would have to raise a complaint against a firm. We believe there is an argument that a similar approach could be applied to long-term investment products.

The industry undertook a pension review for pension advice given between 29 April 1988 and 30 June 1994. Whilst the vast majority of pension advice was reviewed in that exercise, consumers who had moved address and were untraceable are still allowed to raise a complaint, despite there being an intensive media campaign informing people at the time.

We note from the proposals outlined in the consultation that there will be publicity followed by a two year timeline in which to raise the complaint. Unlike the untraceable pension review clients, similar PPI complaints will not be able to make a complaint at a later date unless there are extraordinary circumstances.

Mercer is broadly in favour of a longstop being applied to long-term investment products. The question is what the term should be and whether it should it vary for different types of Investments. In our view, having a variable longstop period could be confusing to consumers and for the sake of clarity a standard longstop date should be introduced. We would suggest that a period of 15 years to match the current legal period would be sufficient. Whilst not as long as for some pension transfers or investment products, this seems a reasonable compromise and gives ample time for a consumer to raise concerns.

We would also advocate a similar media campaign to make the public aware and a similar timeline as suggested for PPI complaints in CP15/39 before the longstop is introduced.

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[4] DP15/7: Our approach to SMEs as users of financial services

To summarise, we see the following benefits by implementing a long stop:

- Provide more certainty to IFA firms and in the long term reduce PI payments.
- Encourage more advisers to provide advice for long-term policies, therefore increasing competition and choice for consumers.
- Provide closure for old complaints.
- Encourage people to complain now and not wait until later.

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?

Mercer is at the moment undecided about the "value-add" of automated advice. We consider that it may offer the best value for less complex products. (See also answer to Question 8).
To work properly, automated advice requires a large data set and an accurate one; otherwise the algorithms that sit behind these services will not provide a good consumer outcome. If firms do have, or build up, large data sets however, then there may be more mileage in automated advice, as the current advice process requires detailed fact finding.

Consumers will need to be fairly tech savvy and automated advice providers will need to demonstrate a good quality service and confidence around the storage and use of consumer personal data.
We are aware of Wealth Wizards trading in this space.

We believe that clarity is needed in relation to how data can be used to create guidance for people but that is not constituted as advice. Used correctly this information could be hugely beneficial for consumers but at present there is uncertainty over this area.

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Via email: FAMRSecretariat@fca.org.uk

18 December 2015

Re: MetLife response to the Financial Advice Market Review

MetLife is a leading provider of insurance, retirement income and employee benefit programs, serving 100 million customers in more than 50 countries. We entered the UK market in 2007 and have become the leading provider of Guaranteed Drawdown products, an innovative retirement solution, combining the best elements of annuities and income drawdown.

We are pleased to respond to the Financial Conduct Authority's (FCA) Financial Advice Market Review (FAMR), as it raises a number of important issues:

- An advice gap exists for those who do not have significant wealth/income;
- Advisers do face regulatory and other barriers;
- New technology presents both opportunities and challenges;
- Consumers do need to be encouraged to seek advice.

We outline our views in detail below but, in summary, we make the following points:

- **Varying consumer needs:** Consumers have varying needs and for those with less sophisticated investment needs, a less sophisticated advice model may be appropriate;
- **Simpler advice requires lighter touch regulation:** Simpler advice would benefit from a proportional, lighter touch regulatory framework, which in turn would reduce costs and make advice more accessible;
- **Integrating digital advice:** Digital technology has a clear role to play but it should work in conjunction with other channels to market, allowing consumers to choose the advice model most appropriate to their needs;
- **Financial education to address demand gaps:** To address gaps in the demand for financial advice, financial education and awareness raising must be part of the solution.

We have chosen to answer four questions from the Review as these are most relevant to MetLife. In our first question, we assess the background to the advice gap. In our second question, we examine the issues facing financial advisers. In our third question, we consider the role of automated advice and in our fourth question we analyze consumer demand. Our answers are supported by an independent survey commissioned by MetLife specifically to respond to the FAMR.[1]

[1] Financial Advice survey commissioned by MetLife, carried out from 19th to 23rd November, 2015 via 1027 online interviews with consumers across the UK. The survey also conducted 101 online interviews with financial advisers between 19th and 24th November, 2015. Further referred to in the text as 'MetLife survey'.

MetLife FAMR Consultation Response 1

Q: Where do you consider there to be advice gaps? (FAMR Q19)

We agree with the FCA that certain sectors of the market are working well, while others are not. Within our field, the retirement savings market, wealthier consumer groups and those with complex needs are more likely to seek and be able to afford professional financial advice, while the less well-off are less well served.

The Retail Distribution Review (RDR) and the replacement of commissions with explicit fees for advice has had an impact. Commissions gave consumers the impression that advice was 'free.' Now, they see the cost of advice and for many, particularly the less well-off, it can seem prohibitive. The MetLife survey bears this out: 33% of consumers surveyed said the cost was too high.

The RDR has also impacted the supply of advice. In the past, banks played a key role in the provision of advice to consumers with less sophisticated financial needs. Now they have largely withdrawn from that market[2], owing to the cumulative effect of increasing regulation and a recognition of consumer reluctance to pay for advice given explicit charges. This has created an advice gap among that demographic.

The timing is significant, as pension freedoms mean that financial advice is more necessary than before. While the more sophisticated investor will know where to seek advice and will pay for it, investors with less sophisticated financial needs are often unaware that they need advice or how to access it, or are reluctant to pay for it. This creates an advice gap, disproportionately affecting the mass market customer with investable savings of up to £50,000.

The mass affluent and those with more sophisticated financial needs have traditionally used independent financial advisers (IFAs). This market has also seen considerable change post-RDR. Around 20 per cent[3] of IFAs have ceased trading. For those who remain, regulatory changes have made it more expensive to provide advice, and there is concern over reputational and financial costs of getting it wrong.

In summary:

- Post-RDR, there are fewer IFAs and those who remain are reluctant to offer advice to the mass market as it does not make economic sense to do so.
- Banks, have withdrawn from offering advice to the mass market.
- Pension freedoms mean there is a greater need for advice, but less well-off consumers are reluctant to pay for it given the explicit cost, may be unaware of the need for advice or how to access it.

MetLife FAMR Consultation Response 2

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

As the FCA notes, the number of financial advisers has fallen since 2011 and those who are still providing advice are focusing on wealthier customers. At the same time, consumers are purchasing investment products without seeking professional advice.

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[2] Source: FCA's FOI3799 response, dated 6/2/15, on FCA website. FSA firm data shows a reduction of 1706 in bank/building society adviser numbers, from 4,810 on 31/12/12 to 3,104 on 31/12/14 – a reduction of 35%.

[3] Source: Money Marketing article , dated 27/3/13: *"The number of IFAs and tied advisers operating on the first day of the RDR was 20 per cent down on December 2011 figures".*

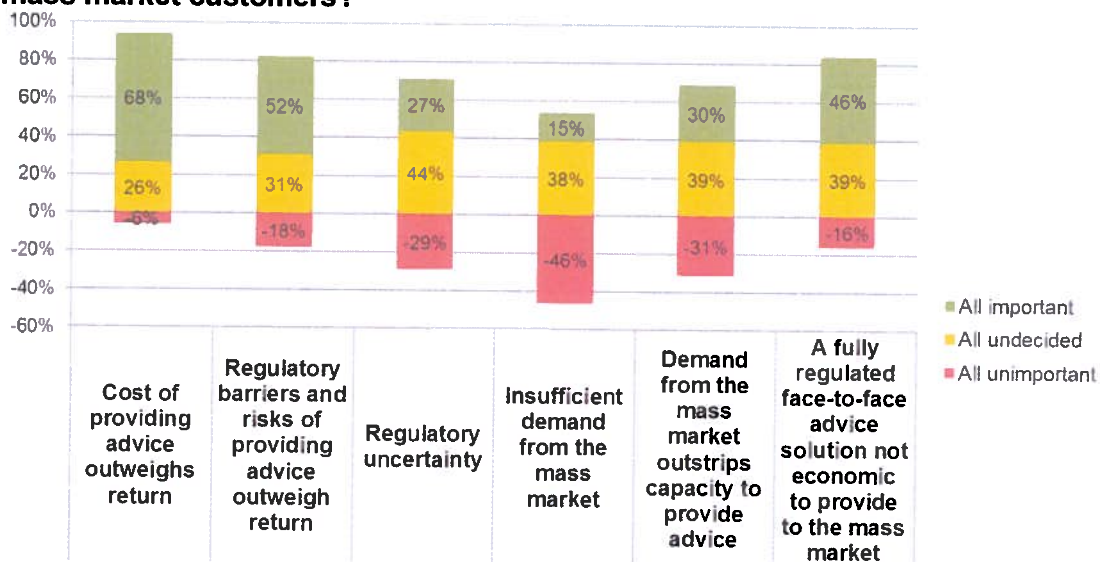
MetLife distributes financial products exclusively through IFAs and we have developed a broad understanding of that community over the years. From our discussions with advisers, we understand that they have three principal concerns:

- **The impact of regulation:** The quantum of regulation increased substantially in recent years, and can now account for up to 20 per cent[4] of professional advisory firms' revenue, contributing to the fees they charge their customers.
- **Redress risks disproportionate to returns from mass market:** Consumer protection is paramount, though many advisers worry about the indefinite nature with which consumers may access the Financial Ombudsman and the potential associated costs. The absence of a longstop means that advisers are liable to compensate customers in perpetuity. To mitigate claims risk, advisers ask customers to fill out extensive fact-finds and prepare lengthy, often complex suitability reports, which increases the cost of advice. Professional indemnity insurance drives costs up still further.
- **Costs outweigh returns of mass market advice:** Given the cost and the risks associated with advice, financial advisers find that the provision of mass market advice rarely makes economic sense, at least in a face-to-face environment, without a digital, automated element.

To discover more about financial advisers' concerns, the MetLife survey asked advisers to rate what prevents them from expanding to the mass market:

- The most important barrier was that the cost of providing advice to that segment of society outweighs the return, cited by 68% of respondents;
- Regulatory barriers and the risks of providing advice were next on the list, cited by 52% of respondents;
- Equally, 46% of advisers said that fully regulated face-to-face advice does not make economic sense with regard to the mass market.

What prevents you or your firm from expanding your service to offer advice to mass market customers?



Respondents were asked to rank their answers in order of importance, with 1 – being most important and 6 – least important. 'All important' corresponds with 1-2, 'All undecided' with 3-4 and 'All unimportant' with 5-6.

Drilling down further into advisers' concerns, our survey asked them what would contribute to their being able to lower the cost of advice to the mass market.

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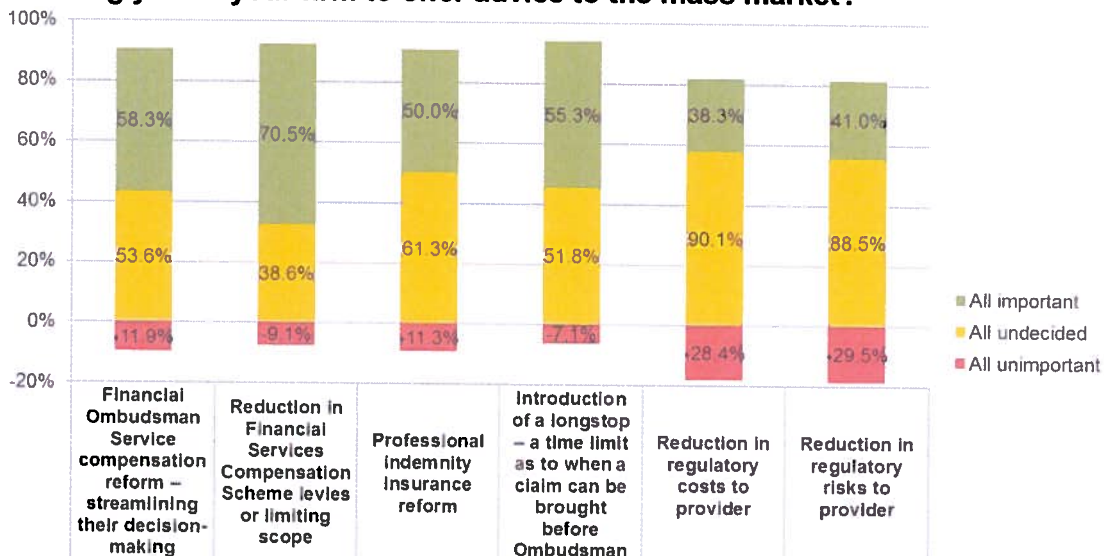
[4] Cited in Professional Adviser on 27/6/14, a report by APFA on the impact of the RDR found that *"Fees, levies and indirect costs such as regulatory reporting [...] can account for up to 20% of revenue."*

Which of the following would contribute to lowering the cost of advice, enabling you or your firm to offer advice to the mass market?



Respondents were asked to rank their answers in order of importance, with 1 – being most important and 6 – least important. 'All important' corresponds with 1-2, 'All undecided' with 3-4 and 'All unimportant' with 5-6.

Based on the response, we suggest four ways how advisory costs could be reduced:

- **Reform of the Financial Services Compensation Scheme** should be considered, through working with the industry to identify ways to reduce the cost of the associated levy. It has been cited by over 70% of respondents as the most important way in which advisers could reduce costs.
- **Reform of the Financial Ombudsman Service** should be considered, to streamline the service and make the referral system and its cost, more equitable. It was cited by 58% of respondents as a significant drag on costs.
- **A time limit on Ombudsman claims** should be implemented, by reviewing the indefinite nature of adviser liability with regard to Ombudsman claims and customers seeking redress. This was cited by over 55% of respondents.
- **Reform of professional indemnity insurance** should be considered, to identify ways of reducing its cost to firms. It was cited by 50% of respondents.

A lighter touch regulatory model for simpler forms of advice: A lighter touch regulatory model is required for simpler forms of advice to address the advice gap for the mass market. This could be introduced alongside the current regulatory framework, based on the above suggestions, to regulate advice for consumers with less sophisticated financial needs, effectively creating a two-tier advice market that is appropriate to the needs of each market.

We recognise the need to protect consumers in the provision of financial advice. But it is clear that the current environment is not serving the best interests of the less well-off. The lighter touch model would be equally robust in terms of ensuring that appropriate outcomes are achieved for customers but crucially it would be designed to be appropriate for the needs that the mass market are more likely to face.

MetLife FAMR Consultation Response 3

Q: 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 in other jurisdictions? (FAMR Q36)

Modern technology opens new frontiers in the financial advice market and automated or digital solutions could play a role in the provision of low cost advice.

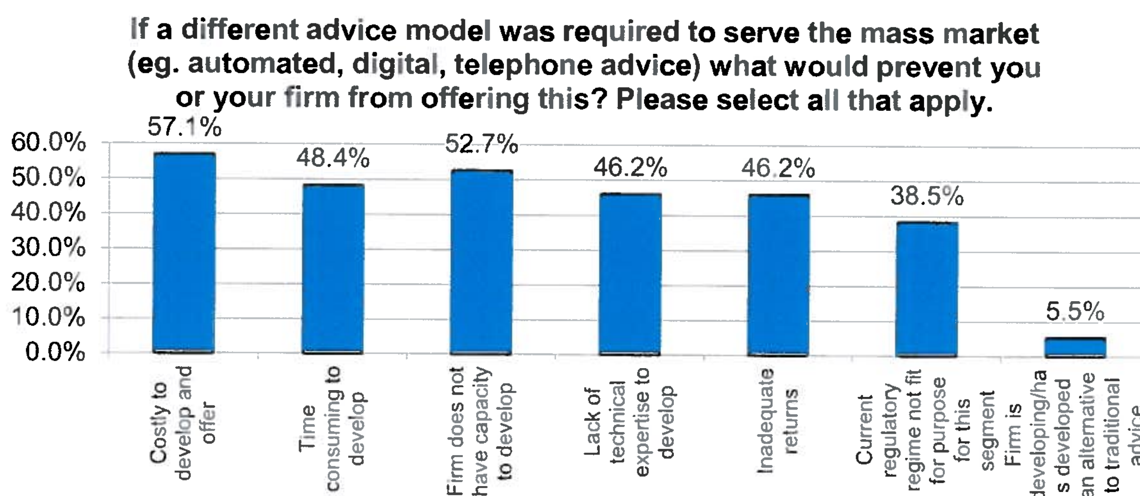
Digital channels could be used to allow consumers to fill out basic information, such as fact-finding forms and other less complex parts of the advice process. This would enable advisers to focus on crucial parts of the advice process, reducing the overall cost to the consumer.

Many consumers have relatively straightforward investment needs. Some may want to purchase an ISA, enrol in an occupational pension scheme or buy life assurance. Others may have inherited a small sum of money and may want to invest it. In such cases, an automated process could be helpful for those customers who are digitally adept and used to seeking advice and information via digital channels.

Automated advice would however need to take into account customers' attitude to risk and capacity for loss, as well as their liquid assets, age and savings needs. An interactive model may work well here, including suggestions such as: 'People like you normally buy' or: 'These are the kinds of products frequently chosen by people with this amount of money to invest and this attitude to risk/capacity for loss.'

To discover more about financial advisers' views on digital or automated advice, the MetLife survey asked them what were the barriers to the provision of such advice:

- **Cost, time and capacity constraints**: Over 57% said it would be costly to develop and offer; over 48% said it would be time-consuming to develop and almost 53% said they do not have the capacity to develop this form of advice.
- **Regulatory barriers:** The regulatory regime is not seen as conducive, with 38.5% saying it is not fit for purpose in relation to digital or automated advice.
- **Extremely limited supply and development of automated advice:** Crucially, only 5.5% of respondents said they have developed or are developing a digital or automated advice model, suggesting that the majority of advisers are unable or unwilling to pursue this in the current environment.



In essence, advisers are deterred by the costs of the provision of automated advice, while many lack the resources to set up and maintain the requisite models.

Against this backdrop, we would make the following suggestions:

➢ **Support for small and medium-sized firms:** Large financial advisory firms and financial technology groups may have the capacity to develop automated models but small and medium-sized firms do not so they should be supported.

- **Government support and guidance:** The Government or regulatory authorities are well placed to offer support and guidance that could encourage these firms to develop automated advice models.
- **Role of Project Innovate:** Specifically, the FCA's Project Innovate could help small and medium-sized firms to build automated systems.

We also note that digital, robo or automated advice will not always be appropriate. Savings needs can be complex, individual needs are different and many consumers are best served when advice is tailored to their situation, their savings and their aspirations. We therefore stress that, when finding a mass market advice solution, all efforts are not focussed exclusively on promoting digital solutions above others but rather on how technology can form part of a multi-channel advice solution where consumers can pick and choose how advice is delivered to them.

MetLife FAMR Consultation Response 4

Q: What comments do you have on consumer demand for professional financial advice? (FAMR Q3)

As the FCA states, consumers tend to take advice as a step towards addressing a financial need. They are more focussed on the outcome, particularly as the quality and value of advice can be hard to assess both before and after it is purchased.

Citizens Advice report, *The Four Advice Gaps*, is compelling in this regard. It points out that up to 5.4 million people would consider paying for advice if it were less expensive; that up to 10 million do not know that free advice exists or where to get it, and that up to 23 million have not received financial advice at key times in their lives or have failed to receive the help that they need. This highlights that millions of consumers are unclear about the advice they need and are unable or unwilling to pay for it. The report also points out that, while 20 per cent of people would consider paying for advice when making an investment, just 6 per cent would pay £500 or more - a typical cost for simple investment advice.

Meanwhile, the Association of British Insurers' report, *Freedom and choice in pensions: a behavioural perspective*, reveals that consumers find it hard to engage in retirement planning and can purchase the wrong products, simply because they are under time pressure and have not been able to research widely enough.

These reports are consistent with a wealth of other research into this area. To find out more about current consumer attitudes towards financial advice, the MetLife survey posed questions relating to cost, availability and need.

The responses highlighted four key issues:

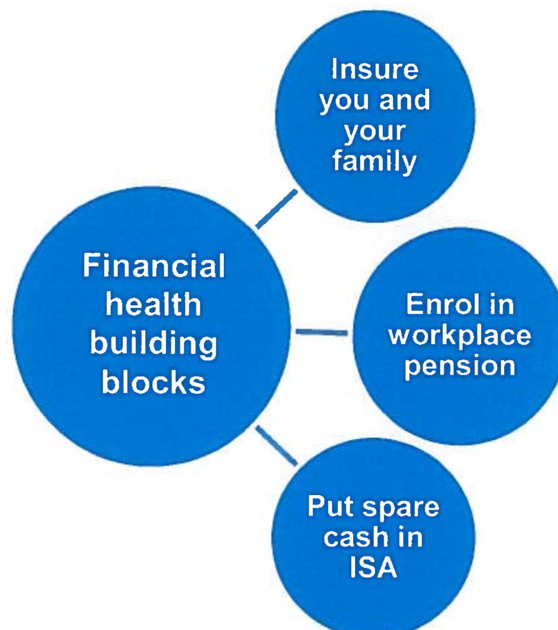
- **Cost:** 33% of respondents say the cost of advice is too high.
- **Awareness of need:** 31% of respondents say they do not need advice.
- **Senior citizens are not participating in the market:** 50% of respondents over 65 do not feel the need for advice.
- **Young people are disengaged:** 28% of those between the age of 18 and 24 say they do not know how to access advice compared to, for instance, 7% of those between the age of 45 and 54.

Against this backdrop, we would make the following recommendations:

- **Financial advice with focus on pensions in curriculum:** To raise awareness among younger people who are most unaware of financial advice, pensions and how to seek financial advice should be included in schools'

financial education curriculum so young people understand the benefits of seeking advice and of beginning to save early on in life.

- **Financial advice as workplace benefit:** Financial advice could be offered as an optional workplace benefit. This may help to address consumer reluctance to pay outright for investment advice. Tax incentives could be offered to make this more attractive.
- **Financial health 'five a day':** The financial services industry could work with the Government to create the financial market equivalent of the health profession's 'five a day' guidance.[5] These 'building blocks' of financial health could include: 'insure you and your family', 'enrol in a workplace pension' and 'put some spare cash in an ISA'. This would help consumers to take basic financial safeguards simply and cost-effectively. Life assurance can be bought online, guidance on ISAs can be acquired online and enrolling in a workplace pension is straightforward. It may also encourage financial literacy, which may in turn make consumers more likely to seek professional advice in areas where it is really needed, around more complex investment choices.



In conclusion, we believe that consumers have varying needs and for those with less sophisticated investment needs, a simpler advice model may be appropriate. This in turn, would benefit from a proportional, lighter touch regulatory framework, which would reduce costs and make advice more accessible. Digital technology has a role to play together with other channels to market, ensuring that consumers have a choice of how advice is delivered to them. And finally, addressing the gaps in the demand for financial advice must be part of the solution. We would welcome the opportunity to discuss our response in more detail.

Yours sincerely,

Dominic Grinstead
Managing Director UK
MetLife

[5] No one says that eating five portions of fruit and vegetables a day will guarantee you a long and healthy life but you are more likely to be well for longer if you do. Together, we could construct simple savings and investment recommendations for consumers to adopt.

From:
Sent: 21 December 2015 15:21
To: FAMRSecretariat
Subject: Michael Johnson

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

Response to FAMR

Advice or guidance? Confront reality

Steve Webb, pensions minister at the time the Pension Wise service was introduced in April, would appear to have had second thoughts. Recently he said that "*given the tens of millions that have been spent on Pension Wise, maybe that money should have been spent on £500 advice vouchers"*. Note the use of the word "advice". The Pension Wise service is delivered by the Citizens Advice Bureau (face-to-face) and The Pensions Advisory Service (by telephone). Neither, however, is allowed to provide advice, notwithstanding consumer expectations based upon their names. Instead, they provide guidance, essentially a chat about the options open to the saver. Conversely, most people want advice, i.e. they want to be told what specific actions to take, and with which industry provider.

No wonder consumers are confused, and Pension Wise is under-utilised. Having staffed up, it is no surprise to now hear of accusations of under-utilisation and mission creep, including the redeployment of pension guidance staff to provide debt guidance. Meanwhile, the Money Advice Service, which also provides debt advice, is wallowing around looking for a long-term role. This comes after a review recommended that it should focus on filling gaps in the market, and avoid duplicating the services offered by other providers of financial advice.

This shambles classically evidences that narrow interest lobbyists, acting on behalf of the financial advice industry, have successfully hacked democracy, to the cost of society at large. The result is today's advice / guidance schism: it is there to preserve the advisers' fiefdom.

May I suggest that the Government scraps the distinction between advice and guidance, a distinction which is entirely lost on consumers? The Pension Wise services could then get on with delivering what people actually expect, and want.

Yours sincerely

Michael Johnson
Research Fellow
Centre for Policy Studies

www.cps.org.uk

From:
Sent: 03 November 2015 12:39
To: FAMRSecretariat
Subject: Michael Northen

Sirs,

I was looking to give feedback for the review but not sure which sections to complete.
My experience........

I had a pension with the Prudential.
I wished to transfer it out into a SIPP with a different company. Pru told me that I needed to see one of their advisors before I would be allowed to move my funds. So I followed their request and saw their advisor twice earlier this year (7th & 20th August) and also contacted the government pensions service. I was, therefore, fully aware of the options available to me and aware of possible loss of benefits.

When I asked to move the funds (5th October) they told me that I needed to get further IFA advice before they would release funds and said that their advisor could not sign the AAD form. This would effectively cost me a further 2.5% of £187,656 (£3941.41) which was simply blackmail on their part to persuade me to stay with them.

I complained to the Pru and their response was that I "had done everything required of you" and that the situation "was not covered by our processes".

So as they have no appropriate 'process' in place I am blackmailed to spend £3941 to get access to my own monies.

This cannot be what the government intended to happen! As there is little experience of the new processes it appears that large companies are not taking their responsibilities seriously and simply saying that they do not have processes in place. They had plenty of advance notices of the pension changes and still they leave it to the individual to foot the bill for their inadequacies.

I wished to use my own knowledge and experience to manage my own funds and do not appreciate being blackmailed by large companies to leave my money with them, The new pension initiatives are very well intended but it appears that in practice they are not being well implemented.

Kind regards,

Michael Northen

MoeraeLife
FINANCIAL PLANNING
Chartered and Independent

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

Financial Advice Market Review (FAMR)

Dear Sir / Madam,

With reference to the above review, we write to provide our response to your Call for Input paper.

Respondent's Background

Moerae Life Financial Planning is a small directly authorised IFA firm providing bespoke advice to around 120 clients. Primarily we service clients in the Midlands but also further afield. Our typical clients are earning between £20,000 and £100,000 or have retired. Their savings and investments range from a few £10,000s to several millions. Since the firm has Pension Transfer Permissions, our main areas of advice at present are advising clients who are near to retirement or have to some degree retired. However, we also advise clients on other matters believing that full advice in all areas of financial planning is essential since one area of a client's financial circumstances usually links in with other areas, something which clients do not readily realise.

Moerae Life is a Chartered Firm committed to quality advice, hold BS8577 and the principle adviser holds ISO22222. Currently we employ 2 advisers and 2 other members of staff. We do not think that there are more than 30 firms in the country that meet all these standards.

The firm is unusual in that we keep timesheets and charge clients based on an hourly rate and therefore are able to examine the true costs of advice and the problems in delivering it. All charges and fees that we receive are fully accounted to our clients and offset against ongoing and new advice. We also have a full breakdown of the hours an adviser spends on various activities – very useful when examining the true cost of advice and therefore a sound reason for looking at our response in greater detail.

Without a doubt, the main costs in giving advice which are highlighted in our response are:

- An outdated and out of touch regulator which needs to update the Handbook in accordance with modern trends and products
- Documenting and evidencing the client meetings, research, follow up client discussions, suitability letters, and providing superfluous documentation which has to be tailored to the client's circumstances
- Poor provider service
- EU and therefore also FCA regulation
- The cost of providing quality advice as opposed to "focussed" or "limited" advice.

Our submission is intended to highlight the problems we are having providing financial advice and, we trust that you will note, make points that appear to contradict much of the headline comment made in the press, magazines, forums and social media.

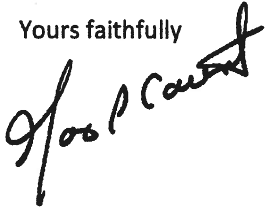
39 Ashpole Spinney, Northampton NN4 9QB **Tel:** 01604 211 386 **Email:** admin@moeraelife.co.uk www.moeraelife.co.uk

Moerae Life Financial Planning Limited is authorised and regulated by the Financial Conduct Authority.
Moerae Life Financial Planning Limited is registered in England and Wales: 08848677
Registered office: 39 Ashpole Spinney, Northampton NN4 9QB

FINANCIAL PLANNERS CII CHARTERED
BS 8577 CERTIFIED

We look forward to the results of the Financial Advice Market Review and trust you find our feedback helpful.

Yours faithfully



Mandy Caunt
Director

Sam Caunt
Director

Response to Questions Listed in FAMR Call for Input
Moerae Life Financial Planning Limited - FSA No. 621884

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?

Simply put, yes. Face to face advice is extremely effective in delivering advice to vulnerable people and ensuring that their circumstances are fully explored and if necessary in the presence of someone who can observe events such as family members and those who hold Powers of Attorney.

Elderly people may also be excluded for example those who lack mobility or are hard of hearing. Deaf people in particular have problems using the telephone, understanding accents and people who speak too fast or patronise by speaking too slowly.

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

Most certainly each form of financial advice must be clearly categorised and defined. Simplified, restricted, focussed, advice, guidance are terms that are vastly misunderstood by professionals (including the Treasury and FCA it would appear) and communicating that to consumers in simple English will be extremely difficult especially the advantages and disadvantages of each one. Each form of advice, however defined, will carry inherent risks for the consumer.

Your Call for Input paper notes why people seek our professional advice based on research carried out by third parties. Our experience is that in many cases professional advice adds further value to that advice and often changes the consumer's perception of their needs. For example, after having met with us the work we agree to do for our client may differ from the concern that motivated them to contact us in the first place. In a naïve example, a pension need may be supplanted by a need for life assurance or protection. Face to face advice often ensures complementary advice and recommendations are actually followed through e.g. preparation of a Will or Power of Attorney.

Contact with experienced and professional advisers will highlight other issues the consumer may not be aware of such as taxation, protection, alternative solutions etc. It is also one of the reasons why we offer a free (and lengthy) initial meeting and cannot give indicative costs at outset. Builders do not give quotes for redesigning a kitchen without first doing a site visit!

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

We would agree with your comments and from our perspective demand is very high. However, we are also aware that that demand does not always result in professional advice being given. Clients are put off by the price and the prospects that we may challenge their thinking and assumptions following the free initial consultation. This is worrying in that there may be a trend for consumers going to advisers that may not be so ethical or as honest and go to the trouble we do and therefore can keep costs low. The expression regarding the price of everything and the value of nothing springs to mind. Of course that is not our problem since we have enough work and enormous capacity problems as it is.

One comment we would make is that a client may identify an area in which they need advice but in making that decision to seek professional advice they are not always aware that they could benefit from advice in other areas.

Everyone should consider protection (related to capacity for loss) but few come to ask asking for such advice. Sometimes, products have to be sold. An old adage, but folks do not get out of bed and say I need PHI, I must do something about it. And if they do and do it on-line, they sometimes get it wrong or could have done it better.

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

We have reservations about comparison websites and have anecdotal concerns about their independence. Such sites look at one particular aspect of financial planning and even then fail to look at the client's broader circumstances.

To some extent better education would help to promote the advantages and benefits of rounded advice but it will always be difficult to overcome bad press coverage or poor experiences. Of course, the views and opinions of friends and family have a strong bearing on the motivation to seek professional advice.

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

We strongly disagree with the comment "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:"

Taking out a protection policy which will not pay out because of a mistake can lead to catastrophic results. Conversely, saving for retirement can be simple and should be no more complex than saving for short term needs. Financing a home purchase can, over the long term, cost consumers far more than they ever realise and so, if that is wrong, the consumer will pay a high price.

We agree that reviewing their financial situation can be complex but this is not necessarily so. However, this does make simplified or automated advice problematic with potential risks to consumers in that because of the complex interaction you rightly identify, they may not get the best advice.

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

While we appreciate that a consumer segmentation model is useful, it strikes us as being a bit too tick boxy. There are overarching factors which affect an approach like this. Notwithstanding the fact that all clients have similar basic needs, all these categories include individuals who are less well educated, perhaps disabled in some capacity (physically or mentally) and are therefore vulnerable.

Furthermore, we are aware of some clients who are starting over again at 45+. Then there are those who are semi-retired either because they wish to remain active or because they have to continue working. We know of a few retirees who fall in the distinct category of stretched but resourceful and of course the new pension freedoms mean that there is a blurring of these boundaries. You can be retired at 55 on a budget, stretched and resourceful and living for now.

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

As indicated at question 8, the new pension freedoms mean that there could be a new category – people who are over 55, have no savings, little retirement income and could be forced into lengthy semi-retirement through ill health for example.

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

We advise clients on relatively high incomes but with no savings or investments. Likewise, we have clients on low incomes but substantial investments who need advice on how to boost their income using existing investments. Based on our experience of those that need advice, we feel that the two tables are a little naïve.

Inevitably, we have noted that the cost of providing advice is so high that only those on high incomes or have accumulated significant wealth can pay our fees. There has been considerable resistance to our fees from those who think that they cannot afford to pay them or who perceive that there is no financial advantage for them in taking advice. Of course these are the minority who are sufficiently motivated to speak with us but it should be noted that having sat with us for a free initial consultation (some for several hours incidentally), their attitude changes.

In some ways, products with commission can help those on poor incomes and little wealth to achieve their objectives and it is arguable that the RDR has not helped these people to receive advice.

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

It is difficult to comment as we tend to deal with those that do wish to seek advice although in some cases we have been able to find out why they were perhaps reluctant to meet us in the first place.

Your comments are reasonable since they are really a statement of fact. Clients are wary of costs and they do have reservations thereby unwilling to trust us. There is also some inertia / lethargy due to the pressures of life as indicated at Q6 – hard pressed, stretched, living for now. Fundamentally though there is lack of understanding of the cost benefits of advice and the advantages it can bring.

Of course one reason they do not seek advice is that the event that causes them to do so has not yet happened! For example, an inheritance or an illness in the family or the death of a close one.

Some advisers record meetings (as opposed to just telephone calls) – we wonder if this would deter some people?

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

It is not the case that we are focussing on more wealthy clients rather than it is an inevitable consequence of the high cost of delivering advice. In life it is fair to say that those that have wealth will be targeted by those who wish to share in it – or relieve them of it.

Some of our clients are most certainly not wealthy but understand the value of advice for them and that the high cost of delivering it can be offset by the financial benefit to them.

Given the RDR reforms, it does seem an easy option for firms to target the wealthy (especially when they charge percentage fees) because the rewards are greater for the same effort. As an hourly charging practice we do not need wealthy clients but those that can afford our fee and value our advice. We do not see wealthy clients as "good earners".

Referring to your broad spectrum of advice services we are concerned that some are too narrow, too focussed and worse still may not consider more appropriate alternatives. There is a danger (as with regulation in general) that the emphasis is on product and not 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?

We do not think that the increase in regulatory burden, its complexity and the shift away from "sales based on professional advice" is unrelated. In the same way that you need to clear your home out after years of accumulated rubbish, the FCA needs to clear out some of the old rules and adapt to the new world.

For example:

- The requirements placed upon providers when producing pension illustrations and annual reviews needs to take account of the new pension freedoms. There is an urgent need to review as to whether what is provided is meaningful to the client and is generally consistent across all pension products. A good example of illustrations are the different assumptions used for real rate of return, growth, annuities etc. This places enormous burden on providers and indeed us who have to explain to our clients what it means. The FCA and its predecessor has placed rule on top of rules upon more rules as each piece of legislation is enacted without actually looking at the whole picture.

  Perhaps a subtler example is why is it necessary to give a client an illustration with indicative annuity or growth rates when the product comes with guarantees? It is confusing, meaningless and distracting.

- Why are honest financial advisers expected to apply and pay for a Consumer Credit Licence to cover what is a marginal activity – debt counselling. (This licence cost our firm circa £1,000 over the last year). It can only be to subsidise the cost of supervision of those firms that are actively involved in consumer credit at the expense of financial advice. (Why do firms get away with not having one?)

- Quoting your Paper which discusses clients' needs which include "Using pensions, savings, investments or home equity to provide an income in retirement", why is it necessary for a firm who employs a pension specialist with a long term care qualification and therefore can advise on Equity Release to hold mortgage permissions? We do not need to do mortgages and so to have to hold a mortgage advice permission is expensive and furthermore means that the client needs to deal with more than one person. It is absurd that an adviser can advise on all the needs you have identified except Equity Release (because the firm does not hold the necessary permission) whereas a mortgage adviser can advise on just the equity release element! Giving that we have an aging population and the greatest asset a client may hold is their property, this is counterproductive and irrational.

- RU64 – bizarre requirement which clutters up client reports. Stakeholder is expensive, restricted and inflexible and there are more appropriate solutions. Why should an adviser have to particularly exclude Stakeholder? If this was necessary, then should it not be extended to all products and we should have to explain why we did not recommend one product but did recommend another. This of course we are not advocating.

Believe it or not, because it is a FCA resource issue, Moerae Life would be prepared to pay a small premium on our FCA fee to expedite a review of the Handbook to bring it into the modern world and remove excessive requirements placed of advisers.

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

Given the immature state of the technology and the fact that we have not seen evidence of novel approaches to delivering advice it is difficult to provide evidence. However, we are concerned that it could shift into the professional advice arena without offering the same safeguards. It could also provide competition for advisers while not offering the same safeguards that advice gives. We reiterate our concerns that advice often covers different aspects of a client's affairs and therefore, by your own admission, is more complex and dynamic. We are also concerned that the consumer may not have full access to the breadth of product or the wide range of solutions available.

We are not alone in believing that many consumers will think that they are getting advice when it is guidance or limited advice given within certain restrictive parameters.

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

Very much so. The single greatest cost to consumers when giving advice is that of employing advisers and support staff. We believe that the FCA fails to understand how much time it takes to deliver advice according to

the complex rules, contradictory guidance, regulations etc. If our Chartered Adviser spends no more than 10% of her time in front of clients, what does she spend her time on?

We would contend that the FCA do not fully understand the manner in which advice has to be given. It is a bit of a cliché but in many ways the FCA regulates by product and not by advice. It particularly penalises conscientious firms who take their long term responsibilities for the advice given extremely seriously.

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?

We are intrigued by the comment that 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. The FCA could help to clarify the confusion within the IFA community whereby some IFAs think that the RDR prohibited cross subsidy!

We charge our clients based on hourly rates which, as opposed to percentage fees, removes a tendency to cross subsidise unprofitable clients and we do so because we find it hard to accept that any of our clients should pay more for the same service than another client. Nevertheless, the reality of life is such that firms are forced to make commercial judgements which will mean delivering advice at below cost which has to be paid by someone else!

As a small firm, we will not be able to find alternative revenue streams unless it adds value to the business and benefits our clients. We offer Will Writing services for example but these complement our offering and the income is negligible.

We agree with the comment in your paper regarding what does it cost to provide advice. However, some costs are minor compared to others such as the work necessary to be compliant and reduce potential costs of future liability claims. One striking burden upon us is the cost of software and technology which after labour is the second highest expense.

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

In many ways, all consumer segments are profitable to serve because we charge hourly or (more likely) a capped fixed fee. It is fair to say we have clients in all segments that are profitable and where we feel we can add value for them. Some are of course transactional and cannot be termed long term clients. Nevertheless, we tend to focus on particular segments not because they are profitable but because that is where the market is and they tend to come to us rather than us going out to find them. Clearly some will be reluctant / feel unable / cynical or some fall into the striving and supporting category where perhaps help from charities and online guidance solutions should be considered.

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

Establishing reputation and trust – we have no comment since we have more than enough work and comments made by our clients suggest that trust can be gained but it does take time.

Finding consumers – we have no problems but acknowledge your comments as being fair.

Regulatory Clarity – the FCA does not clarify issues and concerns but leave the onus with firms to make decisions. We have several examples of questions raised with the FCA where a straight answer is not forthcoming. Instead it is up to us to make a decision and if we get it wrong then it is our responsibility. Take more risk and charge clients less or belt and brace everything and charge more.

Clarity requires that the Handbook is simple and that the Regulatory framework is rational and logical. It may be for regulators but the lack of joined up thinking brought on partly by European legislation is a nightmare for

firms and their clients and often for little or no benefit. When giving advice, why do we have different disclosure documents or differing "classes" of product e.g. pure protection or retirement and investments. PRIIPS, KISS which bear no resemblance to other documentation handed to a client.
An example of lack of clarity from the FCA is in respect of whether a firm should hold a consumer credit licence (debt counselling)? Given that most Compliance Support firms recommend firms hold such a licence, we can only assert that it is honest firms who decide that they need one and the less scrupulous ones do not bother, knowing that they can get away with it. Lack of clarity, inconsistent practice means that good conscientious IFAs get burdened with additional costs.

A further example of a lack of clarity is the confusion regarding whether we can advise on Equity release without having expensive mortgage permissions? Even if the clarification is yes – it is illogical that this should be necessary!

As for any firm trying to get clarification on GABRIEL Reporting – a significant hidden daily cost placed on firms – we despair. What we have now are different firms making different assumptions providing inconsistent and inaccurate date which as a result the FCA cannot use.

The profession needs more from FCA on Capacity for Loss. There is clear evidence that this is not fully understood by many professional bodies such as the PFS as well as advisers. (Which qualification covers the subject?) It appears to us that capacity for loss is implemented by many firms based on a small subset of factors which can influence whether a client has capacity for loss. Too many websites ask just three questions to satisfy this requirement when in fact capacity for loss is linked to circa a dozen different factors including health, occupation and existing insurances. Attitude to risk in respect of investments will often need to be adjusted when a client's capacity for loss is fully explored. At present it appears that it is acceptable to get confirmation from a client of their capacity for loss rather than explore it in detail and establish whether it is realistic. Doing the job properly costs money.

Business cost - as a mature business we do not need to bring in new blood and therefore recruitment and training has little impact upon us. However, we would say that we have no plans to recruit because the time and cost it takes to develop a proficient and competent new adviser is too great. Because of the complexities of the job, the need to be earning from day one and the distraction placed on experienced advisers who have to stop earning fees to help the new joiner, we feel that recruitment is a grim and costly distraction when trying to deliver face to face advice. Our firm has capacity problems and it appears that we are not alone. (Incidentally the minimum wage increase does affect mature trainee advisers who wish to gain experience and who are, to put it bluntly, not yet safe to advise and therefore are uneconomic)

Technology is expensive and while this is perhaps a little unfair on the FCA, when the FCA make a pronouncement there is a perceived requirement that we need further software to give advice. Two examples are Capacity for Loss and Platform cost linked to independence. Capacity for loss guidance from the FCA suggested that cash flow modelling is a way in which to assess a client's capacity. A well-known supplier of this type of software is now charging £30 per month for this essential feature which when you add VAT, multiply by 12 and you get a bill which is half our annual FCA fee! Also there is a perceived focus by the regulator on cost and so in order to compare platform costs we have a useful bit of software that does this – at a further £32pm (plus VAT). It mounts up. At what point do we not have to use cash flow modelling? Surely it cannot be based on what a client can afford given the litigious world we live in?

Some product providers are delivering a very poor service to IFAs. Scottish Widows are a very good example and it is impossible to speak to someone at the company who understands the client's problem let alone take ownership. In one extreme case we had to lodge a complaint to get vital information on behalf of a client. While under pressure themselves, providers really do need to improve their service to Advisers. Quantifying the example above, an adviser spending just 20 minutes on the phone making an unnecessary telephone call to get an illustration corrected costs the client £50. That is equivalent of that client's contribution to the firm's FCA fees and levies for that year! Refer to our comments regarding fees and levies and the limited impact of these on the cost of advice compared to other factors.

Related to provider service, many insist on a 20 day turn around when answering queries or providing illustrations. Further requests usually entail a further 20 day delay etc. This means an adviser or paraplanner has

to put down the file and pick it up again a month later, refresh the case details all of which adds cost and of course delay.

Advice is VATable. Intermediation is not. We need to ensure that alternative methods of delivering advice (guidance) is not contingent upon a sale nor is the service subject to VAT. We believe that this is an issue that needs clarifying with HMRC. Given the confusion about VAT and adviser charging we are concerned that this issue may raise its head at a very late stage. Adding 20% to a client's bill for advice does not help firms give advice.

The regulatory cost of providing advice – this is very much dependent upon the business model. Direct costs (e.g. FCA fees and levies are indeed low at 4% of the client's bill) but the indirect costs are enormous. We are concerned that too much focus is placed on these direct costs when the real burden are the associated regulatory costs.

Regulatory costs do depend upon how responsible a firm is, how much care it takes and the risk it is prepared to take in giving the guidance (one reason why the FSCS levy is so unfair as those who are prepared to take a risk either do not pay enough or dump the cost on others later).

We broadly accept that FCA fees are reasonable and that the FSCS levy is not a barrier to giving advice which is not to say it is loathed as it is in effect a late deduction out of the Director's pay to cover the activities who refuse to subscribe to the same standards as us advising perhaps on unregulated products or questionable tax avoidance schemes.

We would also be prepared to pay a higher FCA fee is it meant that the money so raised would be used to keep the Handbook up to date and relevant, removing absurd requirements which are not relevant to modern products.

Moerae Life takes its responsibilities seriously and we really care for our clients. Clients often do not appreciate or understand why they need volumes of paperwork which we are obliged to give them. Neither are they stupid – they realise they pay for this and consequently there is evidence that it is a barrier to giving advice. We know that a few of our existing clients are reluctant to come back to us knowing that they will have to pay for a lot of information they feel they do not need and will certainly never read. Delays in coming back to us can be detrimental to the client.

There is a blurring of the line between regulatory cost and good business practice but unquestionably 21-page suitability letters which take an IFA over 3 working days to prepare are too expensive and yet the FCA are unable to suggest what we can safely leave out. A safe harbour would be nice! At a recent PFS conference it was suggested that the reasons why alternative solutions have been dismissed should not be included in the suitability letter but as an appendix. This demonstrates a characteristic failure of the FCA to understand what work is required when providing advice. That the FCA should think that the reasons why a solution has been disregarded or an option not recommended should be included in an Appendix rather than a suitability letter shows how out of touch the FCA are. Interestingly capacity for loss should be. We strongly contend that the options discussed with the client and why each option or solution was disregarded *must* be mentioned to the client so that the client has the option to dispute the recommendation at the earliest opportunity rather than for the firm to hide them in an obscure appendix.

Notwithstanding the fact that there may be a debate about what should be included in a suitability letter and what should be *relegated* to an appendix, both have to be tailored at great expense to the client's circumstances. The effort and cost is the same whenever something that is material to the advice is included.

Please note too that suitability letters have to be personalized and explanations of misleading information we have to supply be it on the illustrations or disclosure documentation all adds to the cost. And is it really necessary to repeat cancellation rights which the provider provides in any case?

A cost for us which other firms may not incur is that since we are independent we must research the whole market and look at all suitable alternatives. We feel that the FCA fails to appreciate that many advisers still fail to adequately discuss with their client's suitable alternatives. It should concern them but the fact is that clients

do not complain about not having the opportunity to discuss perfectly adequate alternatives which would have been better for them. That is surely grounds for a complaint later but this hardly ever happens because the client is never aware of the alternatives – they have not been discussed. In a sense that is understandable as they place trust in their adviser but that does not mean that the adviser has done his job properly. The lack of historic complaints does not mean that there has been no consumer detriment. Clients tend to complain when the product has lost money. This is natural since they are unlikely to be able only to complain about loss from not being given an alternative option unless an adviser is involved in the complaint. Advisers are reluctant to solicit complaints from clients about other advisers let alone help them do so! Perhaps an example of suitable alternatives no being discussed were maturing pensions (pre pension freedoms) where alternatives were at least three fold viz. open market option / impaired life annuity / third way annuity. But this takes time to discuss, document and relate back to the client. Alternatives, discussions, documenting costs time and money and some solutions are quite expensive.

A not insignificant regulatory cost is the definition of Independence post RDR. While not difficult to comply with, demonstrating Independence is a significant cost where we feel that the regulator got it very wrong. As an independent firm we are expected to demonstrate that we have considered virtually all the products in the universe when in fact most if not all our clients require simple Retail Investment Products. So, while not unduly burdensome, it does add additional documentary and evidential cost and we feel that the definition of independence needs revisiting especially in the light of other means of delivering advice. Will clients be aware that the advice they are receiving is truly independent?

Lack of Profitability – your paper implies that advice is not always profitable but we have heard from the FCA that firms are more profitable (a comment made we believe to justify a 10% hike in FCA fees this year). We would warn the FCA that for many small firms increased profitability is coming at the expense of considerably longer working hours especially for the business owners.

Liability (longstop) – this is not a significant barrier to giving advice but it does create a poisonous atmosphere which engenders anger and frustration. We do not see firms building this into their costs and putting aside funds to cover this liability therefore it is questionable as to whether liability adds to cost. However, there is an indirect cost in that firms have to document all aspects of the advice given in order to ensure that there less likely of a claim after 15 years.

Liability (FOS) - Lengthy Suitability Letters are clearly prepared with FOS in mind and how they may later interpret the advice given. It also concerns us that there appears to be upheld client complaints where FOS do not appear to fully understand some of the more complex issues involved. Knowing this, firms feel obliged to place more detail in the Suitability Letter especially as the file may not be available in its entirety at the time a complaint is made.

There may also be a perception that small firms would be less favourably treated by FOS since they have fewer resources at their disposal to defend their case.

The present claims culture is not assisting either which means that a claim is more likely against a firm than would have been the case in the past.

While a legal requirement, it is ridiculous that compensation has 8% interest added. In a low inflation era where returns are much lower, it is unfair to firms that they have to pay this level of interest. A much lower and realistic figure should be used.

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

Identifying situations where there is no real need for advice could be problematic and presumptuous. Face to face advice often identifies situations where the client was not aware that they had a real need.

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

No comment.

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

In our view, there is certainly a protection gap – "protection has to be sold". This applies to all consumer segments to a greater or lesser extent. We are concerned that there is too much focus on pensions and investments which are easier to sell and advise on. Note also that protection can (does) underpin Capacity for Loss. So why ignore it?

While our clients fully understand what income they can expect in retirement, we do not believe that general consumers understand what they are likely to receive noting that they are more likely to live longer than their parents and in ill health for a large part of it. We consider that there is a significant gap in advising consumers about potential retirement income and the need for it with too much emphasis on the present and short term saving.

Speaking from sad personal experience, we also feel that the is gross ignorance about the need to plan for care. It is very distressing to see a family member with dementia crying through unhappiness because he is in a care home. Having lived in relative comfort for many years, his wife can no longer care for him and he has had to go into a care home that the council is prepared to fund. Council care funding is a disgrace and a postcode lottery. Planning and awareness of this growing problem is essential and help comes through face to face advice.

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

The decline in protection sales especially PHI which underpins a consumer's income is alarming. It is not unreasonable to argue that it should not be a case of whether you can afford it but can you afford not to have PHI? Life cover and critical illness is easier to sell alongside mortgages (it offers mortgage brokers an opportunity to add value to their business) but clients need to protect more than their mortgage.

In respect of the retirement income gap, very few clients (especially new ones wishing to explore the new pension freedoms) come to us with a state pension forecast let alone an understanding of what their future pension benefits may be. They need to understand about retirement income yet without this basic information (we have evidence of this) how can they plan for the future? As someone said somewhere this week, someone has been born this year who will live to age 150.

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

Life insurance and protection, taking out credit and managing debt and something not mentioned, planning for retirement as opposed to living for now. Note also our earlier comments regarding long term care. What will retirees and dependents live on when they retire and can expect to live for 20 or 30 years thereafter? Auto enrolment will not address this problem as the Australian experience has shown. Besides how can it assist when folks have access to their pensions at 55?

Perhaps another gap is how consumers should repay their mortgage noting concerns previously expressed by the FSA about the number of interest only mortgages that are about to end over the next 20 years with no repayment vehicle in place.

We feel that completing your heat-map is too time consuming for categories which we are unhappy with in the first place.

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 would contend that there can be no investing, saving into a pension and taking an income in retirement without protection which underpins all these. PHI, critical illness, life cover are all examples of protection products which help to underpin consumer's lifestyle. (It also makes it harder to understand why regulation of protection is different from pensions and investments for planner's like us)

Taking income in retirement could be rephrased. Planning for taking an income in retirement, whenever that may be?

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)?

We note the difference in the two questions on your paper. Focussing on wealth ignores consumers which have significant income and cannot or choose not to take advice. Numbers tend to arbitrary and create artificial boundaries which in reality do not exist.

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?

Unfortunately, the Government feels unable to take control of EU regulation and ensure that it works properly and effectively for consumers in the UK. EU law is leading to undesirable consequences. If something is wrong, we feel Government should feel empowered to take control and change law. Therefore, we believe it is very difficult to simplify the current regulatory framework within EU law.

In practice, the myriad of regulations adds a burden of complexity that require significant human input in order to deliver advice. For example, standardised fund disclosure documents are inconsistent with the approach we use to assess a client's attitude to risk. Like most IFAs, we use a score of 1 -10 and it can hardly help consumers understand risk when different terminology and ratings are used. In a few cases we have had to explain why there is a difference which takes time but it is a sad reflection of the effectiveness of these documents that few clients ever pick up these inconsistencies.

In the near future we have PRIIPS which again adds to the confusion and the amount of documentation required. And of course, firms have to learn how to use these new documents each time they are issued. Again, what evidence is there that consumers actually use this information?

Perhaps the most damning paragraph in your paper is:

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 <u>relating to the provision of different kinds of regulated advice</u> differ depending on the financial product and service.

How absurd is this especially when advice covers different products? It is a situation that needs rectifying. For us and our clients there is only one type of advice which should be covered by one set of simple rules covering all products.

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?

It has always bamboozled us why we have separate legislation and indeed product categories covering financial advice e.g. Regulated, pure protection, insurance, investments, Life and Protection, retail investment products etc. When we sit with a client we end up having to wear several hats when in reality we are delivering one service. Some of the arbitrary categories for GABRIEL reporting is but one example – a £2,000 client invoice for

advice can relate to protection, unregulated activities, investments, retirement and we are expected to break that invoice down according to the advice given. When we asked the FCA how we were to break down such an invoice it was effectively suggested that we guess!

Our clients wish to pay a sum of money for a prescribed service. It should be of no relevance to anyone how much of it relates to investments, life & pensions, pure protection, unregulated products and services, pensions etc. If this information is really necessary, it should and could be provided by the product providers.

We would wish to remove EU regulation which would enable us to deliver advice more effectively and quickly with a reduction of costs. This would then ease capacity problems allowing more people to be fitted into our systems. It also follows, that if we have spare capacity we may seek to be more active in the market and target those consumers who need advice and are not in a position to do anything about it.

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

Simple products have caused advisers problems in that we are obliged to explain why we have not recommended them and this takes time e.g. RU64. These simplified products often come with limitations such as restricted funds, inflexibility or in the case of stakeholder are too expensive. Consequently, for the category of clients we deal with they are now totally unsuitable as the world has moved on. Furthermore, when we review client's investments including these products we have to consider moving them to better match their ATR and objectives.

Simple products rarely sell themselves and therefore have to be sold. These products need to take account he costs of delivery and we feel that in the past they did not offer sufficient reward or incentive for advisers or providers to recommend them.

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

We would question as to whether practices in Australia for example would be compatible with EU law. Furthermore, best overseas practice does not mean that they are best until the results of these changes have been published. For example, it is probably too early to judge whether the RDR has been effective so we need to be careful that we do not judge approaches from other jurisdictions before the results have been fully assessed.

Auto enrolment experience in Australia suggest that the model on which that in the UK is based will not work unless members pay more into their scheme. Perhaps rather than being an innovative regulator, the FCA should wait to see what happens elsewhere first.

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

In 2013, we noted that the FCA published an "Occasional Paper No.1 - Applying behavioural economics at the Financial Conduct Authority". It did not specifically discuss how consumers interact with their computer and on-line services, a topic which is probably more important since automated advice is considered to be appropriate. To make an admittedly extreme point, how can you be sure that robo-advice over the internet is being delivered to someone who is not on drugs and drunk? How can you be sure that their attitude to risk is accurate? Face to face advice allows the adviser to test and reconfirm risk.

The FCA needs to do much more to understand how consumers react and communicate without face to face services. Furthermore, it should investigate the possible risks and the cost of underwriting that risk such that it is not placed on firms providing full face to face advice. As one developer of online advice software put it, we have yet to replace that most important attribute of a face to face adviser – gut feeling.

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

Defining advice and thereby reducing liability is problematic. What is understood by focused advice or advice without a personal recommendation? This is unclear to us and could well be to consumers.

We are uneasy about any safe harbour because by very definition that means greater risk to the consumer. History shows that when the consumer is unhappy then their voice for redress is louder and therefore more effective than those of IFAs who are in a minority.

Furthermore, why should any method of advice be provided with a safe haven that is not available to those who give full face to face advice? What is the consumer giving up? If the argument is settled so that safe havens are provided, then consumers need to understand what this means in them in terms of compensation or redress and the remit of FOS and the FSCS needs changing. **It would be entirely wrong for firms providing face to face advice to underwrite others who wish to deliver advice without face to face meetings.**

Recent discussions about insistent clients is a good example where advisers perceive a problem and yet the FCA and FOS cannot give a clear indication as to what a safe harbour is. While guidance has been given, there is no certainty that this will indemnify advisers in the future and the same has to be said about safe harbours. Are they really safe when FOS or claims companies get involved in 5 or 10 years' time?

There are two issues which could push up the cost of advice using safe havens thereby adding to the advice gap.

Firstly, although PII is reasonable we are concerned that the market may become more difficult and therefore premiums higher if safe harbours are introduced without any real sense of clarity about what this means for consumers. Given that the new pension freedoms have allowed clients greater access to their pensions, in effect a form of drawdown which has always attracted attention from insurers at annual renewal, we would ask that consideration is given to the possible effect on the PII market. The last thing IFAs need are significant increases in PII premiums to cover perceived or imagined increase risk as a result of FAMR.

Secondly, it cannot be fair for advisers providing full face to face advice to fund in any way the risk of new approaches to market. We are concerned that the confusion for clients coupled with the litigious world we live in, they will seek restitution. We do not feel it is right or proper for any compensation to be funded from the advisory community providing face to face advice. The risk should be borne by those wishing to explore these alternative avenues and not subsidised by those who feel it is an unnecessary business risk.

Given the above, we have reservations regarding the effectiveness of a safe harbour especially over the longer term.

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

Please note our answer to Q29 and our reservations about safe harbours. Believing that face to face advice is preferential and that we have no plans to offer other advice services, we feel unable to make constructive comment here.

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

Again, please note our answer to Q29 and our reservations about safe harbours. Believing that face to face advice is preferential and that we have no plans to offer other advice services we feel unable to make constructive comment here.

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

The longstop is an emotional barrier for many advisers who believe that it breaches their human rights. Therefore, the removal of the longstop should not be driven by this review but solely by consideration of the fundamental human rights of individuals who are being treated differently from other professionals such as solicitors and accountants. However, the lack of a longstop (and other matters) engenders negative emotions within the advisory community leading to disillusionment with the job thereby removing drivers to grow and expand businesses and introduce new blood through recruitment.

From our perspective, the longstop is not an issue and your paper identifies the few cases upheld by FOS. We also do not believe that firms specifically cost the longstop into their advice proposition let alone set aside reserves (or insurance) to cover it. Care needs to be taken to recognise that the costs of advice are not linked to are arbitrary period (of 15 years) since possible future claims could be made after 14 years!

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?

We have no evidence that the absence of a longstop has led to a *competition* problem and do not see it as an issue.

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

There is some sympathy from us for consumers who find that at the point of retirement they have been significantly misled or poorly advised and lost money. However, the number of advisers so affected is relatively few and the headline cases tend to attract publicity and engender anger. The rights of the consumer should not subordinate the rights of the adviser who may after 20 years be suffering from ill health or in other difficult circumstances.

Caveat Emptor is an expression often used by advisers regarding advice. It is unfortunately inaccurate as it is unreasonable for a client alone to check the quality and suitability of services. Nevertheless, clients need to accept some responsibility for their decision making and reviewing that advice regularly to see if it is still appropriate especially as there is so much information available to them now. The balance of probability when assessing suitable advice needs changing as evidenced in the difference in the balance of probability between civil and criminal law.

An alternative solution needs to be found – see answer to Q32.

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

This question is inexorable linked to reforming the FSCS. It cannot be right that consumers entitled to compensation for poor advice given by failed firms should have it funded by those firms who present little risk to consumers. It is even more vexing that this compensation is paid by firms' who make enormous effort to conduct themselves in an ethical and honest manner while those who act recklessly walk away and in many cases continue working in the profession.

Fines should be returned to the FSCS and not retained by the Government for their use. It is not difficult to devise a system which prevents firms that have been fined receiving a share of the returned monies.

Reform of PII cover with runoff cover may be worthy of consideration. Alternatively, a product or advice fee levy should be considered.

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 have no comment to make.

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

The FCA needs to not only consider whether the consumer will trust automated advice but whether the consumer can be trusted, firstly to make the decision to use that particular method and secondly use it in a manner where they understand the need to take responsible decisions and take responsibility for them.

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

Independence – how to ensure that the consumers understands that they may be offered solutions from a range of products or providers.

Issue of VAT – automated advice may lead to no product or recommendation (e.g. repay debt). Advice is of course subject to VAT.

Contingent sales and/or follow up marketing or promotions – the consumer needs to be reassured that they will not be subject to follow up marketing or material. Furthermore, the process should not require that a product is "bought". Costly follow up reviews should not be a default option.

Consumer interaction with the internet - the FCA and the industry in general need to understand how consumers interact with the internet and to prevent irrational responses leading to undesirable outcomes.

Consumer rights – consumers need to know what their rights are and if appropriate giving up in order to obtain the advice they seek at a price they are willing to pay

Consumer expectations – consumer expectations need to be matched with the automated offering.

Qualifications and experience of adviser in any interactive communication. They may be better placed to identify issues and solutions outside their remit.

Limited nature of automated advice – i.e. focus on one area which may not be their main need.

Advice / Guidance – consumers may think they are getting advice when in fact it is guidance. There are limits to how such a service can interact with other financial objectives and therefore such advice is limited and possibly deceiving the client. We are concerned about issues that could arise later in the long term.

Gut feeling – how does any auto advice process replicate gut feeling? (Those designing such processes admit it cannot)

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

Options for bridging advice gaps

We would like to make one very important comment on the options presented in your paper. It would be totally unacceptable for the costs of these proposals to be borne by the IFA community. For example, improving access appears to be sensible but we note that costs are to be borne by employers or through some form of levy on the industry. We are already burdened with costs for supporting the Money Advice Service Pension Guidance Service for example and this provides no benefit to us or our clients. If the consumer is perceived as the

beneficiary of these initiatives, then he or she should pay directly for it. There is an alarming tendency for Government to place financial burdens for their grand ideas on employers who have no say at the ballot box.

Reducing the cost of providing advice

As previously identified, 68% of our client's bill pays staff salaries. Clearly a 5% reduction on the labour element of a client's costs would have a bigger impact than say a 5% reduction in FCA fees and levies (5% of 70% compared with 5% of 4%).

Therefore, it makes sense to look first at cutting our labour costs and this review should therefore focus on why it costs so much to deliver face to face advice which in our opinion is the best and present less risk to consumers.

We have already referred to these costs earlier and summarise our views below. These comments should be considered against the background of our costs which are primarily labour (68%), IT including software (7%), direct regulatory costs (4%) and compliance support (3%).

- Simplify regulatory framework and reporting requirements which do not fit comfortably with advice.
- Update FCA Handbook and to ensure rules are appropriate for current markets and products e.g. RU64 or statutory assumptions for illustrations.
- Streamline the documentation required to be given to clients (all documentation has to be prepared and if necessary explained to clients).
- Extend any safe haven to IFAs providing face to face advice – it takes enormous effort to draft a letter with the beady eye of a lawyer looking over your shoulder.
- Disassociate product and arbitrary product categories from advice.
- Review the definition of independence to eliminate the need to consider non mainstream products i.e. non retail investment products and other riskier products.
- Review the FSCS levy in association with this review rather than as a separate review.
- Reign in the increasing tendency to use IFAs to subsidise the costs of FCA and Government initiatives e.g. funding them through levies, consumer credit permissions or promoting awareness of statutory rights e.g. FOS website (changing our website to promote awareness of FOS cost us several hundreds of pounds. Was it really necessary? No).
- Resist EU regulation if it does not assist clients or increases the indirect cost of delivering face to face advice.
- Remove the legal right to 8% interest on FOS compensation.
- Use fines to fund FSCS levy ensuring that these fines do not immediately benefit those that pay them.

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?

We have no comment to make that could assist the Review.

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

Appropriate quality and standard of advice is an expression we have trouble understanding. Mr Percival of the FCA was discussing capacity for loss and suggested that one way of exploring this was cash flow modelling but not all clients would necessarily engage with this and that it comes with a cost to the client. This implies that advice may fall short of the ideal because of the need to keep cost down. In practical terms, the adviser may not explore or go into so much detail the client's circumstances. If this is the case, doesn't this lead to a greater risk of consumer detriment? A lower standard in trade off for a lower cost?

The question IFAs always have to ask, is how far should we go in order to demonstrate suitability. What are the boundaries between cost and the amount of detail an adviser has to go into? That is a challenge for the FCA who need to provide answers rather than place the onus on IFAs who only get the answer should FOS rule on a case.

Financial Advice
Market Review

Draft response from

The Money Advice Service

December 2015

About us

The Money Advice Service is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to fund and to improve the quality, consistency and availability of debt advice.

Our core statutory objectives, as set out in the Financial Services Act 2012, are to enhance the understanding and knowledge of members of the public about financial matters (including the UK financial system) and to enhance the ability of members of the public to manage their own financial affairs. We work closely with others to achieve this. The Money Advice Service is paid for by a statutory levy on the financial services industry, raised through the Financial Conduct Authority.

We are responding to this Call for Inputs in light of our statutory objectives and our wider role to ensure that consumers are well informed and empowered to take action across the existing and emerging retail financial services marketplace.

Response

In this draft response, we set out our initial views on the questions posed in the Review's Call for Inputs. However, we believe that many of the most significant lessons from MAS's recent experience of developing measures to engage consumers in managing their financial affairs and in accessing financial advice, are best conveyed in discussion with the Review team. We would be pleased to discuss the content of this response in more detail, and to provide a final written response, early in 2016.

Our response addresses questions 1, 3-7, 9-10, 12, 15-19, 21-23, 26, 28, 36-39.

Question 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 have not undertaken a detailed analysis to determine whether people with protected characteristics have particular needs.

However, our experience suggests individuals with high cost or unmanageable debt (who might therefore be deemed vulnerable) but who also have pension assets, are finding it difficult to obtain advice on whether using the pension asset to repay the debt is the best course of action. While specialist debt advice is available for those in need, Debt Advisers are not permitted to make recommendations relating to a regulated product. Regulated financial advisers can, of course, advise on regulated products, but they are rarely experts in debt and, in any event, are unable to provide advice without payment.

We believe this is an area which should be examined further and consideration should be given to how it can be addressed – perhaps by extending permissions to Debt Advisers (after necessary training and qualifications are obtained) so the regulated product can be included in the advice session.

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

The latent demand for professional financial advice is inherently difficult to gauge, and evidence on underlying demand is difficult to gather.

However, we believe that data on the use of our own services can be instructive to the review in piecing together a clear view on the demand for advice. The Money Advice Service website has several articles designed to help consumers choose a financial adviser and from April 2015 to November 2015 the number of unique visitors accessing three of these articles were as follows:

Choosing a financial adviser:	77,308
Retirement – why should I get advice:	16,458
Paying for financial advice:	18,239

However, statistics on usage of resources which help consumers choose a financial adviser are unlikely to be a fair reflection of true underlying demand so these figures should be treated with caution.

Money Advice Service Retirement Adviser Directory

Perhaps more useful is data on visitors to the MAS Retirement Adviser Directory as this indicates more clearly a desire to find a financial adviser.

Following its launch in April 2015, to 30 November 2015 there were **50,262** customer contacts with the Retirement Adviser Directory, and of those **47,754** have gone on to search for a financial adviser.

We do not, currently, have a feedback system which provides market intelligence from advice firms in place, though this is envisaged for the next development stage of the Directory. However, anecdotal evidence received from some advisers suggests that inclusion on the Retirement Adviser Directory leads to a regular stream of new customers, who have usually not, previously, sought financial advice.

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

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

Use of our online and offline services may provide a useful insight into demand for advice from alternative sources. We have also included key insights from our UK Financial Capability Survey in Annex I.

Online and Offline

Year ended 31 March 2015

- Online customer contacts (excluding webchat) – 22,018,000
- Face-to-face customer contacts – 95,000
- Telephone customer contacts – 92,000
- Webchats – 45,000

Apr 2015 to Oct 2015

- Online customer contacts (including webchats) 15,775,172
- Face-to-face customer contacts – 58,145
- Telephone customer contacts – 73,140

The nature of these visits may also be instructive, given the Review's consideration in long term changes in the advice market. Currently, portable devices provide the largest share of visits, with 55% of overall traffic to the site.

The most popular content areas of the website are currently:

- Births, deaths and families
- Homes and mortgages
- Work, pensions and retirement

The nature of these issues, which inevitably cover a wide range of topics, some of which may indicate a need for regulated advice, illustrates the difficulty of determining whether consumers' use of a given channel or interest in a given subject, may suggest a latent need for regulated advice.

Offline

Calls to our Contact Centre which were not referred to other organisations or classified "out of scope" were split in to the following broad categories (April 2015 to Dec 2015):

Main topics – MAS Call Centre	
Debt & Borrowing	40%
Work, Pensions & Retirement	21%
Benefits	12%
Homes & Mortgages	11.5%
Budgeting & Managing Money	4%
Savings & Investments	3%
Insurance	2.5%

Main topics – Face-to-face

In face to face sessions the most frequently discussed main topics were:

- Benefits
- Debt and Borrowing
- Budgeting & Managing Money
- Work, Pensions and Retirement.

Primary and secondary needs

We often find that customers present with one need, but when probed reveal a secondary need which needs addressing.

We analysed face to face guidance sessions from April 2014 to September 2015 and found that, of the 110,332 sessions conducted, 67% also had a secondary topic they needed to discuss which was different to the presenting need. For example, whilst an issue with benefits was the presenting need in over 25% of the face-to-face sessions we looked at, 54% of those customers also went on to discuss budgeting and managing money.

Consumers calling our Contact Centre and attending face-to-face sessions with our Money Advisers require help with a range of money related issues from the straightforward to the complex. Consumers appreciate Advisers who can work 'off script' and who are knowledgeable and confident and can provide a holistic service. However, Money Advisers employed by the Money Advice Service are employed as generalists and not specialists. It is therefore our job to assess the customer's need and to ensure they are signposted to a relevant service if we are not best placed to help them.

Pension calls

This active signposting is no better demonstrated than with pension calls. Since the introduction of the April 2015 pension reforms we have seen a huge increase in the volume and complexity of calls on pension related issues to the Contact Centre.

Many of the callers believe our service to be Pension Wise. Others have tried Pension Wise but don't wish to go through a 45 minute session. Frequently callers have been told by their product provider that they cannot access their pension funds without speaking to a financial adviser and they call our Contact Centre to find out how to do this and what it might cost.

Because of the increased complexity of the call content and the potential detriment to customers, we are implementing a new 'warm transfer' process, seamlessly diverting the more complex pension related calls to the Pensions Advisory Service. This new process will be piloted throughout January 2016 when we will be continuing to monitor the questions being asked, their complexity and the actions we took.

We would be pleased to share with the Review secretariat more detailed data on usage of MAS services if this is deemed helpful in understanding the shape of consumer need.

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

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

The FCA consumer spotlight segmentation is a helpful model for understanding at a high level the segments of the UK population and is based on a wide range of factors. It was not designed to give an in depth understanding of areas where consumers may need or seek advice.

We believe segmentation models are useful for understanding broad cohorts and are helpful when targeting interventions or communications to specific audiences.

The Money Advice Service has developed its own segmentation model which has been developed to meet specific criteria for our work. The model has been designed with the following objectives:

- Explicitly based on measures of financial resilience (which includes income, savings, appropriate use of credit and holding of protection products, as well as household composition and other demographics)
- Encompass both money and debt advice
- Easy to apply to the majority of datasets
- Have sufficient robustness and longevity
- Able to synchronise with the FCA Spotlight segmentation

The MAS segmentation comprises three high-level segments: "Struggling", "Squeezed" and "Cushioned" which represent lower, medium and higher levels of financial resilience. Within these there are a total of 15 sub-segments which are predominantly driven by life stage.

The "Struggling" segment is typically benefit dependent and the most over-indebted. We believe that we are most likely to be able to reach these consumers via other organisations such as DWP and social housing associations.

Money Advice Service is a universal service and as such needs to understand the different needs of all consumers in the UK. In particular, we believe that consumers in the 'Squeezed' segment are in particular need of guidance support. They can be characterised as working

C1C2 families who are heavy users of credit with relatively low levels of saving. As such they are highly vulnerable to income shocks. Whilst they are heavy consumers of digital and TV this is for entertainment not information purposes. We are exploring ways of working with partners to reach these consumers via the channels and sources that are of interest to them.

The “Cushioned” segment, as the name suggests, are better placed to cope with income shocks – they have higher incomes, higher levels of saving and less debt relative to their income. Nevertheless this group may need support in their retirement planning options for example.

Our segmentation will be published early in 2015 and we are happy to present the model to the Secretariat.

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

All of the potential reasons why consumers may not seek financial advice suggested in the consultation document are valid.

Key insights from the UK Financial Capability Survey in Annex I may also prove helpful. For example, the Survey found that 60% of UK adults had used some money advice and information sources in the previous 12 months[1].

However, we would suggest that the process involved in finding and engaging a financial adviser can be daunting and unintuitive. This often involves the consumer in two decisions – what mechanism to use to search for a financial adviser, and which adviser to ultimately choose.

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[1] M2. Which of the following sources of information have you used in the last year to find out about anything to do with money – whether that is how to budget or plan your finances, the best insurance, banking or credit products available, how to claim benefits or grants, or to get any help or advice, etc.

In 2013 the Money Advice Service undertook a review of its signposting and hand-off policy, particularly the process around handing off to a regulated financial adviser. This review was covered in the Money Advice Service document: *Proposal for a retirement adviser directory* which was issued for public consultation in June 2014.

Our analysis suggested that the journey to find a regulated financial adviser from organisations such as the Money Advice Service was often fragmented and confusing and that the final choice of adviser, if one is made, was often fairly random.

Consumers find regulated advisers in various different ways. These include:

- Referral from friends and family
- Referral from another service provider i.e. estate agent or accountant
- Referral from an affinity group or pension scheme
- Internet searches (see below)
- Links from information websites (Money Advice Service, Which?, Money SavingExpert, etc)

Often the search for financial advice follows a particular 'trigger' of some sort. The 'wake-up' pack sent by pension providers or pension schemes six months prior to retirement is a good example of such a trigger. Other triggers include: starting work or changing jobs and entering the automatic-enrolment process for the first time; taking out a mortgage; having a baby; receiving an inheritance or tax-free cash sum.

Internet searches

Increasingly consumers are using the internet above all other sources to find a financial adviser, but this is not necessarily providing them with the best option.

There is currently an issue with internet searches in that 'paid for' lead generation sites will always appear at the top of any search results. Because Advisers pay for leads through these sites the client is 'monetised' from an early stage. The need to make a profit from the lead is intensified, with the possibility of turning the discussion into a 'harder sell' at an early stage.

More importantly, the consumer's choice of which adviser they consult is limited through this route as they are asked to leave their contact details and are contacted by an adviser selected by the organisation hosting the website. Consumers may therefore not even be aware that a more active choice is available through other sources.

Cost of advice

The opaque and difficult to judge cost of taking regulated advice is, MAS believes, a significant factor preventing many consumers from seeking advice. When purchasing any professional service, most consumers like to have an idea of how much the service might cost before making a commitment. With financial advice an estimate of the fee must be given before the customer agrees to go ahead, however for many people this is still too late in the process – usually at the end of the first meeting when the individual may have provided a lot of personal information and may therefore feel psychologically committed to proceeding with that adviser.

Increasingly, financial advice is becoming more transactional (as opposed to holistic financial planning) and therefore consumers need to be provided with a means of assessing broadly what the price might be before making a commitment even to talk to an adviser. This would also be helpful in order to compare costs and services.

The independent stakeholder panel appointed to advise on the development of the Retirement Adviser Directory which MAS launched in April 2015 were very clear that some indication of costs would be essential for consumers. This requirement is being built into the second phase of development of the directory and we have now started to explore how this might be illustrated to best effect.

We will be working closely with the regulator and the financial advice sector on this element of the directory.

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

The Money Advice Service launched its Retirement Adviser Directory in April 2015. Latest statistics to 30 November 2015 are below:

Numbers	
Firms that have registered an interest	**3,453**
Firms active and appearing on the directory	**2,539**
Advisers registered and active on the directory	**6,299**
By country:	
England	**5,533**
Scotland	**408**
Wales	**234**
Northern Ireland	**124**
Business Model	
Firms whose primary business model is face to face advice	**2,521**
Firms whose primary business model is telephone/online advice	**18**
Minimum fees/pot or investment sizes	
Firms with no minimum fee	**1,466**
Firms with minimum fee between £1 and £500	**730**
Firms with minimum fee between £501 and £1000	**258**
Firms who say they will deal with any pot/investment size	**1,572**
Firms who say they will deal with any pot/investment size and have a minimum fee of £500 or less	**1,279**

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

When the MAS Retirement Adviser Directory was launched, we were eager to provide firms offering new and innovative methods of delivering advice visibility to consumers. We therefore ask firms, when they register, whether their primary business model is offering advice face to face, or through another delivery channel.

The Directory currently has 18 firms which offer financial advice ‘remotely’, predominantly via telephone or video conferencing, but some with innovative online interaction.

The first question we ask consumers when arriving at the Directory landing page is how they would like the advice delivered. This is to raise awareness amongst consumers that it is no longer necessary to see a financial adviser face to face and other methods, which may be more cost effective, are available.

To inform our submission to the Review, we spoke to a number of the firms offering “remote” advice:

- Of the firms we have spoken to, most are directly authorised.
- The majority have advisers who are employees. Some are sole traders who also employ para planners and admin staff.
- Firms rely on para-planners to do the background work i.e. fact find and research and preparation of the suitability report. However, the report itself is always signed off by a Level 4 adviser and it is the adviser that the customer has a relationship with.
- The target market for these firms is very much the middle income consumer i.e. with pension pots or investments/savings of between £35,000 and £100,000.
- Some of the firms are dealing with requests for transfers from defined benefit schemes transfers (from individuals) but most are shying away from these at the moment – mainly because of their Professional Indemnity insurers. One adviser told us that he has to contact his insurer every time he wants to do a DB transfer.
- All firms are providing regulated advice within the current FCA boundaries.

Cost of advice

In our discussions with firms offering remote (predominantly telephone) advice we found that most of the firms charge a percentage of the pension pot/investment for the initial advice. A range of charges were reported from 1.5% to 5%. Usually percentages reduce for large pots (over £200,000 is common). The most common fee quoted was 3%. Fees for ongoing charges also vary, but examples we have been given are from 0.2% to 1%. Fees to advise and transact on an annuity are between 1% and 1.5%.

For those firms that charge by the hour we found fees of £160 per hour; £250 per hour and £300 per hour.

Several of the firms we spoke to offer a review and suitability report completely free, which would leave customers, in theory, able to get 'free' advice and then act upon it. This does not seem to be an unusual model.

All of the firms we spoke to confirmed that providing advice by telephone/email/post is much more cost effective than face to face advice. One firm suggested they could service 10 customers with pension pots of around £50,000 remotely in the same time as one face-to-face adviser could service one customer.

One of the biggest issue for these firms is acquiring customers. The cost of advice is, partly, reflective of the costs of marketing and other customer acquisition activities. The firms offering these new models of advice view guidance and the service MAS offers to consumers and to advisers as helping to bring customers to regulated advice and thereby reducing the cost of customer acquisition.

Other innovations

In addition to the firms on the MAS Retirement Adviser Directory offering remote advice, we are aware of two other new innovations for offering regulated financial advice predominantly online, namely the new systems offered by LV= and Just Retirement. These services cannot be listed on the MAS Directory because, although the advice offered covers the whole of the market for annuities, they currently do not do so for drawdown products.

MAS believes services similar to those offered by these two firms are indicative of a potentially significant future development in the market, and the Review should consider whether there are significant regulatory or commercial barriers inhibiting their development and adoption at scale. MAS has not been able to clearly identify such barriers.

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

For investment of a lump sum or advice relating to a pension pot, most firms charge a percentage of the sum to be invested/advised upon and that charge, presumably, is based upon the cost to the business of supplying advice. Most firms offer individuals the option of paying for the advice from their own resources or having it deducted from the lump sum, so in theory there is always an option available for paying for the advice. However, the charge set may not be acceptable to a customer or be seen as value for money.

We acknowledge that individuals with very small pension pots or amounts to invest may not be prepared to pay even 1.5% for advice and therefore these individuals may not be economic to serve unless a firm can acquire volume sales.

We assume the question is focusing on markets affected by the Retail Distribution Review (so, retail investments and retirement planning) as the mortgage and general insurance market are still dominated by commission-based models. As such the cost of advice (and therefore the economics of providing it) does not ordinarily come into question.

Firms on the Retirement Adviser Directory have told us that the cost of Professional Indemnity Insurance has, in some cases, become prohibitive and in more specialist areas (such as advice on transferring safeguarded benefits) has meant they must withdraw from that market.

Given this, it may not be economic for smaller firms to offer advice in the specialist or more ‘high risk’ areas.

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

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

Question 19. Where do you consider there to be an advice gap?

Broadly, an advice gap is the mismatch between the supply and demand for financial advice. A gap may exist because a consumer cannot afford to pay for the advice they need, or because the market does not provide an appropriate service for that particular group.

Towers Watson analysis commissioned by the FCA[2], showed 15 million people have investments. According to ComPeer[3], of this group, 12 million people are deemed the mass affluent cohort (with investable assets of £50,000 - £499,999) and over one third (four million) have a pension pot they have control over. There were 3.4 million initial regulated advice sessions for 2014.

The RDR post independent review outlined three groups who may need financial advice but do not currently receive it:

- ***The unengaged*** – consumers who have the financial means to invest but are not engaged in the investment markets. This group is not part of the "regulated advice gap" as they are not actively seeking financial advice. This is a group that may be moved by generic advice to understand the need to seek regulate financial advice.
- **The unwilling to pay** – consumers who have the means to invest, are engaged in the investment markets but are not willing to pay for full regulated advice or prefer self-directed investment. Some may be willing to pay for cheaper alternative sources of advice. This group is driven by consumer choice about value for money and largely existed prior to the introduction of RDR.
- ***The unserved*** – consumers have the means to invest, are engaged in the market, are willing to pay for full regulated advice but are unable to find an adviser willing to advise them. Some firms have moved to serve the more affluent end of the market leaving these consumers without access. However a market is emerging to resolve this issue by creating cheaper, most cost effective advice models such as telephone only or on line based advice.

[2] Advice Gap Analysis: Report to FCA (Towers Watson, December 2014)
[3] Financial DIY Report (ComPeer Limited, February 2014)

Reducing the advice gap

In this complex area of generic and financial advice provision, there is not a definitive source that quantifies the advice gap though many observers agree, consumers need more assistance in both the generic advice and regulated advice markets.

MAS believes the Review has the opportunity to address these needs by:

- Moving guidance closer to the regulated boundary; and
- Increasing consumer demand for financial advice.

Currently the scope and delivery of guidance can vary enormously depending on service provider. Sometimes this is dictated by the breadth of experience and knowledge held by Guides/Advisers and sometimes by the fact that the service provider also sells products that may be part of the solution to the customer's need and which creates a conflict in the Guide/Adviser's mind. Some service providers are concerned they may overstep the regulatory boundary and are still unclear between what is 'advice' and what is 'guidance'.

Whatever the reason, we believe some service providers hold back from going as far as they can, meaning guidance is less helpful than it might be for many people.

By examining the regulatory boundary to discern where guidance can be more authoritative, a guidance service can become better at helping consumers with the financial decisions that they may need to take and create more active consumers who are able to take action in the financial advice market.

Guidance should act as a bridge to professional financial advice where appropriate. An example of guidance being an effective conduit is our retirement guidance journey that takes consumers through all of their considerations and if regulated advice is identified, helps them take action by finding an adviser through our retirement adviser directory.

Question 21. What advice gaps are most important for the review to address?

MAS has not examined the evidence for the existence of advice gaps in the regulated market, other than those already mentioned for people seeking advice on the transfer of safeguarded benefits or those needing advice on whether to use their pension pot to repay debt.

However, we do believe that with some service providers, there is a gap between where guidance ends and regulated advice begins and that, currently, this is the most important gap to address.

For reasons given above, some service providers, are holding back from providing a holistic guidance service that takes consumers up to the regulatory boundary and acts as a bridge from guidance to regulated advice.

For example, once Guides have identified that regulated advice may be needed they could explain how the advice process works and what the value of taking financial advice is. Warnings could be given on purchasing direct so that consumers understand what they are giving up if they choose to buy without advice.

Some guidance providers go further than others when explaining the pros and cons of the more complex products such as income drawdown or equity release. However, we believe that, provided the Guide does not recommend a particular course of action, or product, or provider, the regulatory boundary is not breached by more in-depth explanations and individuals can be guided more effectively.

Given these inconsistencies and the clarity that is still required by some service providers, we believe there is a need to explore what 'best practice' in financial guidance really means.

See also our response to Questions 17, 18, 19.

Question 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?

Any review of the financial advice market must look at financial advice in the round. Consumers need different types of advice at different times in their lives and for different needs. If different layers of advice are devised with different regulatory boundaries this will complicate the market even further for consumers. Regulated and unregulated financial advisers provide advice on all financial products and we believe the Review should seek to address need across the market. However, in light of the rapidly evolving pensions and retirement policy landscape, we agree that these areas should be a priority for the Review.

Question 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?

We agree that the initial focus for the Review's work should be those who may reasonably have some need for financial advice, but who are most exposed to detriment from current market conditions – these are the consumers most likely to benefit from greater supply of financial advice and greater coordination and coherence in provision of guidance services.
MAS has not sought to assess the appropriate income or wealth thresholds the FCA should use in prioritising its work.

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

We are able to offer some insights from our experience in recent years of active attempts to engage consumers – however, we believe our experience merits a fuller discussion with the Review secretariat, and we would be pleased to engage in greater detail to ensure that the Review can get the maximum benefit from the lessons our efforts have yielded.

Consumers financial lives are often complex, in multiple ways. Individuals will have varying financial needs at various points in their lives. Life events and major purchases can affect people's financial capability and also act as a prompt for people to engage with their finances.[4]

There is a clear need to improve financial capability. The Financial Capability Survey provides detailed evidence on the specific challenges at key life stages and financial decision points. Broadly, the 2015 Financial Capability Survey illustrates the level of capability with insights such as:

- Four in 10 adults do not feel in control of their finances
- Four in 10 have less than £500 in savings
- One in three cannot calculate the impact of a 2% annual interest rate on £100 in savings
- One in five cannot accurately read a simple bank statement (24% of 18-24 males; 59% of BME 55+)
- 8 million people have problem (unsecured) debts, with a social cost of ~£8billion p.a.

The UK Financial Capability Strategy contains extensive analysis of the financial capability challenges faced by consumers at key life stages and at key financial decision points, and we will be pleased to assist the review secretariat in understanding fully the dynamics of UK consumers financial capability utilising the comprehensive data contained in the 2015 Financial Capability Survey.

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[4] Milestones and Millstones, Money Advice Service, September 2015
http://comfy.moneyadviceservice.org.uk//system/comfy/cms/files/files/000/000/226/original/Milestones___Millstones_booklet_low-res.pdf

We have included some of the key insights from the Survey regarding consumer use of money advice and information in Annex I.

People's planning horizon tends to be limited but more people tend to plan more for the good things in life such as buying a car or going on holiday than saving for a rainy day. Negative life events such as divorce, bereavement and redundancy can have a great impact across all aspects of finance, but are typically more difficult to utilise to engage a consumer in considering the financial implications. By the same token positive life events like having a baby or getting married can have a negative impact on finances.[5]

MAS published earlier in 2015 a collection of research findings on the impact of life events on financial capability, which suggested that to encourage more planning and engagement, there are significant opportunities in:

- **Creating new social norms** – develop more messages around "people like you plan like this"
- **Shrinking the change** – make planning more manageable by helping people to start with small goals before tackling the bigger ones
- **Showing the bright spots** – identify the key consumer benefits of good planning for 'people like me'
- **Extending defaults** – for example, consider more employer-based income protection alongside pension contributions.

The most successful initiatives or interventions to increase consumer engagement with financial services via guidance in the UK have been attached to a major life events such as having a baby, redundancy and retirement.

The Money Advice Service and its predecessor (the FSA Financial capability division) focused on addressing those life events listed above with printed lifestyle guides targeted to specific cohorts experiencing those life events:

[5] [5] Milestones and Millstones, Money Advice Service, September 2015 http://comfy.moneyadviceservice.org.uk//system/comfy/cms/files/files/000/000/226/original/Milestones___Millstones_booklet_low-res.pdf

- Parent's Guide to Money
- The Redundancy Handbook and redundancy seminars
- Your Guide to Retirement

These guides were extensively consumer tested, and trials with various distribution channels and studies on the impact of the interventions on three and six month intervals to understand the impact on consumers' behaviour, were undertaken. For example, 34% said they would speak with a financial adviser as a result of reading the *Your Guide to Retirement*.[6] *The Parent's Guide to Money* reached 94% of expectant mothers when distributed through midwives.

Another useful channel for reaching people is through the workplace. Making the Most of Your Money seminars were delivered by a volunteer group of financial advisers (for whom the seminars could serve as a route to developing longer-term client relationships with seminar attendees) to employers and associations across the UK. The seminars covered budgeting, saving and investing, planning for later life and the applicable employee benefits. In 2011/20112, the seminars were revised to cover redundancy where the redundancy handbook was distributed and employees could sign up for a follow up session with a money adviser. Both workplace interventions are proven to have caused people to take positive action with their finances such as cutting back spending or saving more into a workplace pension. [7]

In 2014, to inform development of a suite of retirement assets on our website, we conducted extensive consumer research into consumer needs for people approaching retirement and examining different triggers to engage people with their pensions and finances more generally. [8] The key triggers or opportunities to engage people who are approaching retirement include:

[6] *Your Guide to Retirement* Impact Evaluation Stage 4, Consumer Financial Education Body, March 2011.
[7] Consumer Financial Education Body, Making the Most of Your Money seminar evaluation, April 2012
[8] Money Advice Service, Bdifferent, *Retirement needs & the retirement journey,* October 2014.

- Starting to take private and/or workplace pensions: (this tends to be between 55 and 60 years. The income from these pensions tend not to be sufficient to allow complete retirement but enable many to reduce their hours). Consumers recognising that they cannot retire until they have enough money from whatever source;
- For many, the State pension is an important contribution to their overall income – so this will be the final part of the jigsaw which allows them to retire;
- Wake-up packs and letters from pension companies;
- Moving abroad, where the cost of living may be cheaper
- Changes in the workplace, such as the acquisition of an employer or changes to employment contracts; or the decline of a small business.

Decisions for people facing retirement do not stay solely in the realm of pensions. There are other life events that affect retirement, for example divorce. This has a major impact on finances years later, especially for women with little provision if they gave up work to look after their family. Outstanding mortgages and debts is a growing issue which falls between debt and pensions guidance.

We are eager to ensure the Review has the full benefit of MAS's extensive research on life-stage interventions, and we would be pleased to present this in more detail to the Review early in 2016.

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

Research in behavioural finance suggests that simplifying the journey to saving more into a workplace pension leads to people saving more. While this insight is now widely understood in the context of workplace retirement planning, the underlying principles have wide-ranging applications.

The more steps an individual person needs to engage with to complete a task, the more they are likely to dis-engage and drop out of the process. The more touch points in a journey the more people will fall out and not complete their goal or bypass all steps and follow the path of least resistance. When confronted with difficult decisions and choices, individuals tend to use short cuts that simplify the complexities faced.[9] In the financial services market, this leads to customer attrition and often a lack of shopping around for financial products and services.

One solution to tackle customer journey and engagement challenges is to create a more integrated guidance service that reduces the friction in consumers' guidance journey, and which is likely to result in higher engagement with financial advice. MAS's submission in response to HM Treasury's review of public financial guidance provides a more detailed explanation of MAS's proposal for the creation of such a service.

As part of such a service, MAS also believes there is merit in considering measures such as an enhanced financial "health check", building on that already provided by MAS, with a portable digital fact find which will act as a bridge between guidance and advice.

Please refer to Question 39 for a full explanation.

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[9] Mitchell, O.S., Utkus, S.P. (2003) *Lessons from Behavioral Finance for Retirement Plan Design, PRC Working Paper No 2003-06* http://dx.doi.org/10.2139/ssrn.464640

Question 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?

Please see our response to question 12.

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

It is not clear to MAS that there are overwhelming barriers to the digital innovation and the development of automated advice models.

We have heard from firms who have engaged with the FCA in the development of digital models and have found the regulator helpful and encouraging. We have also provided evidence of firms that have successfully developed automated advice models.

The initial build cost associated with developing an automated advice offering is clearly likely to be a major barrier for some firms, however that is not something the Review can address directly. Moreover, while these costs are likely to be an impediment to "challenger" businesses, it is likely that other concerns, such as the perceived regulatory risk inherent in offering such a service, may tend to undermine the investment case, especially in established firms. The Review has made clear that it will be considering the scope for regulatory "safe harbours" during the Review. MAS does not have a view on the desirability of such measures.

The collection of data about an individual's financial circumstances is often cited by firms as the most expensive and time consuming part of the advice process. Therefore an area we believe could be developed further that might assist smaller firms to provide a more digital advice process is the portable fact find. We have covered this in more detail in Question 39.

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

Trust is still one of the biggest issues for consumers when interacting with the financial services industry and this is heightened when dealing online with firms. Consumers are also mostly unaware of new advice models.

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

MAS believes a collection of coordinated and complementary measures are required to effectively increase consumer engagement and actively facilitate the emergence of new advice models.

Collective action to improve financial capability

The UK Financial Capability Strategy aims to improve financial capability which means improving people's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty. The strategy is focusing on identifying and testing interventions to understand what works and to bring these interventions to scale to positively influence financial capability. Many of the interventions are likely to focus on "nudging" people, including through guidance, to engage with the financial services industry to become more effective consumers. Central to delivery of the Financial Capability Strategy is "collective action" by a wide range of stakeholders from the commercial, voluntary, and regulatory sectors, to identify, test, and apply effective interventions. MAS believes that increasing consumers' financial capability is an important component of solving the challenges the Review is seeking to address.

Create a holistic guidance service

To address the "guidance to advice" gap, MAS believes there is scope to ensure that public guidance offered to consumers is more integrated, and coherent, and consistent in its ability to get closer to the regulatory boundary. MAS believes a new organisation should be created to bring together the functions currently delivered by MAS, TPAS, and Pension Wise. This organisation, funded through levies on the financial services industry, would remove duplication and inefficiency in the current guidance landscape, and deliver a more coherent service to consumers, with a lower industry levy. It should be accountable for delivering clear statutory objectives to procure guidance services and interventions in the most effective and efficient way possible. It should commission, grant fund, or procure services in such a way to deliver a more integrated, responsive, and personalised guidance service to consumers throughout their financial lives than is currently available, supporting long term increases in financial capability. It should be based on evidence of what really works, and on consumer insight into the financial problems consumers need help with.

The core principle of a guidance service should be:

- **Efficient** - services are provided in the most efficient and effective way, with due regard to the need to deliver value for levy funding.
- **Holistic –** A holistic service that addresses a consumer's financial needs in the round and reduces friction in the consumer journey.
- **Personal –** Guidance is tailored to the individual
- **Evidence-based** – services which are based on evidence of customer need, and of what actually works to help consumers make good choices
- **Independent and impartial –** guidance should be delivered free of any conflicting incentives and should be focused on delivering the best, objective guidance, above all else.
- **Consumer focused –** services focus on meeting these needs and coordinating the sector to improve the financial capability of the UK.

Digital fact find/health check

There has long been discussion in the financial services industry of the need for a "portable fact find" which would allow consumers to have one place to hold all their financial records, adding to them and updating them where necessary but in a portable format so that they can be shared with a financial services professional as and when one is consulted.

In the context of the FAMR's objective of bringing forward measures to facilitate a stronger demand for financial advice, there may be significant merit in considering whether such a tool could be provided by an impartial, statutory entity.

Such a tool could, in future, link to other tools and systems which are either in development, or which are expected to emerge in future, such as the Pension Finder tool (which MAS is currently leading development of with a range of partners) and ultimately a pensions dashboard, which could provide up to date information on an individual's financial situation, for use by advisers.

MAS believes that, post FAMR, and as a result of the outcome of HM Treasury's review of public financial guidance, the journey for a consumer, from an initial request for help on any financial matter, to relevant information, to advice (regulated financial advice or debt advice) where appropriate, to a product choice, if appropriate, should be much smoother than at present. The key is having the ability to provide the information easily to financial services professionals so that customers are not forced repeatedly to explain their financial circumstances.

However, the format of the portable fact find would need to be in a standard industry format and agreed by the regulator so that firms have the comfort of knowing they are compliant with the regulations if they use the fact find to assess a client's needs.

Financial advisers would still want to assure themselves that the information provided on the standardised fact find is correct and up to date, but this could simply be a question to the customer at the first contact meeting.

MAS's existing financial health check could potentially be adapted to enable consumers to hold information easily and safely as well as giving them a free check on the state of their finances.

Effective awareness raising

The financial advice landscape is confusing for consumers to navigate. The effect of the numerous different labels applied to different types of service is one source of this confusion. The Review should consider what measures may bring greater clarity to consumers' understanding of the different forms of advice, including measures to rationalise the landscape and adopt more understandable nomenclature. Alongside the implementation of whatever measures flow from the Review, consideration should be given to how consumers' awareness of the types of advice available, how to engage an adviser, and what advice entails, can most effectively be raised.

Money Advice Service Draft Response to Financial Advice Market Review Annex I

Key insights from Financial Capability Survey 2015[10]

- 60% of UK adults had used some money advice and information sources in the previous 12 months[11], leaving 40% that had not accessed any.
- This reduced to 54% if we exclude those that only went to their friends and family for advice.
- Use of advice & information was greatest (77%) amongst households with an income above £50k, but still 23% of this group had not accessed any.
- Older people were least likely to have used a money advice / information source in the past 12 months – 49% of all 55+ year olds had done so, and 56% of working 55+ year olds had used any source.
- 6% had used a financial adviser and 3% had used MAS in the past 12 months.
- 12% of 55-64 year olds had seen a financial adviser in the past 12 months.
- Overall, women were significantly less likely to have seen a financial adviser (5%) than men (8%).
- 10% of those with mortgages had accessed a mortgage, tax or insurance broker in the past 12 months and 9% had seen a professional financial adviser (a net of 17%). Just 3% of those in private rented accommodation had seen a professional adviser or a broker in the same period.

The following analysis summarises how use of different money advice sources correlates with the different financial capability domains:

Connection

Those with a disability and without internet access were less likely to have used money advice & information sources, with 45% and 66% not using any, respectively.

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[10] http://comfy.moneyadviceservice.org.uk/system/comfy/cms/files/files/000/000/260/original/MAS_FinCap_Technical_Report.pdf

[11] M2. Which of the following sources of information have you used in the last year to find out about anything to do with money – whether that is how to budget or plan your finances, the best insurance, banking or credit products available, how to claim benefits or grants, or to get any help or advice, etc.

Behaviours

Those accessing advice sources tend to be wider 'money users' – more save regularly, but also more are over-indebted. Those not accessing advice sources were less likely to set a budget or keep track. 2 in 3 (65%) of those that had not checked any supplier tariffs had also not accessed any money advice & information sources.

Wellbeing

There is no link between those using advice sources and financial wellbeing (how satisfied they are with their financial circumstances) and those not using any sources were less likely to feel anxious about their financial situation.

Ability

74% of those with no qualifications, and 66% of those that could not read the bank statement had not accessed any sources other than friends and family, compared with the national average of 46%.

Mind-set

- 68% of those with any financial goals had used any source for money advice and information (excluding friends and family).
- 49% of those that agree that 'Nothing they do will make a difference' and 47% of those that prefer to 'live for today' did not use any advice sources (compared with the average of 40%). Those using any sources tend to feel under more pressure to spend like their friends or on their children.
- Although still a barrier to some, being 'too busy to sort finances' was not linked to general use of advice sources, suggesting this is not a major barrier. Social media, MAS and the workplace appealed slightly more to those that consider themselves too busy for their finances.
- There was no difference in levels of confidence in managing money[12] and general use of advice sources but those low in confidence choosing financial products[13] and services were less likely to use any source – only 46% had used any source other than friends and family (compared with the average of 54%). MAS users over-indexed amongst those with low confidence in managing their money – the same proportion of these (7%) had gone to their bank or building society as had been to MAS in the past year.

[12] Low confidence = 0-3 rating out of 10

December 2015

The Money Advice Service
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MONEY
ADVICE TRUST

BUSINESS DEBTLINE | NATIONAL DEBTLINE | WISER ADVISER

Consultation response: HM Treasury Financial Advice Market Review

Response by the Money Advice Trust

Date: December 2015

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Introduction

About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money wisely.

The Trust runs National Debtline, offering completely free, independent and confidential advice on personal debt over the phone and online. In 2014 National Debtline helped more than 285,000 people to tackle their debts and manage their money well, with 80% of callers saying they felt more in control of the financial situation following our advice.

We also run Business Debtline, the UK's only dedicated debt advice service for the self-employed and small business owners. In 2014, Business Debtline helped over 40,000 people, with 93% of our callers saying they felt more knowledgeable about their financial matters overall after our help.

Through these practical self-help advice services and our Wiseradviser training programme, in 2014 we helped more than 1.2 million people.

Beyond our frontline activity, we work closely with government, creditors and partners to improve the UK's money and debt environment.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

About our response

Our submission is based on our experience as:

- ✓ a charity whose mission is helping people across the UK to tackle their debts and manage their money wisely;
- ✓ a charity delivering free, independent debt advice for almost 30 years by telephone and online directly to the public, and training debt advisers in other charities;
- ✓ a delivery agency funded by a debt advice levy and donations from creditors, both consumer and trade;
- ✓ a collaborative partner that works closely with other advice sector agencies in the interests of the best client outcomes; and
- ✓ an agency delivering financial capability as part of debt advice.

Introductory comment

We welcome the opportunity to contribute to the financial advice market review.

Our expertise in this area comes from providing debt advice for more than 25 years and working in partnership with government, creditors, regulators and the wider advice sector including through our Partnership Board, chaired by Sir Brian Pomeroy. At the heart of our approach is our belief that the best way to help people in debt is to empower them to help themselves. Our respected model of ‘assisted self-help’ advice allows people to control their own debt situation, resulting in better long-term financial health.

Our response focuses heavily on advice and guidance for people facing financial hardship or indebtedness, given our remit. We have also responded to the government’s *Public Financial Guidance* consultation which complements this.

There remains a significant advice gap for free advice for people in debt. The current scale of consumer need for free debt advice is significant, likely to increase and unmet by current supply**.** Money Advice Service (MAS) research shows that 8.2 million people are over-indebted, but only 17 per cent seek debt advice.

Demand is widely predicted to increase in the future due to a confluence of economic and social factors. These include the impact of welfare reform, a significant expansion of consumer credit, possible higher interest rates, increased housing costs, and long-term demographic trends, including migration. Reliance on provision by the free-to-client sector is likely to increase due to the exit of fee-charging debt management companies from the market due to FCA authorisation. However, existing provision in the free-to-client sector is at capacity, and insufficient to meet existing need. For this reason, and as we explain in more detail in our response to HMT’s Public Financial Guidance consultation, we do not see scope to ‘rationalise’ the funding of public financial guidance for debt advice in in the near future.

Responses to individual questions

Question 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 are pleased to hear that there will be consideration given as to whether there are any particular difficulties that affect vulnerable people or those with protected characteristics in their need for or ability to access financial advice.

The FCA occasional paper into consumer vulnerability[1] defines vulnerability as follows: *"A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."*

We would suggest that most people in debt could be considered vulnerable. *"Low income and/or debt"* is listed as one of the risk factors for vulnerability in the paper along with other factors such as *"low literacy, numeracy and financial capability skills"*. It seems to us that to be self-evident that people in vulnerable circumstances will have particular needs for financial advice. For example, of our National Debtline clients over 20% state they have fallen into debt due to ill-health or disability and 10% due to mental health issues. They are likely to have particular difficulty in finding that advice and they will be unable to pay for such advice due to being in debt or on a low income. The FCA Occasional Paper on Vulnerability details some of these difficulties and evidence presented to the British Bankers Association (BBA) Vulnerability Taskforce, chaired by our Chief Executive and due to report in February 2015, outlines some of the ways that financial services industry is working to address this.

It also seems clear that these vulnerable groups overlap with the some of the groups identified as having protected characteristics under the Equality Act 2010 in particular in relation to age, and disability.

"Age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation."

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

We are mainly familiar with FCA authorised debt advice (which is not product specific) rather than regulated financial advice that normally relates to specific products. It is therefore difficult for us to comment on the financial advice concepts and how these work in practice for either advisers or those seeking advice.

However, we would expect that it is fair to say that most consumers will not have much knowledge of the distinctions between different forms of advice or how these interact. This

[1] http://www.fca.org.uk/static/documents/occasional-papers/occasional-paper-8.pdf

does not lead us to any obvious conclusions as to how these different forms of financial advice could be categorised.

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

We are not in a position to comment on the consumer demand for professional financial advice as we give debt advice. It seems reasonable for the Mintel research quoted in the paper to conclude that consumers are more likely to seek professional advice for more complex products and when their wealth might be impacted. More simple products like life insurance or general insurance would be less likely to need professional advice.

We would expect that the demand may cluster around specific life events such as buying a house, preparing for retirement, and so on. We are most likely to need to refer debt clients to independent financial advice when considering age-related equity release or re-mortgages on divorce or separation. Since the pension changes came into force in April 2015, the need for advice on what to do with pension lump sums has also become much more prominent. We do not normally have many debt advice clients who need advice on how to invest savings and lump-sums more generally.

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

We are unable to comment extensively on the demand for financial advice from sources other than professional financial advisers.

We would suggest that public confidence in online price comparison websites to make decisions on insurance products and similar more "simple" financial decisions would be affected by the quality, accuracy and independence of those price comparison sites. Factors such as whether the information is transparent and whether fees and charges are hidden are important in judging whether these sources are reliable. If the search engine only returns "sponsored" products or it is not clear if the returns cover all market policies or just those where there is a financial connection with the price comparison website, then these providers would not be fit for purpose. People may therefore make poor financial decisions through no fault of their own. We suggest that there is a need for a robust set of rules for such comparison sites to ensure public confidence and trust.

We can however, comment on the demand for debt advice. Money Advice Service research, "Indebted Lives", highlights that there are 8.1 million people over-indebted in the UK, however only 17% of those have sought debt advice, and 21% do not see themselves as being in debt.[2] The same research sets out the impact of debt on peoples' physical and mental health and their overall quality of life. This study mirrors earlier research carried out by John Gathergood for the Money Advice Trust which suggested that of the 5 million people who report problem debt, only 2.6 million seek advice.[3] Other ad hoc surveys (e.g. Comres for BBC) have also reflected this reluctance to seek advice or the lack of awareness of the availability of advice.

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[2] https://www.moneyadviceservice.org.uk/en/corporate/indebted-lives-the-complexities-of-life-in-debt-press-office

[3] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/demand_capacity_and_need_for_debt_advice_in_the_uk_2012.pdf

The type of debt problems that clients report to the free debt advice sector have changed over time with fewer clients in full time employment and in mortgaged property with credit card debts, and more people in rented accommodation with priority debts on essential household bills.

The Money Advice Trust has released its own report Changing Household Budgets[4] which reveals more people are falling into debt because they can't afford basic household bills such as rent, energy bills, water bills, telephone bills, and council tax. The report highlights this important change in the debt landscape. National Debtline has seen a radical shift in the types of debt problems it helps people resolve. More people than ever before now need help with energy debts, water debts, telephone debts, council tax debts, and catalogue shopping debts – whilst less people report problems with traditional credit products such as bank overdrafts, loans and credit cards.

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

As a debt advice charity, we have a wealth of evidence relating to the reasons why people seek debt advice and the types of debt that they have. They may need advice on how to access a particular debt option, or what debt option is suitable for them. They may have been prompted to seek advice about a specific emergency such as repossession, court action, bankruptcy or how to deal with enforcement action by bailiffs. They may have a range of priority debts or be struggling to deal with credit debts.

In our recent Changing Household Budgets research we demonstrated that we are increasingly helping people who have fallen behind with everyday household bills and who are struggling to repay smaller debts. This and other consequences of the recession mean the demographics of those in financial difficulty are changing significantly. We understand that these client trends are also being identified by other charities such as Citizens Advice and StepChange.

In our experience, debt advice has better results when used at an early stage. We are therefore advocates of early intervention as advice at an early stage will normally result in more options being available. However, it is a great challenge to ensure that people seek that advice at an earlier point in their debt problem, before it spirals out of control. We are working with the sector, credit industry and the Money Advice Service to try to identify the key points where people are more likely to seek advice. These may be life events such as having a baby, going to college, marrying or divorcing, retiring and bereavement, or changes in circumstances such as job loss, sickness and redundancy. If advice is offered at key points, is it more likely to be acted upon or taken up because it is of immediate relevance.

The need for debt advice does not tend to exist in isolation. Most people will have overlapping problems that are not directly to do with their debts. These may relate to welfare benefits and income, physical and mental health, housing, legal problems to do with employment, relationships and so on, as well as pensions and savings. We would suggest that the common financial issues identified in the paper may need expanding accordingly.

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[4] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/changing_household_budgets_report_final.pdf

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

We are familiar with the FSA consumer spotlight segmentation model which helps paint a picture of different consumers and their financial situation. We would have thought it would be useful for exploring consumers' advice needs. The detailed data within each segment on attitudes to credit and advice seeking behaviour is definitively valuable information and provides a mine of information on income, assets and credit products that should assist.

We would for example welcome the ability to model our clients at National Debtline and Business Debtline against the segmentation model. We wonder if the model could help to demonstrate the effects on different segments of a substantial cut in income such as welfare benefit and tax credit changes.

We have previously worked with Experian[5] to enhance our understanding of our clients and more effectively tailor our debt advice services to reach those in financial difficulty. Experian insight is also helping shape our efforts to raise awareness of National Debtline and Business Debtline amongst key demographic groups.

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

Whilst we value the consumer spotlight segmentation model, we wonder if there is scope for further development of the model to make sure that all elements of society are captured within the model. For example, the "hard-pressed" segment is most likely to include people who are on benefit-related incomes. [6] However, the difficulties faced by people who are sick or on long-term disability benefits are not adequately reflected in the picture of the "hard-pressed" segment.

In our experience, people with particular debt issues, are most likely to inhabit particular segments. We would identify these as:

- ✓ Retired on a budget
- ✓ Living for now
- ✓ Striving and supporting
- ✓ Starting out
- ✓ Hard pressed

However, there are segments such as "stretched and resourceful" where there is a high level of credit commitment. There is a substantial danger that they could get into unmanageable debt if they suffered from an income shock such as redundancy or illness and were unable to maintain their credit payments.

We suspect that debt advice is not the prime focus of this review, but we would expect that the segments we have identified above will be amongst those who are least able to afford

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[5] http://www.moneyadvicetrust.org/media/news/Pages/Money-Advice-Trust-and-Experian-work-together-to-increase-understanding-of-people-in-debt.aspx

[6] http://www.fca-consumer-spotlight.org.uk/explore-segments/hard-pressed#na

financial advice on pensions, financial planning or mortgages and therefore fall into an advice gap.

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

We understand from the paper that there is an assumption that the differences between 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 to their level of investments."

It can therefore be taken that more expensive forms of advice are not cost effective if you have lower amounts to invest. However, it is important not to make the assumption that people who do not take up financial advice are making a rational choice not to pursue advice in this manner. They simply do not have the means to pay for it.

Many people on low incomes may well wish to have financial advice but are unable to afford the fees. Alternatively, they are informed that it is not worth the financial advisers while to provide the advice. We have found this to be particularly difficult in cases where clients are in debt and have small pension pots to invest or realise. We also find cases where people are unable to afford financial advice for re-mortgaging where they have mortgage arrears, or someone is at the end of an interest-only mortgage contract and is unable to get advice on re-mortgaging. They may be elderly and need advice on life-time mortgage options and wish to avoid losing their home.

You could also take the view that the potential detriment to consumers who make the wrong choice when they have very few financial resources outweighs the potential detriment to consumers who are already cushioned by considerable income or capital wealth. Clearly the impact of losing your only lump sum savings of £20,000 is relatively higher than for someone who loses £20,000 out of a substantial portfolio of investments.

Another consideration is that when someone is on a low income with no savings, their day to day priorities are to survive and keep food on the table. They are not in a position to shop around or research or possibly even consider factors such as financial advice. This would again affect relative demand for such services.

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

There is not always high consumer awareness that free, independent debt advice services exist. There is a significant lack of transparency for consumers seeking debt advice and debt solutions. There are not only free to client debt advice agencies but a range of fee-charging debt management companies of variable standard, and any Google search will find a range of unregulated lead generation companies using misleading or look-alike trading names explicitly purporting to be charitable or government organisations. It is clear however, that a large number of consumers do not shop around for an appropriate source of money advice. Many struggle to find an advice provider and do not have the luxury of 'choice'. Others stumble across an advice provider - who may or may not be the most appropriate to meet their needs.

Against this complicated background the process of finding a source of debt advice can be confusing and obtaining good quality advice can be a bit or miss affair. Also, where there is awareness, there may be stigma around accessing such support.

We also know from our own research that creditors are often able to identify early signs of financial difficulty from customer behaviour - sometimes even long before the customers themselves would recognize that they are in financial difficulties. In 2011, the Money Advice Trust with Barclays and Bristol PFRC explored how creditors could use this information to identify, contact and support such customers. It found that more than 80% of customers contacted in this way responded positively.[7] We strongly encourage all creditors to create these early intervention 'touch points' where possible.

The important consideration here is not only finding a means of encouraging consumers to seek early support for their debt problems but empowering consumers to know whether advice is independent, whether there are costs associated with the advice and whether the advice is good quality. Poor or misleading advice can often be more harmful than no advice at all. We suggest that there is not a single solution to this problem and below we have given consideration to a variety of approaches that could be used together as part of a broad consumer engagement strategy.

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

We do not have any insight into the supply of financial advice that we can provide at this point.

Question 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?

We are not providers of professional financial advice, so it is difficult to comment. In our experience of clients in debt seeking independent financial advice in relation to their pension pots, or re-mortgaging because of mortgage arrears or other debt problems, the main problem they face in obtaining that advice is that there is now an upfront fee for the advice which they are unable to afford. It also appears that some IFAs are only offering advice to people who already have high pensions and levels of savings. This means our typical client is unable to access financial advice and has little choice but to make decisions based upon generic advice and information sources or give up obtaining the advice altogether.

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

We can only comment on our experience at Money Advice Trust in harnessing new technology to develop new products and to provide advice in new ways. We have outlined how we deliver advice online below.

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[7] Money Advice Trust/University of Bristol/Barclays, Understanding financial difficulty: exploring the opportunities for early intervention, October 2011

The Trust's three-year plan is based on a channel shift to serving more clients online – last year National Debtline served over 182,000 clients online, representing a 194% increase on the number of clients we served online the previous year. For Business Debtline we served 46% more clients online in 2014 than in 2013. We have also seen a 212% rise in the number of visits to our website from a mobile device (Source: Google Analytics 1 Jan – 9 Nov 2015 versus same period in 2014) and a 119% rise in visits from tablets for the same period.

My Money Steps is our comprehensive online budgeting and debt advice tool. It works on our library of rules, logic and suggestions. Once a user has answered a series of questions about themselves they are given debt advice that is tailored to their personal circumstances. My Money Steps builds a personalised action plan with prompts and deadlines and step-by-step guides. It also prompts the user to take action and update their profile to maintain progress with their situation.

Our plans to integrate our CRM with our redesigned interactive online tool will further improve the accessibility of our services and user experience of our clients – offering them a seamless multi-channel journey to free, tailored and high quality advice.

We have also developed a webchat service. Accessible from www.nationaldebtline.org our webchat service gives our clients the option of receiving free, independent debt advice online. The technology behind our webchat service allows the users to initiate a chat session using the pop-up that appears when the visit our site or using the side bar visible on every page. Once a chat session is initiated it is queued to a waiting adviser who is alerted by our telephony system. During a chat session the client can be signposted to fact sheets sample letters and any other online information. Since its launch in May 2014, National Debtline's webchat service has delivered over 33,000 advice sessions (until the end of October 2015).

Our research suggests that the profiles of clients using our telephone and online channel offerings may vary slightly. For example, users of our online tool My Money Steps are likely to be younger than our phone clients and also more likely to be in employment, perhaps reflecting the convenience of being able to access advice at a time that fits in with busy working lifestyles. However, we are aware that many clients will access multiple channels whilst seeking a resolution to their debts so it cannot be assumed that the channels, and the client groups using them, exist in isolation from each other. Nonetheless, by identifying that there may be variations in the way different client groups want to engage with debt advice we hope to be able to reach as wide an audience as possible with a view to contributing to the breaking down of barriers that can prevent people getting the help that they need.

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

The paper appears to concentrate upon the economic model for financial advisers of supplying advice and products to their customers. We are unable to comment on how financial advisers function in relation to their economic models.

Question 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?

No

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

We do not charge fees to clients so do not assess our clients on the basis of their financial means. The clients we serve with debt advice are often not economically viable for commercial debt management firms to support.

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

We cannot comment on whether the barriers identified in the paper are in reality, barriers that are faced by financial advice firms. We would however, make a plea for regulatory clarity. We note that the paper recognised that the legal framework is complex. It is certainly an issue for free debt advice providers to make sure that we do not stray into the boundaries of regulated financial advice when dealing with clients in debt who have small pension pots to consider.

From our perspective, we do not have a problem finding consumers in need of debt advice, as our services are full to capacity. The long-term barrier is more to do with expanding the capacity, funding and resources to provide sufficient services to reach all those who have been identified by the Money Advice Service as being in need of debt advice. There is also a barrier that we would say exists in getting people to recognise that they are in need of debt advice and persuading people to seek that advice early, before their problems spiral.

Question 17: What do you understand to be an advice gap?

We understand that the working definition of an 'advice gap' is set out in the paper as:

"any situation where consumers cannot get the form of advice that they want on a need they have, at a price they are prepared to pay."

We would support the findings from the research done by Citizens Advice into advice gaps.[8] This states that there is more than one type of advice gap.

"There is not a single advice gap, affecting those who want advice but can't afford it. There are a series of gaps which lead to a range of people missing out on the benefits of money advice and the security that it affords."

[8] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/the-four-advice-gaps/

The research identifies four types of advice gap which we have set out below.

- ✓ The affordable advice gap affects consumers who are willing to pay for advice but not at current prices.
- ✓ The free advice gap affects people who want advice but are unable to pay for it.
- ✓ The awareness and referral gap affects people who are not aware that advice exists, or where to get that advice.
- ✓ The preventative advice gap affects those who would benefit from having money advice as a preventative measure.

The elements that Citizens Advice has put forward fit with our experiences of the gaps in advice.

It is important to think about how consumers need and take up advice. They will not be aware of the regulatory restrictions on the types of advice available which means that pensions and investments advice is in a different pot from debt advice. People may seek advice when they are faced with particular life events which could cross over into debt, pensions, financial capability, benefit and income maximisation advice and so on. People may expect to receive holistic advice from one source, although this would be extremely difficult to achieve given the complexity of the various areas of advice that would need to be incorporated and the skill levels would be unachievable for advisers to allow them to be experts in all areas.

We expect that this would not be a reasonable aim to adopt, but that referrals mechanisms and barriers to easy access to advice should be diminished as far as possible. An example here would be how a debt advice provider might refer a client with a pension pot to Pension Wise for advice on what to do with their pension, before they can be given debt advice. There is of course, not guarantee that the client will return for that debt advice. They may also experience the system as rather a “revolving door”. Should the remit of Pension Wise advice be broadened so that debt advice can be provided? Alternatively, further work on referrals mechanisms that provide a better client journey should be put in place.

There may indeed be areas where people are happy to receive generic advice such as on opening a bank account. However, where there is a substantial risk associated with the choice, such as in pension advice this will not be good enough. Consumers are likely to want the reassurance of expert advice and to know that the advice they are receiving is professional. The issue is how this should be paid for.

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

It is difficult to establish whether a lack of demand for advice reflects an advice gap. Consumer demand for advice may be low in some areas because they do not see the long-term advantages of receiving advice in that area. Where decisions to be taken are not complex then it is quite possible that at first glance, there is little evidence of an advice gap. Do consumers understand what is meant by advice? Could a lack of understanding explain a lack of demand in some areas?

However, there should be consideration given to financial exclusion. If consumers do not access an insurance product for example, is this because there is a need for further financial education to enhance basic life skills? Do people not understand how such a product would

be helpful for them? Is the product not suitable or accessible for some people? Are people in a position where they do need basic advice as they have no idea what the product is for, how to apply or are unable to afford the product if they do apply?

Also, there may be a lack of consumer awareness that a particular type of advice is available. In some cases, consumers may struggle on without realising that there is a solution to their problem. For example, people can get used to being in debt as a normal feature of their lives and in a state of constant level of stress and worry, without understanding what debt advice is and that debt advice could help them in particular.

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

We agree that there are advice gaps to be found and in the area of debt advice in particular.

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

There are gaps in provision of debt advice. This can be demonstrated with reference to recent Money Advice Service research. The scale of consumer need for free debt advice is significant, and likely to increase.

- ✓ Money Advice Service (MAS) research, published in their Financial Capability Strategy shows that 8.2 million people are over-indebted, but only 17% seek debt advice.
- ✓ Demand is widely predicted to increase in the future due to a confluence of factors. These include the impact of welfare reform and tax credit changes, a significant expansion of consumer credit, higher interest rates, increased housing costs, the exit of fee-charging debt management companies from the market due to FCA authorisation and long-term demographic trends, including migration.

We would also highlight resource issues in the advice sector following the reduction in legal aid, and reduction in local government funding in particular. This has resulted in the closure or diminished services at locally provided debt advice centres such as Citizens Advice. The Low Commission[9] estimates that there is a growing advice deficit.

"….funding changes, has – we estimate – taken over some £100 million annually out of the advice economy, and that fewer people are able to access advice and support as a result."

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

We believe that the review should focus on advice gaps that are most likely to most drastically affect the FCA consumer segments and cause the greatest detriment. We have already identified the FCA segments where we believe there is most risk of people being in debt or at most risk of falling into debt. We would expect these advice gaps to cause the greatest detriment in the short term.

[9] http://www.lowcommission.org.uk/dyn/1435772523695/Getting_it_Right_Report_web.pdf

In the long term, the lack of savings and pension provision will have the most drastic effect. However, for many of the segments identified, it could be said that it is not the lack of advice that is the issue so much as the lack of money to save, pay into a pension or to afford insurance.

They may have no access to credit because their credit rating has been affected. If they had advice, they might be directed to a credit union rather than a payday lender.

Question 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?

We would agree that pension advice is an area that needs to be focussed upon, given our experience of the lack of independent financial advice available and accessible to our clients with small limited pension pots. Our clients are in debt so are unable to afford to pay for advice, even if they were able to find a financial adviser who was in a position to give such advice for people with limited pensions.

We have identified the lack of access to free debt advice as the most pressing issue. However, we expect this is being covered by the Public Financial Guidance consultation.[10]

Question 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)?

From looking at the Bank of England income survey charts provided in the paper, 78% of households have an annual household income of £50,000 or less. Concentrating work on consumers with this level of income therefore covers most of the population.

The chart showing household wealth held in savings and investments shows 64% of households have below £25,000 in savings. Indeed, 20% have no savings at all and 25% have savings of below £5,000. We would prefer the emphasis to be on improving the prospects for those with little or no savings. There are only 15% of households with between £50,000 and £100,000 and it would be disproportionate to concentrate on the interests of those savers as they are in a better position than the majority. We would have thought making advice work for those with £100,000 in savings would create a significantly different advice landscape than advice for those with less than £5,000.

Question 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?

Clearly EU regulation defines many of the requirements for advice in the UK. What we would like to see is an examination of any potential for simplification in the regulatory

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[10] https://www.gov.uk/government/consultations/consultation-public-financial-guidance

framework particularly in relation to the distinctions between regulated financial advice, financial guidance, information and so on. The distinctions are likely to be lost on the general public and are very tricky for advisers to navigate as the regulatory landscape is so complex in this area.

As an example the changes to the rules on access to defined contribution pensions since April 2015 has led to a set of challenges for debt advisers faced with clients who have an option to release lump-sums from their pensions to pay their debts. As a result, the line between regulated financial advice and debt advice has become somewhat blurred. Clients will have to consider whether to use their pension money to pay debts, and compare this option with their future income requirements. However, giving advice on a retail investment product falls outside the scope of debt advice and requires qualified financial advice that meets retail investment training and competence standards. It is difficult for a debt advice agency to know where the line falls between offering generic advice which seeks to explain options only, and regulated financial advice and advice agencies could run the risk of future compensation claims if they get this wrong.

However, a debt adviser will need to explore the client's assets in order to give best advice on debt options. This could lead to a need to refer onto a financial adviser for pensions advice and for them to refer back again to the debt adviser for supplementary debt advice. We believe that further clarification of the rules is needed to ensure that debt advisers are not caught out and that clients referred on for pensions advice are not refused that advice because their pension pots are below the financial limit that the financial adviser considers worth their while to advise on.

Question 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?

We are unable to contribute to this debate as it relates to EU legislation and financial advice.

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

We were pleased to see the simple product initiatives. The Seargent review recommended a suite of simple savings and insurance products that would be transparent and straightforward. However, the development and kite-marking of such products have been rather slow to get off the ground. [11]

We do not see as much progress in this area as we would like. Perhaps there has been little incentive on firms to invest in these product areas and crucially to market them to ensure that a wide section of the population is made aware of the availability of such products. There is unlikely to be much take-up if there is no awareness campaign. Perhaps the products are also insufficiently profitable for firms to make the effort to do so. If that is the reason, then it is a rather poor outcome.

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[11] http://www.bsigroup.com/en-GB/about-bsi/media-centre/press-releases/2014/August-2014/First-financial-product-to-receive-a-trusted-mark-in-accordance-with-the-Sergeant-Review/#.VkXx1ssnzIU

The Money Advice Service remit is to improve people's understanding and knowledge of financial matters, and their ability to manage their own financial affairs. They have published their UK strategy for financial capability to help coordinate activities across the sector to improve financial capability over the next 10 years.[12]

This aims to improve financial capability from its current low level but has not set specific targets at this stage. The detailed action plans have the potential to develop understanding about why people do not engage and to promote early engagement and identify crucial early intervention points (such as life events) where people are more open to offers of help.

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

We do not have any relevant experiences that we can share in relation to how other jurisdictions regulate financial advice. However, we would suggest that examples such as the Netherlands cited in the paper, could be researched further.

It would be useful to see whether their legislation to shift financial advice from product driven sales to consumer-focussed advice via the mechanism of banning remuneration through commission, has had a similar effect to the UK's Retail Distribution Review. Have lower income consumers with small investments and pension pots, also lost access to financial advice? Has the very worthy aim of dissuading financial advisers from recommending products that are not in the best interests of consumers (but attract higher commission) had similar consequences?

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

We do not have sound evidence that there are behavioural biases that limit consumer engagement without face-to-face advice. Money Advice Trust and Policis carried out research into the client experience of using different channels for advice and the potential for channel shift strategies.[13]

This research brought together evidence around how people need and want to seek debt advice and how they can be directed towards the most appropriate channel. It sought to understand how outcomes and experiences differ between different advice channels, the dynamics of channel choice and the potential for channel shift. The research findings illustrated that across all channels, a significant majority of clients have received positive outcomes as a result of receiving debt advice. Each channel carries its own benefits as well as potential drawbacks.

There has been much thought given to consideration of some creative and indirect ways that debt advice can be provided. For example the Trust is increasingly providing advice through forums such as Money Saving Expert, an approach whereby we focus on operating within the online communities where those in need of debt advice are most likely to engage.

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[12] http://www.fincap.org.uk/

[13] http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/mat_policis_channel_strategy_research_vol_1_channel_choice_200212.pdf
http://www.moneyadvicetrust.org/SiteCollectionDocuments/Research%20and%20reports/mat_policis_channel_strategy_research_vol_2_channel_shift_200212.pdf

This is a different model to the more traditional methods of working, and we think that it is beneficial as it has the potential to reach a much wider audience than an email or web chat that will only benefit a single client directly.

Question 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 are not at all convinced that additional safe harbours in respect of particular types of advice or specific products are a good idea for consumers. We cannot comment on whether such regulatory innovations would increase the incentive to supply advice for particular firms. However, we do not see why granting extra immunity would mean that financial advisers would start to provide free financial advice to those who cannot afford to pay. In our opinion, this is where the advice gap lies.

Our concerns about an advice gap specifically relate to the lack of availability of free debt advice. Whilst the free debt advice sector seeks clarity about our role in relation to giving debt advice where pensions are involved, we have no wish to carve out regulatory protections for ourselves. We would not wish to see any protections currently afforded to our clients such as the ability to complain to the Financial Ombudsman Service about the advice we have provided to be diminished or removed.

We do not think it is reasonable for firms which have charged to provide a service to be able to avoid liability for that advice in the future. We think there would be reduced consumer protection in these circumstances and an increased risk to consumers. We cannot support any proposals that would prevent consumers from taking action in court or take their case to the Financial Ombudsman Service.

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

We do not support the expansion of the safe harbour concept and believe this would cause consumer detriment. We therefore do not wish to propose any areas of the regulatory regime for a safe harbour.

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

We do not support the development of safe harbours in financial advice. We do not feel that this is appropriate for financial advice given the levels of consumer detriment that are possible in this area.

We feel that the impact on consumers would be an increase in the level of risk to unjustifiable levels. The concept of safe harbours appears to prevent consumers from securing redress for particular products or types of advice. Given the low levels of financial capability in the UK, this is not a reasonable course of action. Consumers need high levels of protection in relation to financial services because of the high risk that making the wrong

decisions or poor products or bad advice will increase financial insecurity and poverty for those already on low incomes with small levels of savings. In some circumstances, the effects for a consumer can be disastrous.

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

We are not a financial advice firm so are unable to comment on whether such firms are discouraged from offering advice about long-term products because of the perceived risks in relation to on-going liability.

Question 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?

We are unable to comment on this question as it is outside our area.

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

We believe there are clear benefits to consumers to be able to access redress for problems with long-term advice. We would suggest that the widespread claims for compensation for mis-sold mortgage endowments are the prime example here. Pensions and financial investments are also long-term products which may be both expensive and unsuitable. Problems with the original advice, fee levels, or mis-selling of the product may only emerge after a considerable time. Many consumers do not have the financial capability to understand the implications of products they are being sold. A national awareness of product inadequacies can take many years to build up.

A quick glance at the Financial Ombudsman Service complaints data shows the wide range of long-term products that are subject to complaint.[14]

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

We would suggest that it is vital that an appropriate level of protection for consumers is maintained.

It seems to us that a single longstop would be unfair as this would not recognise the differing length of some financial products such as mortgages, endowments, life insurance and so on. If this approach was to be adopted, it would be vital to establish a compensation fund to pay out in the event of a claim beyond the longstop period. We agree that this would offer greater protection if the rules do not require the firm to be insolvent before the fund would pay out.

[14] http://www.financial-ombudsman.org.uk/publications/ar15/about.html#a1

We do not favour variable limitation periods as it is not possible to accurately state how long a product will last. You might be able to say that a mortgage typically lasts for 25 years, but there a mortgage products that are designed to last beyond 25 years that are coming on to the market. If a longstop was in place for mortgages set at 25 years, this would mean that there could be no redress for a 40 year mortgage product. It would also not be adaptable for future market innovations.

If this is a very real problem for financial advisers, we would have thought that enhanced professional indemnity insurance products would already be available.

We would suggest that the current regime could be maintained but that enhanced professional indemnity insurance products might be the way forward to protect financial advisers from the additional risks.

Question 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?

This is not an area that we are qualified to comment upon. Our knowledge of these developments is limited to press commentary which has highlighted firms such as Nutmeg.[15]

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

It is of course vital that any developments are subject to regulatory approval from the FCA. We welcome the work being carried out by the FCA's Project innovate[16] which is well placed to decide what safeguards to put in place to ensure the development of automated advice models is carried out with consumer protection as the first priority.

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

The model of advice under consideration is in relation to investments rather than debt advice. We would expect the main considerations for consumers is whether the advice is trustworthy and gives sufficiently nuanced options that reflect their situation. This must depend upon the quality and range of the information that the automated service collects from the customer in the initial stages. This must fully comprehend the goals that the customer has, and fully take into account their attitude to risk.

There also needs to be full transparency as to the nature of the service in order for consumers to trust the advice that is being given. It needs to be clear what level of advice or guidance is being offered, and whether there is human intervention in the process or if the service is fully automated. As there seems to be a great deal of confusion amongst

[15] http://www.theguardian.com/money/2015/nov/08/financial-advice-robot-automated-treasury-fca-service
[16] http://www.fca.org.uk/news/project-innovate-first-anniversary-regulatory-sandbox-plans

consumers about the boundaries between regulated financial advice, guidance and information, this could be a problem.

We are not convinced that such services can be a substitute for full and holistic financial planning, but may be able to offer more limited and crucially cheaper services. However, a simple, step-by-step process at a set cost, may help to make financial planning more accessible to a wider group of people who are unable to afford the costs of financial advice. There may be options to develop a mass model for paid for advice via the phone and digital-based that can be costed and offered at a set price. Once the model is in place, it might be possible to scale that up for different types of advice.

We are much more familiar with the area of debt advice. The Trust has pioneered the development of online advice through My Money Steps.[17] My Money Steps is a free online debt advice service that set out what options are available to deal with debts, suggests suitable debt options tailored for the client's circumstances, and provides a personalised step-by-step action plan to help manage finances.

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

We do not see a simple solution to these issues.

We have identified the lack of access to free debt advice as the most pressing issue but will mainly raise this in our response to the Public Financial Guidance consultation.

We suspect that an expansion of PensionWise to embrace more subject areas and to allow more flexibility in providing advice rather than just guidance and information could help bridge the advice gap particularly in relation to pensions and financial advice.

Furthermore, there is a clear need to develop an expert telephone and digital advice service to provide regulated financial advice that is free to consumers or of limited cost. This would need to have external funding in some form or other. This could bridge the gap between the current lack of available regulated financial advice for simpler straight forward queries for those who cannot afford full financial advice, and full face –to- face financial advice provided by an IFA. This could be an expansion of the FCA advice line, build on the Money Advice Service helpline or on PensionWise.

Question 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?

We do not support the implementation of measures that will provide a poorer quality service or lower standards of advice. That would seem to create the worst of all possible outcomes. If it is the conclusion of this review that there is little economic incentive on firms to provide financial advice services, we would suggest that there needs to be a funded service put in place in parallel to the work of IFAs. It appears that consumers who have fewer financial

[17] https://www.mymoneysteps.org/

resources will otherwise suffer detriment as there will be no one to provide a service to them that they can afford or access.

We also do not support any revisions to the "long-stop" provisions that affect the ability of individual consumers to seek redress.

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

There needs to be a robust quality monitoring process as part of any future service. If members of staff are required to be IFAs, then presumably they will meet their obligations to provide regulated financial advice.

For more information on our response, please contact:

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Money Super Market com

FCA: Financial Advice Market Review

The following document represents MoneySuperMarket's response to the HM Treasury and the Financial Conduct Authority's (FCA) review of Financial Advice Market Review (FAMR).

Executive summary

- MoneySuperMarket recognises that many consumers are anxious when researching and buying financial products, and seek assurance from third parties where they can. Many consumers do not look to pay for that assurance by seeking advice.
- There is often asymmetry of information between consumers and financial services firms. Many firms seek to operate on a non-advised basis. This creates an expectation gap between consumers (who are seeking to glean advice where they can) and firms (which are trying to avoid giving advice, in the regulated sense). This gap then leaves consumers underserved.
- One of the biggest benefits for consumers going forward is the innovation of more-tailored, more expert, automated advice. This could help bring free financial advice to the mainstream. All firms seeking to operate on this basis should be able to do so with a clear understanding of how advice rules will impact those activities.
- MoneySuperMarket believes that the regulatory regime needs to be proportionate and not restrict this innovation.

Response

MoneySuperMarket has been helping UK households save money on their household bills and finances since 1999. Our vision is to help every household make the most of their money. We provide our customers with free, easy to use, online services so they can search for a wide range of products and find the product most suited to their needs.

We work with consumers across a range of different financial sectors, and help them choose products such as general insurance, credit cards, current accounts, loans, savings accounts and mortgages. As part of this we provide tailored information to consumers. We find this helps consumers find the right products for them and helps them navigate what can be complex products.

In response to this call for evidence, we want to draw on some of the insights we have from consumers. In particular, we recently commissioned in-depth research into the common triggers and barriers that consumers identify when looking to make a switch. This gave us a much richer and deeper understanding of the emotional relationship that consumers have with their money, and by extension the type of reassurance and advice they seek from comparison websites.

This research found that for many people the idea of switching financial products causes them significant anxiety, and this prevents them from considering changing products or providers, despite knowing that it could save them money. They would very much like to be able to take steps to sort their financial affairs, but lack the confidence to do so. This lack of confidence is a result of consumers not knowing how to sort out their finances, or the financial products they have been considering are too complex to understand. They report feeling depressed, anxious and annoyed when it comes to money, and say they feel a lack of control.

As a result, consumers look for reassurance as part of this process, and often seek assurance from price comparison websites to this end.

Money Super Market .com

MoneySuperMarket looks to provide guidance or informed suggestions to consumers to help them better understand complex financial products, increasingly using automated models. We believe by doing this we will improve outcomes for consumers. It provides reassurance to consumers, and it does so in a very cost-effective way.

We believe that HMT and the FCA need to ensure that this review provides absolute clarity on the definition of advice. The current regime creates uncertainty for firms and can be subject to interpretation. In particular, we would draw a clear distinction between guidance, where firms tailor product suggestions to consumers, with more typical professional financial advice which definitively advises consumers to take one course of action.

We further note inconsistency in the current regulatory regime where advice requirements are inconsistently applied across insurance, investment and consumer credit products. We would support advice rules being proportionate to the inherent risks to the consumer of the products being considered.

Alongside this we would appreciate an ongoing dialogue as we look to innovate the provision of automated, robo-advice. We believe innovation in this space could potentially help huge numbers of consumers make more informed financial decisions. We would urge the FCA not to restrict innovation through over-burdensome regulation.

Underpinning all of this we recognise the need for the price comparison industry to be trusted in its motivations and the information it provides to consumers. We fully recognise that consumers must trust us to operate such guidance. To this end we ensure that our business appropriately resources, and embeds customer-first principles throughout all our ways of working.

Responses to specific questions

Based on our response above, we have responded to specific questions on which we believe we can provide insight, and those which are directly relevant to our business.

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

We believe that a useful distinction could be made between the slightly more general guidance price comparison websites give, and the specific advice professional advisers give. As we see it, the distinction is between suggesting a selection of suitable products versus a clear recommendation on the one 'best' product.

The provision of qualitative materials designed to help consumers make informed decisions between different products can potentially be captured by advice rules. Moreover, there appears to be a different interpretation as to whether this information is provided through a third party or directly by the regulated firm.

Finally we note inconsistency in the current regulatory regime in how advice requirements are applied across insurance, investment and consumer credit products. We would support advice rules being proportionate to the inherent risks to the consumer of the products being considered. The regime should be applicable to the type of product, e.g. stronger for investments, mortgages and pensions than for car insurance.

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

We find that consumers who are looking for retail financial products seek assurance from third parties. While they may not want specific professional advice, consumers are often looking for reassurance from a trusted source on what product might best suit their needs.

For example when we instituted smart search for loans products, which gives consumers information on the likelihood of acceptance, the 'Net Promoter Score' of this part of the website increased hugely.

Moreover, consumers' interpretations of "advice" may be different to regulatory requirements. They seek re-assurance and infer advice when it is not attended – regulation should be aligned accordingly.

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

We believe that consumers seek reassurance on a range of products such as credit cards, current accounts, savings accounts, loans and mortgages and that the regulatory regime should be proportionate to these products.

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

As mentioned above, we would like to seek clarity on what the FCA means by "advice".

We believe there is a clear distinction between guidance where firms tailor product suggestions to consumers, and more typical professional financial advice which definitively advises consumers to take one course of action.

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

We believe innovation in the robo-advice space could potentially help huge numbers of consumers make more informed financial decisions. We would welcome an ongoing dialogue in this space and urge the FCA not to restrict innovation through over-burdensome regulation.

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

As the number of consumers buying financial products without professional in-person advice increases, price comparison websites do provide an increasing level of assurance that helps to plug this gap. We believe that this type of activity provides a powerful middle-ground, helping consumers to make informed decisions on financial products, without the need for paid-for advice.

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

We believe that making a distinction between the more generalised types of advice that price comparison websites dispense and the more specific regulated professional advice would give clarity around innovation. Automated advice models are potentially a very powerful innovation for consumers, however we would warn of the difficulties of overly prescriptive regulation in this area. Provided our more general guidance falls outside regulated advice we will be able to continue the development of a number of tools that significantly act to improve consumer outcomes.

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

Our research shows that consumer anxiety should be treated as a principle consideration. Consumers want reassurance from sources like price comparison websites. As a result, they want targeted consumer journeys which show products results most relevant to what they need. Regulation which potentially dampens the ability of price comparison websites to give such automated advice would harm consumer outcomes.

We also recognise that trust and transparency are clear consumer drivers here. As mentioned above, we recognise that if consumers are to accept automated advice from price comparison websites, then they need to trust the industry as a whole.

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Received by
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10 DEC 2015

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8th December 2015

Dear Sirs,

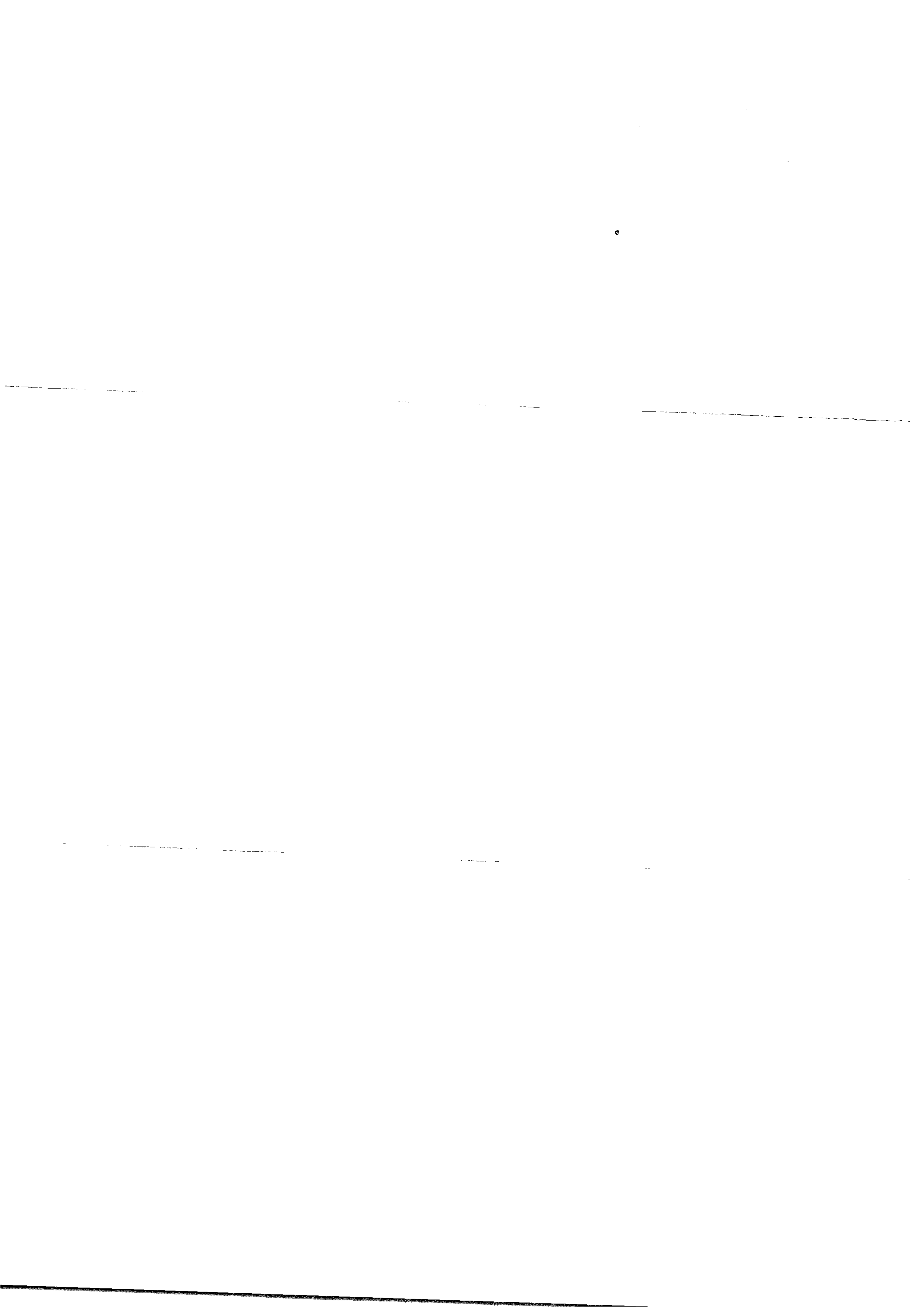
We cannot stress how important an independent financial adviser is. A person who is best able to understand what our personal needs are, whom we feel we can trust to advise and invest our monies in accordance with our personal circumstances. To discuss matters and not be pressured.

Personal finances, especially after retirement, are of great concern. The benefits of independent advice to so many must not be threatened by bureaucratic regulations.

Yours faithfully

Annette M. Richardson — A Richardson

Raymond F. Richardson — R F Richardson



THE ADVICE GAP REPORT

THE ISSUE

Will the FCA allow technology to fill the advice gap?

Ahead of the closure of the FCA and HM Treasury's consultation on the Financial Advice Market Review (FAMR), MRM convened a panel of leading industry figures to discuss the review and the much vaunted advice gap. The following discussion sets out their concerns, together with some potential solutions.

2010 seems like a long time ago and a different world, for both regulation and politics. Back then, we still had a monolithic regulator, the Financial Services Authority, led by the double act of Hector Sants and Adair Turner. 2010 also marked the arrival of a hoard of new backbenchers from the Tory shires. Today's FAMR paper is perhaps a tribute to how those backbenchers and, in particular, Mark Garnier and Harriett Baldwin made use of what must now be a seminal backbench debate on the RDR and its effect on the adviser market, and more pernicious still, its effect on financial advisers.

It was 10.59 am on 20th October 2010 and the newly elected Harriett Baldwin kicked off the first-ever debate on the regulation of independent financial advisers with a binder full of correspondence from angry IFAs. MPs were enraged as many backbenchers had at least a couple of advisers complaining to them about the deleterious effect of the RDR and the consequences for financial advice.

The then Government approved of the RDR. Financial Secretary Mark Hoban even went as far as comparing financial advisers to McDonald's workers, who he opined were better trained and qualified. By this logic, financial advisers were lower than burger flippers in the eyes of the City Minister. Consumer groups piled on the pain with constant references to financial advisers having fewer qualifications than the average first-year history student.

The result was that faced with eye-watering fines for past misdeeds, ever-increasing regulation and spiralling professional indemnity costs, many institutions such as banks stopped providing financial advice and many advisers left the market. By the FCA's own admission advisers fell from 26,000 in 2011 to 24,000 by 2014.

Roll on five years and how the landscape has changed, particularly with the Government committed to getting citizens to take greater responsibility for their savings. Gone is the FSA, gone from Parliament is Mark Hoban, soon to be gone is the short-lived Prudential Regulations Authority (PRA) and the FCA's new Chief Executive Martin Wheatley is also about to be replaced. We are in short presented not only with one reappraisal of the advice market but two; the joint Treasury and FCA paper jostling for position with the European Supervisory Authority's (ESA) discussion paper on the automation of financial advice. What is certain is that we are to expect changes to be announced in the Budget on 16th March 2016.

Waiting in the wings is the robo advice model pioneered in the United States. Although relatively new to the UK market this could have a profound effect on consumers. Questions of liability will be key however. Will it be the advisers using the robo advice models or those who devise them that carry the can if something goes wrong? More fundamentally, are we about to see financial advice brought into line with the standard principles of contract law - a six-year threshold of liability? Will they attract a whole host of unsuitable customers which electronic eligibility checks are incapable of deterring? What is certain is that 2016 will mark a new chapter in the advice market in the UK and potentially the start of a transition across the EU.

- Havard Hughes, Head of Public and Regulatory Affairs at MRM

THE PANEL

Havard Hughes
Head of Public and Regulatory Affairs at MRM

A seasoned public affairs professional, Havard has over 20 years' experience from Westminster to Brussels. Formerly at the FCA, Havard counselled the Chief Executive, Chairman and other senior personnel on public policy issues. He also worked on the Financial Services (Banking Reform) Act 2013 and Financial Services Act 2012, as well as a wide range of EU regulatory initiatives.

John Cowan
Executive Chairman at Sesame Bankhall Group

John's financial services experience now extends over 40 years. Most of his career was spent at Scottish Amicable where he was Sales and Marketing Director, Prudential as Group Sales Director and National Australia Bank / MLC Investments (Pivotal) where he was General Manager. He has held a number of Non-Executive Director roles, including at Paymentshield and The Consulting Consortium.

David Ferguson
Founder and Chief Executive at Nucleus

David started his career as a trainee actuary with Life Association of Scotland and strategic consultancy The Abacus among others. In 1998, David embarked on a mission to create the UK's first genuinely collaborative platform, which resulted in the creation of Nucleus in 2006. He is immensely proud of his team who let the client take centre stage to make Nucleus a credible and refreshing market participant.

Stephanie Condra
Retirement Market Strategist at AXA Investment Managers

Stephanie delivers thought leadership and market insight at AXA IM across regional markets, and focuses on the retirement market. Stephanie has over 15 years' experience in the investment industry. She completed the specialised Global Asset and Wealth Management MBA programme at Simon Fraser University in Vancouver and also holds the Chartered Financial Analyst (CFA) and Chartered Alternative Investment Analyst (CAIA) designations.

Anthony Morrow
Founder and Chief Executive at eVestor

Calling on his considerable experience in the financial services industry and his belief that there is a need for greater accessibility to affordable financial advice, Anthony founded eVestor. Anthony was previously a founding partner of Paradigm, of which he is still a director and shareholder. He was also a financial services consultant for Arthur Anderson and KPMG specialising in regulatory, performance and strategic issues for the life and pensions sector.

Kirsty Worgan
Business Development EMEA at Bravura Solutions

Based in Bravura's London office, Kirsty has over 20 years' experience across the financial technology, platforms, pensions and professional services sectors. Kirsty recently joined the Bravura propositions team in a role that embraces business development, strategy and marketing.

THE DEBATE

DEFINING THE PROBLEM

Havard Hughes (HH): Some have said that the reason for the Financial Advice Market Review (FAMR) is that the Retail Distribution Review (RDR) has failed in its objectives and hasn't improved consumers' access to financial advice. Given this, what's your current assessment of the financial advice market? Is there an advice gap?

John Cowan (JC): The RDR has clearly been a success in the sense that it has driven up standards within the financial services sector. But in many ways it has, quite accidentally, disenfranchised a whole number of people from advisers. Pre-RDR, IFA businesses had cross subsidies meaning they could look after better-off clients, as well as lower value clients. Once the RDR came in, firms began to think about their business models and realised that they couldn't really service lower value clients. While there are plenty of advisers in the mortgage space, the real problem is at retirement when customers have access to capital. The situation has been exacerbated by pension freedoms because people need advice about what to do with their pension pots.

> ***I see it more as a societal problem than an advice gap one – it's a propensity to save gap, it's a simplicity against complexity gap.***
> ***- David Ferguson***

David Ferguson (DF): We've got probably the most complex fiscal pension system in the world and now the chickens are coming home to roost after 40 years of tinkering with pension rules. I'm 45 and have got three defined benefit pension arrangements, two defined contribution arrangements, shares in new businesses and other assets. But there isn't any algorithm that, in the short- or medium- term, is going to give me piece of mind or tell me what to do. It's totally different for people who are starting their first job or saving into their pension funds for the first time and there may not be a role for a financial adviser there. People may just need to put their money into an ISA and get a balanced portfolio, using Vanguard or some active fund manager. You don't need to pay someone £1,000 to tell you that.

Anthony Morrow (AM): I think the advice market is in pretty rude health and most of the advisers I know have navigated their way through the RDR pretty well. But many are now at a crossroads in terms of how they adapt technology within their businesses and how they engage with a new generation of investors who won't have existing relationships with IFAs. Given the average age of an adviser is now around their mid-fifties, it's very difficult to see how many are going to engage with a 25 or 30 year old.

DEFINING THE PROBLEM

> ***You can't see some young people going to a posh office to see an adviser when they're probably used to doing things with an app. From the adviser's point of view, the question is how they bridge that market.***
> ***- Anthony Morrow***

AM: This is not an immediate issue for advisers, but will be when they want to sell their business in five or 10 years' time.

Stephanie Condra (SC): The term advice gap needs to be changed because it implies that the whole, or the difference, is zero advice, i.e. not getting anything and 100% support. In the review, it has been recognised that there is education, guidance, advice and simplified advice. We need a word to say that the spectrum isn't fully covered and perhaps by calling it the advice gap we are actually focusing on one piece of the solution instead of the full issue.

Kirsty Worgan (KW): If we don't crack the advice gap then the door is going to be opened for others to attempt to provide the wrong information and take people down routes that they don't want to go. I think a big part of closing the advice gap is to encourage a savings culture as I believe people will be more willing to get advice off the back of that.

mrm

SEARCHING FOR SOLUTIONS

HH: *What's putting consumers off seeking financial advice?*

AM: Consumers may not think they need advice, they probably don't know where to go to get it and they may feel intimidated. It's an engagement that's alien to them. So there is that underlying complexity around it and complex issues there that are difficult for them to understand. There are charges there which on an absolute basis will look high to them.

HH: *Is there a sense that advisers are picking the wealthiest clients?*

JC: Yes, of course they are. The Government wants to solve George Osborne's problem of delivering advice to clients who have got £34,000 or £50,000. It costs £150 or so an hour for advice and many clients don't want to pay those rates. Unfortunately it's simply uneconomical for advisers to deliver advice.

KW: The only people who can do it are the people who've got the volume, and that is typically the banks and the insurance companies. If you've got the volume of people that you can offer some sort of low cost advice, then you can do it.

HH: *So taking us forward slightly to solutions for closing the gap, how important is technology?*

KW: I think technology will be very important, and not just in closing the gap but also in the future of financial services. Advisers are partly coaches. And if you're looking at using technologies, and quite often it will be a direct-to-consumer type market solution, then everybody has biases. You can use technology to nudge people. But do you nudge them in the direction they were going to be going in or do you let them decide? Part of my worry is that technology will become too complicated in our industry. There are a lot of things technology can do well but I think there's a lot of things we do badly as well.

SC: Technology is a wonderful tool to complement everything else. But I would argue that some of the technology in the industry has been pitched at the educated and engaged user and has overlooked the individual who is not yet ready to roll up their sleeves and start making decisions.

DF: Financial advice is in aggregate a kind of blend of art and a science. You've got people doing all the art and most of the science, and in fact what you should have is technology doing some of the art and all of the science. If you do that, you will get a much more efficient end-to-end solution.

JC: But it's also about data management isn't it?

DF: Yes, that's all it is. There's the connection, persuasion, coaching part which I think is probably a face-to-face thing. It's very hard to do that through an app if someone doesn't need that. But how many IFAs still sit there, the length and breadth of the land building investment portfolios, thinking they are better than the next person?

SC: We did a survey of IFAs and asked whether their clients would benefit from having access to more technology. Three-quarters said they would actually like to provide their clients with more educational tools because they are coming in to see them and are spending almost half an hour covering the basics. They would like to use technology as a way of educating and preparing their clients so that meetings can be focused on issues or decisions where they would be able to demonstrate their true value.

HH: *There has been talk in the trade media recently of the regulator being hostile to some aspects of direct-to-consumer propositions. But how worried should we be in robo advice creating poor advice outcomes?*

AM: The rules are the same whether it's being done digitally or face-to-face. The term robo advice is a bit misleading as well, because none of the people in there are giving advice. They are just execution-only discretionary fund managers where you go on, answer a couple of questions and the robot is basically an algorithm that's already available across most platforms. Our approach is for technology to be able to drive down the cost of the actual solution and then be able to engage without infrastructure. It will still be humans – you just won't get to touch them - but they are there through a digital channel or over the phone. Some clients won't like that, they'll still like to have their adviser to come and visit them in their office.

SEARCHING FOR SOLUTIONS

AM: Now that's fine, there's no way that's ever going to change, but there'll be some people who say actually I want to do something that's more flexible and convenient for me. If you don't use paper and you don't have visits, you can really drive down the price of advice.

HH: *What roles do employers have in helping to close the advice gap?*

The role of the employer should not be overlooked and I suspect will play a key role in filling the gap going forward. We conducted a survey of employers and 76% said that they felt responsible in helping their employees with their financial issues.
- Stephanie Condra

SC: When we dug further in our survey, they said things like "if employees are financially secure they are more productive". But the Government keeps distracting the employer with things like changes in regulation and taxation so they haven't yet been able to focus on providing support.

DF: I totally support that, the only issue is that it doesn't work so well on decumulation because by definition the employer's probably not there anymore. They could be though. Employers could say: "we're going to run a programme for our ex-members of staff".

HH: *Is there anything we can learn from overseas markets in closing the advice gap?*

In Australia it was compulsion that kicked things off. They started at 2% and it's now at 12%. And they've got reasonable sized pots now and as soon as people have reasonable sized pots they start to engage. That starts the savings culture.
- Kirsty Worgan

KW: Australia started it off very low with auto-enrolment, then went to 2%, 5% then 9% and 12%. They said they were going to get rid of compulsory annuities, the reason being that the pots got so big that people ended up in more debt just before retirement. They knew they were going to get the money and so they end up remortgaging which deferred the debt problem. And that's something we need to be mindful of. If people get pots they have to understand that that pot has to survive.

DRAWING CONCLUSIONS

HH: *Are you optimistic about the outcome of this review? What do you think are the most important things that should be considered?*

DF: If success is the whole country saving in a really efficient manner then there's no possibility of the review succeeding. But if it crystallises some grey areas where people have put forward Holy Grail solutions then I think that would be partial success. I think as a society we have to confront the reality that this is a really hard problem. It's not specifically about financial advice – it's a much broader issue. People know they should be eating five pieces of fruit and vegetables a day. There must be an equivalent number in financial services whether it's a certain percentage of someone's salary of how much money should be saved.

SC: To address the EGA (education, guidance, advice) spectrum it's clear it is more than just a regulatory problem and will need more than just a regulatory solution. It's going to take new players, and those players might not be from within the industry. With most reviews at the moment, they are coming out with a certain set of questions and have restricted the answers instead of taking a step back to ask the industry how to get the right outcomes.

KW: Technology is going to be key to this. It's not an industry issue – it's a cultural issue and a generational issue and will take a generation to sort and fix. We need to establish the value of advice because there are a lot of people who don't understand the value of what they're paying for. All they see is the bill and they see it's a high bill, and we need to establish a value for the advice. I think the Government has a big part to play, I think they need to start nudging people by compulsion. Auto-enrolment is the start of that.

I've read that people pay more for their Sky TV subscription than they pay into their pensions and savings.
- Kirsty Worgan

KW: Also we need to stop changing the rules on a regular basis. People put money into a pension or an ISA and two years later the rules completely change.

AM: The review hopefully will lead to a reduction in complexity. It will be interesting to see where pensions, ISAs and things like that get to. I can certainly see benefits in having an amalgamated savings account. I think technology has a big role to play both in terms of how it's delivered but also in terms of driving costs down.

I think we'll see safe harbour products emerge out of this consultation. And I think there will be an attempt to get banks and insurance companies to promote products to the public.
- John Cowan

JC: But I do hope the adviser community, who do a fantastic job, will embrace some of this stuff and embed the technology that is being developed to reach its lower value clients. There is no simple solution to closing the advice gap – it's a very difficult problem and it'll take a long time to solve it. ■

MRM is a multi-disciplined public relations consultancy, providing award-winning communications solutions for companies, organisations and individuals operating in and around the financial services sector.

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Saturday, 28 November 2015

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

Dear Madam/Sir

Financial advice regarding pension cashing in.

I write to your enquiry regarding the commutation/sale of my trivial pension.

Ref: Mrs M A Owen Equitable Life [ANN0015892] bought by Canada Life in 2007, annuity payroll number 1555546 [PAYE Ref: 083/GZ95995]

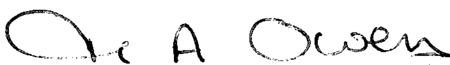
This pension pays me £155.36 gross each year from which tax is then taken. This causes me to become embroiled with the Inland Revenue in ways that I do not wish to at the age of 72. I have asked Canada Life to commutate this tiny pension which is quite possible under current pension rules, but they refuse to do so, even though they can.

I do understand that Canada life do not want to lose income strands, I am sure they add all their trivial pensions together and make more from this than we do, but I see no reason why the mediocrity of so much management within the financial sector; something we the public have seen so clearly over the last few years should impinge on my small affairs. These people are paid large salaries, surely they must be capable of finding and expanding income streams for their well established companies without being parasites on the backs of small people like me.

I would be grateful for information on how I can dispose of this small pension without penalties apart from any tax due. Canada Life bought it from Equitable, life so I must assume it possesses a sale value.

I would also be grateful if you would take this query forward to your enquiry, other people must also be in my position. Financial companies should be able to provide proper services and make profit without being parasites on the backs of small people within our society. If they cannot we have to ask ourselves what else is underneath the financial PR blanket that we as a society haven't yet had to deal with.

Yours truly



Mrs M A Owen

CC. Mr Richard Priestley, Executive Director, Retirement Income
CC.Mr Doug Brown, Chief Operating Officer UK Division, Canada Life Limited

Consultation response to Financial Advice Market Review, Oct 2015

MyBnk

MyBnk directly delivers financial education and enterprise experiences to mainstream young people in schools and vulnerable young people through a host of partner organisations.

Our vision is 'a financially capable and enterprise-driven generation' and our mission is 'to empower young people to take charge of their future by bringing money and enterprise to life'. We won the 2015 Leaving Care Award from Children & Young People Now for our survival money management programme, Money Works, we provide the financial literacy element of the government's National Citizenship Service and our schools programme is the highest rated financial education programme on the Money Advice Service's evidence hub.

Since inception in 2007, we have reached 135,000 11 to 25 year olds in over 700 schools and youth groups. Together with young people, we have created innovative, high impact, high energy and evaluated workshops on topics such as saving, budgeting, public finance, social enterprise and start-up entrepreneurship.

MyBnk welcomes the opportunity to respond to the call for input for HM Treasury/ FCA consultation on the Financial Advice Market Review (FAMR).

Our observations are in the context of us delivering financial and enterprise education to young people. In coming to our views we have consulted and collaborated closely with Youth Financial Capability Group and, in particular, The Money Charity. The views in our submission are our own.

Our input

MyBnk welcomes the Financial Advice Market Review. With the scale of change to the market set out in the review, it is clear that regulatory action is necessary to ensure that everyone, regardless of their financial circumstances, should have access to financial advice suitable for them.

1. We agree with the desire to *'…focus on 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'.* We question the focus should only be '…*where complexity of decision making is greatest and advice could make the biggest difference e.g. Savings and investment, pensions and retirement planning'* and further do not agree with the almost exclusive concentration on a relatively small *middle-income group with some money who are priced out of current regulated advice*. We would put more emphasis on the much larger group of those with limited assets.

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2. We believe that the terminology used to describe various forms of financial advice ought to be based on common sense terms that are best understood by the public. Throughout this consultation we refer to advice, from the regulated kind, through generic money advice (often referred to as guidance), to consumers' use of price comparison websites as 'advice'.

3. The FCA segmentation is useful in that it is very granular. In our view, three broader groups are sufficient to illustrate key points:

   a. A (large) group without the savings or income to make it commercially viable for IFAs to offer advice. (This includes those under 18 years of age not considered by the review). This group needs to be served by alternative advisors.
   b. A (relatively small) group representing a middle market of people with some money who are priced out of current regulated provision or who would not receive significant added value from it to justify the cost.
   c. A (relatively small) group of wealthy consumers who are well served by the existing regulated advice market.

   As a youth-focused charity with programmes aimed at the vulnerable, MyBnk deals almost exclusively with those within group *a.*

4. The focus of the questions posed are almost all concerned with improving access to regulated advice through IFAs. This results from the concentration on consumers with some money but not significant wealth (group b above). This is a real gap and we support considering the needs of this group, but we argue that the gap cannot and should not be met only by making it cheaper for regulated advisers to provide services. So as well as group a, group b also benefits from alternative providers being encouraged and allowed to go further with their advice offering.

5. We suggest group *a.* is the more significant group to consider for advice in all its forms. This group is making significant financial decisions with very little advice. Decisions could include whether to access student loans and whether to participate in workplace pensions. In both cases the government is in effect advising, through using implicit or explicit nudges to encourage participation. For example, the default option is set as participation for workplace pensions. As well as the positives, the financial negative implications to the individual of their decisions can be significant, in the case of student loans a future higher tax liability and for workplace pensions savings that may not be accessed for many decades.

6. The review states that people's need for financial advice starts with 'saving for short term needs' and looks largely at investment advice. In reality, need begins with much more basic financial challenges such as budgeting. In order to attract people in all groups, financial advice needs to speak to these everyday needs and treat people's finances more holistically than simply discussing where best to make an investment. Currently alternative, online and not for profit (NPF) providers are meeting these needs better than IFAs will ever have an economic incentive to. A focus of the FAMR should be ensuring that this group has the non-regulated advice from alternative providers it needs.

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7. The focus should be on positively defining what alternative providers can do. Currently, in each market (credit, mortgages, savings….) organisations are told what they cannot do. The extent of this varies from product to product, so organisations find it very difficult to know what they are able to say to consumers. These organisations are the future of financial advice for all but those with large investments to make, so what they are allowed to do must be defined positively, and rules should be in one place, not regulated from market to market.

8. MyBnk calls for an approach that tackles advice gaps from the bottom (low savings, relatively simple financial needs), as well as the top (with savings and complex financial decisions). There should be rules that allow regulated advisors to offer a form of advice at a cost that is appealing to more of the middle market, b, but also a single, easy to understand set of rules that lays out not only what alternative providers of advice cannot do, but gives them a positively defined role (whilst making clear that this sits outside the regulated perimeter). Through this approach, the aims of the FAMR could more easily go well beyond those with 'some money' and produce an advice market capable of meeting the needs of everyone

9. Regulated IFAs are of particular relevance to those with substantial investible assets in particular owing to the complexity of taxation and regulation around pension and investment products. The FCA may be over-estimating the complexity of basic investment choices – equities, property, fixed income securities and cash for example. It has been our experience that the vast majority of young people can grasp the differing risks and returns of each asset class. The complications of tax and regulation are very significant for richer groups but unlikely to be so for those in group a on lower incomes and with few assets.

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Financial Conduct Authority

NEIL THOMASON,
C/O Cheshire

25 The North Colonnade
Canary Wharf
London E14 5HS
Telephone: 020 7066 5090

Monday, October 19, 2015

Attention: FAMR Secretariat

Reference *Calls for input*

Title **THE BARRIERS**

Dear Sir,

I fully expected to exercise a choice under the new "pension freedoms legislation". Thus I exercised due diligence as follows:

- Determined the amount held by the fund holder (Insurance Company)
- Received copy of the terms and conditions applied at point of sale
- Received advice from the "pension's advice center"
- Reviewed fund illustration against future impact on lifestyle security
- Went to seek independent financial advice

Having communicated my option to the fund holder (Insurance Company) they advised me to get an authorized independent financial adviser to sign off before any transaction would take place, whereupon they then sent me a "signoff" package relevant to my option.

As this is not a requirement of the original terms and conditions I assumed it was a +30K limit condition imposed by the new legislation and went to seek the required permissive.

I was unable to find any an authorized independent financial adviser willing to "signoff" and I thought this a very strange state of affairs. In cases where I managed to gain feedback for the denial of service the main reason given was "risk avoidance"; this was pursued for explanation.

It turns out that any "independent advice" is reviewed and mandated to be within current licensing requirements, but more importantly it should pose no threat to the continuation of the provider's business insurance.

Having thought about this for some time I came across your *Calls for input*, so I offer here my own scenario of how this debacle came to pass;

Government calls for input on proposed pension reforms; it is well subscribed and includes lobby groups and interested parties. Chief amongst them is a financial lobby who holds/manages all the money and maybe saw a potential risk of disbursement scandals.

NEIL THOMASON,
C/O Cheshire

A +30K sign off condition is proposed *(sold as we protect the public).* This neatly abdicates responsibility of fund holders by downloading any perceived risk onto financial services.

Financial services will not touch this with a barge pole as they know that in some cases they are asked to:

- Sign off on something in direct conflict with their mandate
- Sign off on something which could put them out of business as they expect "no quarter" from their insurance company who demonstrated interest in penal measures by downloading this responsibility in the outset.

In the interest of completeness I will add that obfuscation is present in all communication with my fund holder in that the amount held is always given to me as a "transfer value". *(I will however continue to request full amount disclosure as my suspicion for the reason they take this path is to hide their fees.)*

The governments "pension's guidance initiative " in my opinion is not fit for purpose as the current sub contractor voice the verbiage already available on their website tempering it with the impact to any current social benefits.

Bottom line is that I came away from contact with financial services and insurance fund managers feeling a little sad and now understand why desperate people fall prey to scammers.

Incidentally the driver of my recent financial foray was unemployment and impending foreclosure prompting a radical idea to buy a live aboard canal boat with the pension funds added to the leftover from a forced sale of my home.

With the denied access to my pension I have used savings from the house sale and looked at many schemes, some obvious and not so obvious but in the end

I am become homeless.

Sincerely,

NEIL THOMASON

LV= response to the Financial Advice Market Review: Call for input

16th December 2015

A summary of LV= views on FAMR…

The problem…people are not saving enough for their retirement and, worse still, are losing out by not seeking advice to secure the best value income solutions when they do retire. While retirement saving has been boosted by auto-enrolment, freedom and choice, the complexity of decisions is overwhelming for most people. A lack of affordable, accessible and quality advice means we are on the cusp of a crisis and a "mis-buying" scandal, likely to bite within the next five years. We estimate that nearly half a million[1] people a year retire each year without taking financial advice. High consumer inertia and low understanding of the value of regulated advice, means most retirees will miss out on the help they need to get the most from their savings without drastic Government intervention.

If we fixed it…by increasing take up of affordable regulated financial advice everyone would benefit. Not only would individuals be better off – typically someone who takes advice and shops around for an annuity receives a 23% increase in retirement income[2] – but they would be less likely to rely on State support in retirement and would contribute more to the UK economy. This should also serve as a wider incentive to save for the long term underpinning self-provision including through auto-enrolment and ISAs. Additionally, by making pensions work harder at retirement, there is less pressure on ensuring the appropriate minimum level of auto-enrolment savings.

A low-cost advice solution, built within the current regulatory framework, already exists…LV='s innovative low-cost online advice service, the Retirement Wizard, provides a regulated retirement income advice report for just £199. It can be white labelled for use by other providers, employers or Government, and shows that other initiatives will emerge. The cost of the Retirement Wizard could be materially reduced where there is no cost of customer acquisition and high volume demand.

If Government, working with existing industry solutions, introduces a package of bold measures we believe everyone could have access to affordable, easy-to-understand, regulated advice at retirement at a low cost to the State. Here's our five point plan:

1) **A single definition of 'advice' to ensure consumer protection and remove confusion.** Our consumer research shows people are confused about the various levels and types of advice available and how they differ - and that puts them off taking it. We recommend three easy to understand categories: 'information'; 'Government backed guidance'; and 'full regulated financial advice' with clear descriptions about what each offers and the guarantees and consumer protection they afford. Whilst current simplified advice can offer improved customer outcomes, customers themselves will not understand the relevance of what is not being considered. Critically there is also no standard definition of what should and should not be excluded. This creates a clear mis-buying issue and loss of trust in providers and Government. We believe one definition of 'full regulated financial advice' will also reduce regulatory uncertainty for firms that wish to consider offering financial advice but are unclear about the "boundaries". There is no cost to Government doing this and it can be done immediately.

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[1] According to ONS 2012 data, 600,000 people retire in the UK each year. Opinium December 2015 consumer research showed 78% of UK people over 55 who have not yet retired do not plan to take financial advice equating to 468,000 people.
[2] 80% of people shopping around for an annuity could have got a better deal (source FCA – Feb 2014) and there is an average 23% difference between worst and best annuity quote (analysis of MAS survey Apr 2015).

2) **Avoid 'safe harbours'.** Government should not create 'safe harbours' as it has been demonstrated that these are not needed. Research shows that to do so would lower consumer trust in advice whereas simplifying the definition of professional advice would increase take up. There is no cost to Government doing this and it can be done immediately.

3) **Free advice for those who are most vulnerable.** We believe the most vulnerable - such as those with a total pension pot that would provide an annual income below the Government living wage - should have free access to advice. If included as part of a package of measures, we believe there would be low Government cost to providing free access to the Retirement Wizard (or white labelled versions, or comparable digital offerings once available) delivered online or via Citizens Advice Bureau or libraries, for those with the greatest need. There is a potentially low cost to Government doing this compared to current provisions and it can be done immediately.

4) **Incentivise advice for all and, as a minimum, mandate guidance.** Government should take steps to incentivise advice to kickstart demand. This can be through a regulated advice voucher or extending the employee tax allowance for advice. The cost of the voucher needs to be determined but we believe it could be potentially paid from existing FCA levy budgets, such as contributions from the Money Advice Service and/or Citizens Advice budgets. We also believe that if advice has not been taken then Pension Wise should, as a minimum, be mandatory, and also used as a gateway to regulated advice. The output from a Pension Wise session should be used as a fact find and suitability assessment for a personal recommendation from regulated financial advice.

5) **Clear, consolidated financial information provided once a year, backed up with awareness campaigns.** All customers should receive an annual "Pensions Passport" that identifies the consolidated value of their personal pensions. This will include information from all providers and Government with standard projections. It will form the basis of five-yearly pension reviews for everyone and will allow for easy completion of on-line fact finds and therefore help with automated advice. Over time it could include all financial information including savings and be boosted through an awareness campaign. If delivered online the Passport would be capable of being continually updated. We see this as a longer term initiative that would complement the other short-term solutions and auto-enrolment timescales.

1 About LV=

LV= is the UK's largest friendly society and a leading financial mutual. We serve 5.7 million customers with a range of financial products and employ over 6,000 people. We offer a wide range of financial services including general insurance, investment and retirement products. We offer our services direct to consumers and through IFAs and brokers, and through strategic partnerships with organisations such as ReAssure and Nationwide Building Society.

LV= offers retirees a range of innovative "at retirement" solutions, including fixed term annuities, enhanced annuities, investment-linked annuities, income drawdown, SIPPs and equity release.

LV= Retirement Wizard: the UK's first online fully regulated advice service

In June 2015, in direct response to the growing need for affordable advice to help individuals make the most of the new pension freedoms, we launched the LV= Retirement Wizard, the UK's first ever fully regulated online advice service.

The new tool makes advice accessible and affordable. The cost is £199 for a fully regulated advice report and money back guarantee. The service is designed to help the mass unadvised in the UK to get more from their hard earned pension savings through an online based journey that engages, educates and provides convenient and low cost advice for customers.

For an additional optional fee of £499, LV= will complete all the arrangements recommend in the report but customers can also do this themselves, or through another adviser. We explain the cost of "fulfilment" over the telephone with a customer to ensure they understand this is an additional and optional cost. LV= wants advice to be available and affordable to everyone and this new service can be white labelled for other organisations to help deliver this. It has the capacity to be delivered by Government or Pension Wise partners or through employers, to ensure maximum reach. The cost can be materially reduced where there is no cost of customer acquisition and where there is high volume.

The new service, which we have shared with the FCA throughout its development, takes the best of new technology through powerful algorithms to reduce costs and improve convenience and mixes it with additional online, video and telephone based advisor support to help ensure the recommendations are the right ones for the customer and available in a human way. Technology with a very human touch.

The Retirement Wizard generates fully regulated (not simplified) advice reports for pension savers that make personalised recommendations on the specific products they should purchase from their retirement savings to secure a retirement income based on a holistic assessment of their circumstances, needs and personal preferences. An example report is enclosed with this submission.

The Retirement Wizard ensures consumers have access to a range of solutions from the market by selecting a product, or combination of products, from a panel of providers including LV=, Prudential, Just Retirement, AVIVA, Retirement Advantage, Hodge, Canada Life, Legal & General and Blackrock.

We are in advance commercial discussions with a range of different businesses and organisations (from employers through to employee benefit schemes and product manufacturers) to roll this out in a white-labelled capacity.

Wealth Wizards

In August 2015, LV= announced it had taken a majority stake in Wealth Wizards Limited, the UK based automated advice experts. LV= will inject development capital into Wealth Wizards which will enable the company to deliver on its ambition to develop a widely available 'white-label' automated advice platform.

Wealth Wizards launched in 2009 as the first UK robo-adviser. The business aims to make advice accessible to everyone, offering fully regulated independent advice via simple online apps. Wealth Wizards pioneered the combination of chartered financial planning, investment expertise and smart software technology to deliver accessible digital expert advice.

Automated personal recommendations are generated by algorithms which, in the case of investment advice, score all the answers and produce a bespoke diversified portfolio matching the customer's risk profile. The algorithms allow for affordable, consistent and regulated pension advice delivered in a short period of time – an effective solution to fill the 'advice gap'.

Wealth Wizards works in partnership with employers as part of their employee benefits package, as well as alongside pension consultants to offer pension and retirement advice to company employees. It is also available as a white label solution and direct to consumers.

2 Introduction

LV= welcomes the opportunity to respond to this Financial Advice Market Review (FAMR) call for evidence and the open and constructive dialogue we had with Government, and particularly the FAMR team, to date. We hope we can continue to work constructively with Government as this project progresses and offer our input and unique expertise to help meet the objectives that FAMR is seeking to achieve.

As we have launched the UK's first online fully regulated advice service, we believe we are well placed to offer a unique perspective on the issues raised as part of the review. In addition, Wealth Wizards, which LV= has purchased a majority stake in, has unique insight and experience in providing automated retirement solutions. As a retirement income product provider offering a range of products we also have insight of current consumer behaviour.

LV='s views are based on direct consumer and IFA engagement we have had to date around the impact of the pensions freedoms as well as qualitative and quantitative consumer research we have commissioned to gain insight into needs of individuals approaching or at retirement and their awareness, knowledge and views around financial advice.

Consumer research

We commissioned both qualitative and quantitative research in November and December 2015 to seek consumer views around financial advice to inform our evidence to this Review and to better understand consumers as we further develop and roll-out our online regulated advice service. The research, enclosed with this submission and detailed in our answers to some of the questions below, consisted of:

Focus group research: BDifferent carried out focus group consumer research in November 2015 to seek consumer views around financial advice. The research consisted of:

- One group (9 respondents) and 2 'mini-groups' (5 respondents in each). All groups 90 minutes duration
- Age 55+, working full or part-time, not yet retired but looking to access pension pot within next 12 months and/or plan to fully or semi-retire within the next 2 years
- Mix of employed, self-employed and business owners
- Pension pot £10k-£150k from insurance type company type or auto enrolment schemes. Other investments/savings (excluding house) £0k- £50k
- Mix of those unsure/would never use a financial adviser and those who use one regularly. Mix of financially and internet savvy and those who are financially and internet wary
- Excluded: high net worth individuals, those with defined benefit schemes or public sector pensions only
- All respondents were able to slot themselves into one of the FCA segments described when asked via a self-completion questionnaire (see Appendix 1 of the full advice research, enclosed with this submission):
    - Affluent and Ambitious: 4
    - Mature and Savvy: 6
    - Stretched but Resourceful: 4
    - Living for Now: 5
- A handful of respondents across segments indicated that they had made a complaint in the past regarding a financial product they had been sold

Quantitative research: to follow-up on the qualitative research, we asked Opinium to carry out an online survey of consumer attitudes towards advice in December 2015. They surveyed 836 people aged 55+ who have not yet retired and who have one of the following pensions: personal pension, a DC work pension, a stakeholder pension, or a SIPP.

3 Overview

We welcome this joint Review by HM Treasury and FCA looking at how financial advice could work better for consumers. As the Review acknowledges, it has a wide scope, and it 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.

Improving access to financial advice is an important priority and, if delivered, will result in a people and their families being better off, and an improvement in the wider economy. To achieve this, the Review needs to focus on key areas where advice is required the most and ensuring those individuals that need it most receive advice.

We believe FAMR should:

- Prioritise advice at retirement to avoid a "mis-buying" scandal;
- Recognise that existing low cost advice solutions already exist and can be white labelled for others to use; and
- Introduce a package of measures, working with existing industry solutions, to ensure everyone can have access to affordable, easy-to-understand, regulated advice at retirement at a low cost to the State, which should include:

    - a single definition of 'advice' to ensure consumer protection and remove confusion;
    - avoiding 'safe harbours';

- free advice for those who are most vulnerable;
- incentivise advice for all and, as a minimum, mandate guidance; and
- clear, consolidated financial information provided once a year, backed up with awareness campaigns.

1. Prioritise advice at retirement to avoid a "mis-buying" scandal

Our greatest concern is that not only are people not saving enough for their retirement but, worse still, they are losing out by not seeking advice to secure the best value income solutions when they do retire. While retirement savings have been boosted by auto-enrolment and freedom and choice, the complexity of decisions is overwhelming for most people.

A lack of affordable, accessible and quality advice means we are on the cusp of a crisis and a "mis-buying" scandal, likely to bite within the next five years. We estimate that nearly half a million[3] people a year retire each year without taking financial advice. High consumer inertia and low understanding of the value of regulated advice, means most retirees will miss out on the help they need to get the most from their savings without drastic Government intervention.

LV= believes that if we increased take up of affordable regulated financial advice everyone would benefit. Not only would individuals be better off – typically someone who takes advice and shops around for an annuity receives a 23% increase in retirement income[4] – but they would be less likely to rely on State support in retirement and would contribute more to the UK economy. At a time when Government's urgent priority is put Britain's public services and welfare system on a sustainable long term footing, high take of regulated financial advice can play a key role in achieving this goal.

We are currently working with the Pensions Policy Institute to research the potential numbers of individuals at a high risk of making poor retirement decisions and what the overall macro benefit of improving take up of regulated advice would be to UK PLC. We would welcome the opportunity to share this research with the FAMR team.

Case study:

Mr F came to LV= for advice in the autumn of 2015, attracted by our on-line based automated advice solution. He was looking to pay the standard £199 fixed price for his advice report, fully minded to use the report so his pensions saving provider would release his £25,000 of pension savings (which he believed included guaranteed annuity rates) to pay for home improvements. As a consequence of Mr F engaging with our advice process we identified that he did not have a guaranteed annuity rate and had multiple pension pots with a total value of £110,000. ***The advice gave Mr F a 26% increase in his retirement income of £1230 a year.***

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[3] According to ONS 2012 data, 600,000 people retire in the UK each year. Opinium December 2015 consumer research showed 78% of UK people over 55 who have not yet retired do not plan to take financial advice equating to 468,000 people.
[4] 80% of people shopping around for an annuity could have got a better deal (source FCA – Feb 2014) and there is an average 23% difference between worst and best annuity quote (analysis of MAS survey Apr 2015).

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, the government expects to see eight to nine million people newly saving or saving more, generating £11 billion a year more in workplace pension saving[5]. In addition, the introduction of freedom and choice has fundamentally shifted the retirement landscape for the better, allowing retirees more choice and control over how they manage their retirement income.

Unfortunately the positive freedom of choice brings with it a burden of complexity through an asymmetric relationship between providers and consumers and one that fundamentally impedes access to the benefits of that choice. Unless consumers shop around, they are less likely to get a good deal and improve their retirement income.

We have a number of case studies of individuals approaching and in retirement that demonstrate the significant adverse impact that would have been suffered (but unnoticed) by following a path without advice. When multiplied this means incumbent providers tend to 'win' from lack of confidence, knowledge and inertia whilst consumers will tend to 'lose'.

Are consumer's shopping around and taking advice?

Annuities - ABI data shows that at Q3 2015, the split of pension annuities remained consistent pre-freedom and choice with 60% staying with the same provider and just 40% switching to an external provider.

Income drawdown - LV='s own analysis of ABI industry data on drawdown sales shows that while the take up of income drawdown, a more complex product, is increasingly popular since the introduction of freedom and choice the independent advice channel's proportion of total sales has fallen while the restricted and non-advised channel shares have increased. We also believe that this is the tip of the iceberg, as many customers starting to take income are doing so by "rolling over" current pensions saving contracts.

Faced with this, and without positive intervention, the majority of customers approaching retirement do not feel empowered or engaged with their financial decisions and either defer, self-serve (with uncertain consequences depending on their knowledge and expertise), or disengage from active control over their decision choices.

We need a level playing pitch for customers. The single most important missing component is affordable, convenient and engaging advice services that consumers feel are accessible to them and deliver confidence that the cost will result in a net increase in the value of their hard earned savings.

There are many reasons for the so called 'advice gap' both on the supply side (e.g. concerns over regulatory thresholds, brand reputation and economic value from mass advice solutions) and the demand side (e.g. cost, convenience and knowledge intimidation) but ultimately the advice market impasse needs to unlocked, and urgently.

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

2. **Recognise that existing low cost advice solutions already exist and can be white labelled for others to use**

An affordable technology enabled advice solution, built within the current regulatory framework, is already available and shows that other initiatives will emerge. LV= has developed the UK's first and only online fully regulated advice service that provides convenient retirement income advice for £199 and can be white labelled for any organisation to use. The product was designed to help the mass unadvised in the UK and in direct response to the freedom and choice reforms and growing need for affordable advice. The new tool makes advice more affordable, easy to access and the cost is £199 for an advice report. This service provides full (not simplified) regulated advice.

The tool can be adapted for non-LV= use, for example by other providers, pension schemes and, of course, Government itself. This can help close the advice gap from the "bottom up" by making it more accessible to those with small pots. In addition, the various automated elements of the tool can be used by advisers to create efficiencies and allow them to service customers with smaller pots than they currently find viable, helping to close the advice gap from the "top down". We are in advance commercial discussions with a range of different businesses and organisations (from employers through to employee benefit schemes and product manufacturers) to roll this out in a white-labelled capacity.

Our fear at LV= is that the wrong decisions may be made because there is a panic to make quick changes but a lack of understanding of the new solutions available. We strongly urge decision-makers to see and understand the capability of our industry solution before making potentially damaging policy decisions.

3. **Introduce a package of measures, working with existing industry solutions, to ensure everyone can have access to affordable, easy-to-understand, regulated advice at retirement at a low cost to the State**

LV= believes that access to affordable, easy-to-understand, regulated advice at retirement for everyone is a policy objective that can be achieved at a low cost to the State in this Parliament. We have proposed five key initiatives which, taken together, we believe would plug the "advice gap" in the UK and lead to significant better outcome for individuals, the UK economy and the State.

a) A single definition of 'advice' to ensure consumer protection and remove confusion.

As a priority, FAMR must tackle the issue of consumer confusion around advice. Our recent consumer research shows people are confused about the different levels and types of advice available and how they differ and that puts them off taking it. As set out in our response to Question 2, we recommend three easy to understand categories: 'information'; 'Government backed guidance'; and 'regulated financial advice' with clear descriptions about what each offers and the guarantees and consumer protection they afford. Our research shows consumers are clearly confused around the different terms and many are being misled into believing they are receiving full advice when it is simplified. Our research showed that mention of 'regulated' was reassuring. We believe that one definition of 'regulated advice' would help consumers better understand what advice is and what they get from it, and that this should be full advice, not simplified. This in turn would be more likely to increase take up.

Whilst current simplified advice can offer improved customer outcomes, customers themselves will not understand the relevance of what is not being considered, creating a

clear mis-buying issue and loss of trust in providers and Government. We believe one definition of 'regulated financial advice' will also reduce regulatory uncertainty for firms that wish to consider offering financial advice but are unclear about the "boundaries". There is no cost to Government doing this and we believe it could be implemented in a reasonably short timescale.

b) Avoid 'safe harbours'

Government should not create 'safe harbours'. Our consumer research shows that to do so would lower consumer trust in advice whereas simplifying the definition of professional advice would increase take up. We are concerned the public will see the introduction of safe harbour as firms being given permission to deliver poor outcomes and deter individuals from taking advice.

We fundamentally disagree with safe harbour and believe this would deliver the wrong outcome for consumers and limit take up of advice. To ensure maximum take up and value to consumers, any regulatory model must avoid creating "safe harbours". There were no regulatory barriers to LV= developing a fully-regulated online advice model and we were not deterred by the potential liability.

Any move to a "safe harbour" regulatory model will simply lower consumers' value of advice. Our November 2015 consumer focus group research indicates that to do so would be counter-productive to stimulating confidence in demand where customers welcome the quality of protection that "regulated advice" would offer. Our December 2015 quantitative consumer research of people who are over 55 and yet to retire also found consumers were against the concept of safe harbour. When asked "thinking about independent financial advice in relation to retirement income options do you believe it is fair or not that you would not able to seek any?" 65% thought it was unfair (with 32% thinking it was quite unfair and 33% thinking it was very unfair)

While some discretion is required to encourage innovation and commercial risk taking in advice supply (such as the regulatory sandbox development) any move to safe harbour would fundamentally deter consumers from taking up advice and significantly devalue it.

c) Free advice for those who are most vulnerable

We believe the most vulnerable should have free access to advice. If included as part of a package of measures, we believe there would be a very low Government cost to providing free access to LV= Retirement Wizard (or white labelled versions, or comparable digital offerings once available) delivered online or via Citizens Advice Bureau or libraries, for those with the greatest need. There is a potentially lower cost to Government doing this compared to current provisions and it can be done immediately. While we appreciate that further work needs to be done to ascertain the those most in need of advice, our starting point would be those with a total pension pot that, in addition to the State Pension, would provide an annual income below the Government living wage.

We are currently working with the Pensions Policy Institute to research the potential numbers of individuals at a high risk of making poor retirement decisions and what the overall macro benefit of improving take up of regulated advice would be to UK PLC and would welcome the opportunity to share this research with the FAMR secretariat and consider undertaking more research to take this policy idea forward.

d) Incentivise advice for all and, as a minimum, mandate guidance

We believe Government should take steps to incentivise advice to increase demand, and, as a minimum, mandate guidance**.** Incentivisation could be through a regulated advice voucher or extending the employee tax allowance for advice.

A regulated advice voucher: We believe Government should consider what types of individuals need to engage with advice, or are at the greatest risk of not taking advice, and what incentives could be used to encourage better take up. We believe this should include consideration of the value of whether incentives, such as a "regulated advice voucher" [a voucher for advice given to individuals to use with an authorised adviser of their choice], could improve take up of advice and improve outcomes. Low cost online advice services would increase the power of a voucher and this could be achieved at a low cost to Government compared to current provisions and it can be done immediately.

We recommend Government considers using some of the financial services industry levy apportioned to the delivery of Pension Wise (such as the funding allocated to Citizens Advice where face to face appointments have been much lower than anticipated) and the MAS money advice budget (which, in light of the Christine Farnish review of MAS will take a more light-touch strategic and overview approach to money advice) to subsidise advice for individuals that would be most likely to gain from advice, and least likely to be able to afford it. We would welcome the opportunity to commission more independent research to explore this idea further to understand who might benefit the most from such a scheme and the most effective price of voucher that nudges people to take advice at a cost effective level for the State.

An alternative, and potentially more radical funding solution for the voucher, would be to impose an "internal vesting" levy on pension providers. Government could impose a levy on pension providers each time an individual takes any retirement income product with their existing provider as this outcome would suggest customers may not have shopped around. This proposal follows the "polluter pays" principal, levying providers whose customers haven't shopped around. It sends out a strong message to providers and the more this practice took place, the more income would be generated to fund and thus help promote shopping around. Equally, if there is more shopping around, the funding level would fall but there would also be less of a requirement for promoting advice as it would be more accepted as the default. We accept that customers with a Guaranteed Annuity Rate may get the best deal from taking their retirement income from their existing provider, and therefore these customers could be excluded from the levy calculation.

Increase the £150 tax allowance for pensions advice provided by an employer to encourage the take up of advice through the workplace: We understand that under current tax arrangements[6], if an employer pays fees to an external provider for one-to-one sessions to provide pensions advice and information specifically to an employee this is exempt from tax as long as the cost is no more than £150 per employee per year. If the cost of the advice exceeds £150 per person the whole amount is taxable, not just the excess over £150. In light of auto-enrolment and new low-cost advice technology solutions available, we believe Government could extend this allowance to £250 and remove the restriction that if the advice exceeds this figure, the whole amount is taxable. This would incentivise employers to pay for pensions advice for employees. The use of lower cost online solutions would increase the power of these allowances.

Mandate guidance as a minimum: We believe to further inform and help retirees, if regulated advice has not been taken then Pension Wise should, as a minimum, be mandatory. It should also be used as a gateway to regulated advice. LV= supports the FCA " second line of defence" rule that requires providers to highlight that Pension Wise, or regulated advice, is available, however we are aware many providers may still

[6] http://www.hmrc.gov.uk/manuals/eimanual/eim21802.htm

aggressively market their products to customers before their retirement date. To encourage shopping around, we believe Government should go further and mandate Pension Wise (where individuals have chosen not to take regulated advice, as both would not be necessary). The output from a Pension Wise session should be used as a fact find and suitability assessment for a personal recommendation from regulated financial advice.

e) **Clear, consolidated financial information provided once a year, backed up with awareness campaigns**

To complement the above suggested policy proposals, LV= believes all customers should, as a minimum, receive an annual "Pensions Passport" that identifies the consolidated value of their personal pensions and State Pension. This will include information from all providers and Government with standard projections. This could form the basis of five-yearly pension reviews which can be delivered at low cost online for everyone and will allow for easy completion of on line fact finds and therefore help with automated advice. For example, Wealth Wizards currently offers a Pensions Wizard, an online full advice application that creates a personal investment strategy for an individual's employees' pension based on when they want to retire and their risk preferences. The Pension Wizard is available at a low cost per annum. Over time it could include all financial information including savings and be boosted through an awareness campaign. If delivered online the Passport would be capable of being continually updated. We see this as a longer term initiative that would complement the other short-term solutions and auto-enrolment timescales.

We also believe this could be further enhanced by providing access to Government sources of data, such as: state benefit entitlements; National Insurance contribution records; State pension entitlement; and potentially tax rate data. We believe this would complement Government's policy ambition to digitalise Government services and data.

5 Contact and Further Information

We would be happy to discuss the issues raised in this submission. Further enquiries can be directed to:

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