Financial Advice Market Review

A response from NEST (National Employment Savings Trust)

About NEST

NEST is a trust-based occupational pension scheme. We were set up to make sure that every employer would be able to enrol their employees into a qualifying pension scheme following the introduction of automatic enrolment. Auto enrolment is a policy response to inertia, and draws heavily on lessons from behavioural economics. After failed attempts to engage consumers through an 'informed choice' approach it was recognised by the Pensions Commission in the 2000s that defaulting workers into saving would be more successful. This has been proven to be the case with less than 8 per cent of workers opting out of saving in NEST. It's worth noting that this process is ongoing with millions of workers in small companies to be enrolled by 2018. Currently the NEST scheme has over 2.6 million members and over 30,000 participating employers.

NEST's members are low to moderate earners and are often saving for the first time. This is a new market of savers who have not been well-served by the pensions market to date and have a history of very low engagement with retirement savings. The scheme has a lot of members, most with small or very small funds. The scheme also has a low median age, with the majority of our members being under 40. Their contribution rates are largely low as this is a function of the low initial contribution rates set at the start of automatic enrolment, currently 2 per cent of qualifying earnings, rising to 8 per cent in 2018.

Overview

NEST welcomes the Financial Advice Market Review (FAMR) review and its aspiration to find ways to improve the availability of advice to people, particularly those who don't have significant wealth or income. We particularly welcome the focus on people with some money but without large wealth, a description which applies to a large proportion of NEST members which number 2.6 million and growing, and agree with the government that this is the group most exposed to any 'advice gap'.

While we welcome the focus of this review on closing the 'advice gap', there's a compelling weight of evidence showing that people tend not to engage with advice. We think any solution to this problem for retirees must combine both action by government to facilitate the development of cheaper, more accessible advice and guidance throughout people's lives, in combination with well-governed products at retirement that will cater for a broad range of needs.

In our response we wish to emphasise the following points:

- Auto enrolment has so far been a great success in increasing participation in pension saving, but it functions by harnessing inertia. Now that we have a large and growing population participating in workplace pension saving, government and providers need to work together to consider how to better engage that group as they save, both to ensure they're saving an amount adequate to their personal circumstances and to prepare them for the choices they'll face at retirement.
- At retirement, this group now faces a set of choices that we expect a large proportion of them to find difficult and complex, as evidenced by NEST's consultation, *The future of retirement*[1]. As FAMR acknowledges, this group tends to be put off from seeking advice, through lack of engagement or for reasons of access or affordability.
- We're keen to work with government and industry partners to ensure that its members reaching retirement have access to suitable forms of guidance and advice, as well as to products that meet their needs. We would encourage government to:

[1] https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement.pdf

- **Continue to improve the quality and tailoring of free guidance** provided by Pension Wise, and to widen the scope of the guidance to cover interactions between pension saving, debt and benefits; as well as encouraging cross-industry collaboration to develop better, more engaging tools and service for consumers, that can underpin guidance services like Pension Wise, like a pensions dashboard.
- **Take steps to encourage industry to develop simplified advice and guidance products**, and provide them with the necessary assurances to encourage them to put them out on the market.
- **Support industry to develop products** that are suitable for a broad range of members, and are suitable for signposting via basic forms of advice and guidance; and over time, consider regulating or certifying those products to make high quality retirement pathways clearer for consumers.

NEST welcomes the flexibility offered to consumers by the Freedom and Choice reforms and shares the goal of consumers making good, active decisions about their retirement. In its role as trustee, NEST Corporation has considered the risks and potential detriment to members who aren't adequately supported to make optimal choices at retirement.

- Our view is that NEST members will need access to products like the one described in *The future of retirement* which we published earlier this year, and which we've shared with the review team. The NEST retirement income blueprint is designed to provide a high degree of flexibility in the early years of retirement by incorporating drawdown and cash elements while securing a regular income in the later years. It offers a risk profile we expect to suit a large proportion of NEST's members.
- We believe products like the one described in the blueprint could be suitable for signposting via basic forms of guidance and advice, or even as a default pathway for those who fail to engage at all. Such products are therefore a critical component of making the Freedom and Choice reforms a success for all pension savers.
- We encourage government to work with the industry to encourage the development of products like this, and to facilitate the development of advice and guidance frameworks that easily enable members to be routed towards them, in a way that limits the risk exposure to both member and provider.

Supporting savers to build an adequate retirement income

Auto enrolment has so far been a great success in increasing participation in pension saving. However, while minimum contribution levels are a good start in encouraging persistency of saving, they may not be enough to provide some savers with an adequate income in retirement.[2]

Without a disruption of individual inertia, it's more than possible that an individual could save at minimum statutory levels for their entire savings career. In some cases this could be more than adequate, but in others, particularly those who start saving later on in life, there's a very real risk that it will not.

We'd therefore encourage government to ensure that any guidance service aimed at working age adults, such as the guidance currently provided by the Money Advice Service, continues to incorporate strong and effective mechanisms to encourage people to actively plan for their retirement and to recognise the potential need to save more to secure their target income.

At the same time, we recognise the challenges of encouraging people to seek out information about pensions during their working lives and see a clear and continued role for industry in addressing this, through proactive and targeted member communications. NEST is actively considering ways of developing this messaging through a programme of analysis and research.

Consumers should be encouraged to consider the adequacy of their pension savings through a series of contact points throughout their working lives, provided by both government and industry, with the aim of building engagement and encouraging all individuals with pension savings to take personal responsibility for their retirement income. This should be supported by work between government and industry to build a richer picture of what adequacy looks like for different groups, in order to inform future advice, guidance

[2] http://www.pensionspolicyinstitute.org.uk/publications/reports/what-level-of-pension-contribution-is-needed-to-obtain-an-adequate-retirement-income

and member communications which support key moments in people's lives like paying off a mortgage or seeing children gain independence.

We also believe that advice, guidance and member communications are only as good as the data that underpins them, and that government should encourage cross-industry and cross-government collaboration to facilitate the development of tools and services that better engage consumers both during their working lives and at retirement. Services like Pension Wise, for example, could be more engaging if consumers came to them understanding what they'd saved, and how to access it. A tool like a pensions dashboard would support this.

NEST is working with both government and industry partners to help work towards the development of this type of service, and would encourage government to continue to strengthen its co-ordinating role in this space.

Supporting savers to provide an income in their retirement

NEST welcomes the flexibility offered to consumers by the Freedom and Choice reforms, and shares the goal of consumers making good, active decisions about their retirement. But we also recognise the significant challenges they present consumers who may have been largely inert during the accumulation phase.

As we noted in our consultation *The future of retirement*[3] many of NEST's members lack relevant experience and the confidence to make decisions. The environment in which individuals are exposed to pension schemes is product regulated. During accumulation, most consumers don't engage with the pension industry and the products that are on offer. If they do, they'll largely encounter well-regulated pension products with distinct quality standards and price restrictions. In contrast, at retirement consumers are exposed to a developing market offering broad choice. This is arguably much harder to navigate and as a result, there's a risk of consumer detriment. At the same time, this same group tends not to actively seek advice, through lack of engagement or for reasons of access or affordability.

NEST is keen to work with government and industry partners to ensure that its members wishing to access their pension savings have access to suitable forms of help and guidance as well as to products that meet their needs. We believe this work is a critical enabler to making the Freedom and Choice reforms work for all pension savers.

For those who actively seek guidance as they approach retirement, we'd encourage the government to continue to improve the quality and tailoring of the free guidance provided by Pension Wise, including through the provision of tools to enable consumers to understand the possible impact of different choices. We would also encourage government to broaden the scope of Pension Wise guidance to encompass how people's pension choices are impacted by personal debt, and any benefits they might claim. These factors are critical in making any retirement decision, and particularly apply to the group with whom FAMR is most concerned.

We'd also encourage government to take steps to encourage the industry to develop simplified advice and guidance products, including robo-advice, and provide them with the necessary assurances to encourage them to put these products out on the market. We think the FAMR is right to consider industry protections in this context in order to provide the right assurances to providers that they're not taking on disproportionate liabilities, including through safe harbours and longstops.

Additionally, we'd encourage government to consider how over time, product certification or regulation, in the same way as it's done for pensions accumulation through the use of the charge cap, could assist consumers in making appropriate choices, and provide a framework that better enables trustees and providers to signpost members to suitable products in a way that limits risk of detriment.

NEST's retirement income blueprint is a design for a product that might fall into this category. It's been designed to harness the flexibility offered by freedom and choice by incorporating drawdown and cash elements while providing a regular income and risk profile we expect to suit a large proportion of NEST

[3] https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/The-future-of-retirement.pdf

members. A key element of this blueprint is the strength of Trustee governance which would oversee member outcomes throughout the lifetime of the member.

We've already shared a description of this product and the research underpinning it with the review team, and would be happy to talk it through in more detail if the reviewers would find it helpful to consider how products such as these could be part of a new choice architecture for retirees, operating within a suitably regulated 'light touch' advice or guidance framework.

The provision of structured retirement pathways

Whatever framework is established to support consumers in making the right choices at retirement, the weight of evidence suggests that a significant proportion will continue to fail to engage at all.

For this group, we propose that government and the industry should work together to actively consider how any member failing to make an active choice could be routed either by default or by a very simple 'tick box' process into a core product, like that described in our retirement income blueprint. The core product would need to be considered suitable for a broad range of needs, and preferable to the member's pot remaining invested in an accumulation vehicle over the long term.

Questions

The nature of this call for evidence is broad and wide-ranging. We've chosen to answer only the questions of most relevance to NEST.

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

We agree with the findings of the review that saving for retirement and providing an income for retirement can involve complex decisions which will make it appropriate for many consumers to seek advice. Our own research has shown that in the main, consumers tend to start to engage with their savings around 'moments of truth' largely centred on their own lives.[4] Further, NEST research into improving consumer confidence in saving[5] suggests that, especially with long term savings products, consumers feel disconnected from their savings. Once the money leaves their pay packet, they feel as if someone else is taking control of their finances and feel like passive users. We believe that these 'moments of truth', life triggers such as leaving a job, children moving out, conversations with peers for example, should be seized upon as an opportunity to reconnect passive savers with their futures.

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

We believe that a core focus of the review should be on those people coming up to retirement in the next decade who'll be largely dependent on the value of their defined contribution (DC) pot. For this 'DC Dependent' generation, we believe that it's absolutely vital that the right tools are developed to help them navigate a new regulatory landscape providing them with total freedom and choice.

While we welcome the focus of this review to close the 'advice gap' we believe that the solution will ultimately be a combination of better advice for some and better, well governed products for many.

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

We consider that the review captures the core reasons that prevent consumers from seeking professional advice. Of those listed, we believe that price and engagement are the key drivers behind consumers not seeking financial advice. Further, we believe that in some cases, access to advice is not necessary, as pointed out by the review. The review rightly identifies cases where the cost of advice is disproportionate to the potential benefits or the required decision is straightforward.

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

We believe that robo-advice could prove a suitable option for our members, and would support government in encouraging innovation and testing in this area. In particular, we would encourage the Financial Conduct Authority (FCA) to consider how it can provide industry with suitable protections in order to feel more confident about testing and then delivering robo-advice products on the open market.

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

We agree that an 'advice gap' exists in that the cost of advice for many, especially relative to the size of their pension pot, makes the provision of advice uneconomic. We believe it's imperative that cheaper, more accessible forms of advice are developed for this group both during accumulation and at decumulation. But at the same time, there's a compelling weight of evidence to suggest that

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[4] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-research-into-retrirement-decisions,PDF.pdf
[5] http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/improving-consumer-confidence-in-saving-for-retirement,PDF.pdf

people tend not to take advice even where it's offered. Consequently, basic advice must be delivered hand in hand with simple, well-governed retirement products if we're to limit the risk of consumer detriment.

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

There's a strong body of evidence to suggest that a large proportion of people will not take advice, even where it's cheap and accessible. Take-up figures for Pension Wise have added to this evidence base.

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

We believe the advice gap that currently carries the most risk is amongst those retiring with DC pensions who aren't seeking advice despite having access to the new pension freedoms. Because we know that so far large parts of this group aren't taking guidance via Pension Wise, government has a role in facilitating the development of advice and guidance better tailored to this group.

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.

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

Yes.

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

We understand that the government's desire to improve consumer engagement in financial services is rooted in a desire to encourage consumers to save more and make well-informed decisions. But in this context it's striking that the most effective intervention towards boosting savings in recent memory has been the introduction of auto enrolment, an initiative which arguably works because of a lack of engagement.

We believe that advice and guidance services are only as good as the data that underpins them, and that government has a continued role in encouraging cross-industry and cross-government collaboration to facilitate the development of tools and services that better engage consumers both during their working lives and at retirement. Services like Pension Wise, for example, could be more engaging if consumers came to it understanding what they have saved and how to access it, which a tool like a pensions dashboard could support.

NEST is working with both government and industry partners to help work towards the development of this type of product.

We also believe that there's scope in learning from initiatives that take lack of engagement at retirement as a given, and work to protect against it. In particular, we'd point the review towards the introduction of requirements for trustees to pre-select comprehensive income products for retirement (CIPR) in Australia.[6] This, we consider, mitigates many of the risks which are prevalent at retirement. We'd encourage the review to consider the potential of safe harbour products as well as safe harbour advice.

[6] http://fsi.gov.au/publications/final-report/chapter-2/

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

We believe that the existence of some form of ‘safe harbour’ will be crucial as trustees seek to adequately transition their members from accumulation to decumulation in their retirement journey.

As above, we believe that the solution to bridging the ‘advice gap’ is in the combination of accessible forms of advice and guidance with the provision of good quality, low cost default products for savers. We believe that without the existence of some kind of safe harbour, trustees will not feel empowered to direct their members into these products.

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

We believe that the solution to bridging the ‘advice gap’ lies in the combination of accessible forms of advice and guidance with the provision of good quality, low cost ‘core’ products for savers.

In the absence of any active or informed choice by savers, trustees are required to consider the best outcome for their members as part of an extension of their fiduciary duty. It’s important that in this context government supports trust-based schemes to signpost their members through simple forms of advice and guidance to high-quality ‘core’ products, like the one described in NEST’s retirement income blueprint’. Over time, government may wish to consider regulating or certifying those products to make high quality retirement pathways clearer for consumers.

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

We believe that the government’s response to closing the advice gap can be overcome through a three pronged approach.

Firstly, we’d welcome any initiatives from the government which made the provision of high quality guidance or advice more accessible to the mass market, including giving the industry greater legal assurances around the liabilities they might be taking on in providing simple forms of advice, to encourage them to innovate. We believe that a major deterrent for many people is the cost of advice, and that ultimately the benefit of advice needs to outweigh the impact that its cost will have on pension pots.

Secondly, in the absence of affordable and or free advice to consumers, we’d encourage the government to consider how its current guidance services could be developed and improved. We believe a key component in increasing consumer engagement in these types of services is in encouraging collaboration to develop better tools and online services for consumers. Please see response to question 21.

Finally, we believe that the quality of advice and guidance can only go so far in helping some people plan for their retirement. For this group, a large proportion of NEST’s 2.6million members, we propose that government and the industry should work together to actively consider how any member failing to make an active choice could be routed either by default or by a very simple ‘tick box’ process into a core product, like that described in the NEST retirement income blueprint. The core product would need to be considered suitable for a broad range of needs, and actively preferable to the member’s pot remaining invested in an accumulation vehicle over the long term.

December 2015

Financial Advice Market Review (FAMR)

About NOW: Pensions

NOW: Pensions entered the UK market in 2011, backed by our Danish parent company ATP. We offer a high quality pension designed specifically with the auto enrolment market in mind.

We have grown rapidly to become one of the nation's largest auto enrolment providers, with over 15,000 clients and nearly 650,000 members. We are the only new private entrant into the market and have had to build our presence without the benefit of an existing client base, existing awareness or UK government sponsorship.

We recently opened our second UK office in Nottingham, where we will employ up to 250 people over the next two years. This new office will play an integral role in the growth of our business.

Background to Auto Enrolment

NOW: Pensions recognises auto enrolment as a cross-party public policy success. However, we believe auto enrolment is at a turning point and it is vital that any reforms in the pensions, savings and advice policy do not jeopardise its success. Whilst nearly 5.3 million people have been enrolled to date, 97% of all UK employers are yet to reach their staging date. Only 54,000 employers have staged in the last three years, and we are expecting 1.8 million employers to stage before 2018. Next year alone, over 500,000 small employers will have to comply with auto enrolment. Opt out rates have been low (around 9% for our members and 12-14% across the board), but as the policy increasingly affects smaller firms it is vital that care is taken not to make any reforms which could disincentivise pension saving and potentially trigger an increase in opt outs.

Contact

Rob Booth
Director of Investment and Product Development

Introduction

NOW: Pensions welcomes the opportunity to respond to this Financial Advice Market Review (FAMR) call for input. Before responding to each of the specific questions in the FAMR, we would like to set out some of the key overarching points that we believe need to be taken into consideration as part of this call for input.

NOW: Pensions endorses the sentiments of Economic Secretary, Harriett Baldwin, that the object of FAMR is to help "hard-working people achieve their aspirations" and that a public policy outcome must be to explore, "what more can be done to make sure consumers can access high quality and affordable advice so that they can make informed decisions with their hard-earned money".

For this reason we believe a critical outcome of FAMR is that it must provide an appropriate and accessible advice framework to ensure people are making adequate savings for retirement. The lack of adequate saving in the population, especially for retirement, is widely acknowledged as a key public policy challenge and was the reason for the political consensus around the introduction of auto enrolment. NOW: Pensions believes the provision of adequate advice, particularly through the workplace (supporting employers), and simplified advice through online provision are key outputs that need to be implemented to fill the advice gap that exits for low earning workers.

NOW: Pensions believes even with this additional advice provision, adequacy of contributions under auto enrolment is a vital issue that needs to be addressed as an early priority, firstly through the removal of 'qualifying earnings' and, in the longer term, through moves towards 'auto escalation' of contributions.

We also believe in addition to any outputs from FAMR there is a general point around intergenerational unfairness in that older workers have historically benefitted from better pension provision and higher tax relief, and are now withdrawing large sums cash-free. At the same time, it is becoming increasingly difficult for those who have not saved enough to get to the same stage, and even if they do get there, they may find that they are penalised.

We have only submitted answers to questions in the Review where NOW: Pensions has experience or credible evidence to submit.

We would like to make one final point. DWP's Consultation (Occupational and Personal Pension Schemes Miscellaneous Regulations (Retirement Risk Warnings), FCA's Consultation (CP15/30), and the Financial Advice Market Review address a large amount of common ground. We strongly recommend that responses to all consultations are considered prior to any announcements being made.

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

Fundamentally, to address the problem of undersaving for retirement, consumers need guidance or advice about saving throughout their life. We suggest Pension Wise would be a suitable organisation to lead on this, once it is fully established and has met its targets for helping people with their defined contribution pension options.

In general we believe that more could be done by way of 'nudges' into taking financial advice. Many people have low levels of financial literacy and taking financial advice is not even on their radar.

The long term public policy output from FAMR should be to put in place high quality and affordable advice at consumers key 'life events' i.e. leaving school, entering further or higher education, first job, marriage, house purchase, divorce, retirement etc.

Through NOW: Pensions' work with employers and particularly small employers, we see that they play a significant role in bridging the advice gap for employees (consumers) when it comes to workplace pension advice and decisions around retirement income.

We believe that as the Pension Wise service develops it could build a bigger presence in the workplace to support employers through staff briefings and webinars. Employers, supported by organisations like NOW: Pensions, could play a role in booking employee appointments with Pension Wise. Initiatives whereby employees receive an email or other form of contact five years before their scheduled retirement date encouraging them to consider seeking guidance or advice would also be welcomed.

At NOW: Pensions we are prepared to play our part and are looking at collateral such as a 'Retirement Checklist' that employers, particularly within small and micro sized businesses, can pass onto their employees. We would be happy to work with both the Pensions Advisory Service (TPAS) and Pension Wise to see how we could make this type of collateral more universal.

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

There are a number of reasons why consumers do not seek advice. The most fundamental reasons are connected to the lack of adequate saving in the population, especially for retirement. If people have small funds, their perception is that the cost of advice is either outside of their reach, or would not be justified vis-a-vis the outcome.

For example, as a new entrant in the market, NOW: Pensions only began receiving contributions from members in 2012. This, coupled with current low auto enrolment contribution rates, means that at the moment many of our members have very small pension pots, with the average fund size for members of our scheme over the age of 55 currently sitting at £251.

There is a great deal of emphasis on the 'freedom and choice' reforms in the decumulation phase of pensions. However, for members with an accrued pot of just a few hundred pounds, there is very little option in the freedoms and choices available.

Other well-known reasons of why consumers do not seek advice are a lack of awareness of where to find advice, the difficulties of navigating the advice industry and the varying degrees of cost.

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

As highlighted in Q5 there is a clear advice gap in the workplace for employees and the burden to fill this gap currently sits largely with employers. Large employers with big in-house Human Resources (HR) departments are able to meet this challenge. However, small and micro firms are mostly too small to have any in-house pensions' expertise and they are less likely to have the help of an expert adviser.

More broadly, we believe there is a clear advice gap for those with low assets. The ban on commission in the Retail Distribution Review has clearly had an impact in this regard and many people with low levels of assets do not think they can afford the fees for financial advice.

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

To give a scale of the gap that exists we believe that it is helpful to look at the challenges that exist around auto enrolment.

Between now and 2018, 1.8m smaller employers will be required to enrol their workers into a pension. That means 97% of all UK employers have yet to enrol their workers into a pension. This includes 900,000 employers with only one or two workers and a further 300,000 firms with just three or four employees. These figures indicate that there are potentially millions of employees in small and micro firms who may need to access some kind of advice during their working lives.

Also from an employers' perspective, when it comes to selecting a provider for auto enrolment, one in four (26%) employers intend to seek help from their accountant, one in six (16%) are relying on their existing scheme provider and one in ten (12%) plan to search the market and do the research themselves. Just one in 20 (6%) of small and micro firms intends to seek help from an independent financial adviser, which indicates that small employers need some form of accessible advice to support them in making these important decisions on behalf of their employees.

More recently, NOW: Pensions published research in October this year from over 200 small and micro firms which yielded alarming results about the level of preparedness of these firms for auto enrolment.

One in five small firms we spoke to – those with between six and fifty employees - had not yet given any thought to auto enrolment. While that is a very worrying figure, it pales in comparison to the staggering 75% of micro businesses – those with five or fewer workers – who have not yet begun thinking about enrolling their employees into a pension.

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

Please see response to Q5, Q19 and Q20, which identify the advice gaps we believe the Review needs to address.

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

We agree that the focus of initial work on advice should be in relation to saving into a pension, taking an income in retirement, and investing (in that order).

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?

We agree that the focus of initial work should be on consumers with some money but without significant wealth. However, it should be noted that future work needs to be done to provide an advice service for people even further down the income stream.

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 detailed below in our response to the Public Financial Guidance Consultation, it is our view that Pension Wise should be taken out of the Department for Work and Pensions (DWP) and into The Pensions Advisory Service (TPAS) with adequate financial provision and appropriate oversight from central Government.

We also believe a 'pensions dashboard' initiative that collates all of a persons' retirement income in one place, including state pension entitlements and other benefits would not only allow people to understand what they have saved, but also help Pension Wise when it comes to give guidance (and subsequently advice if the service evolves as a consequence of FAMR) to people about their retirement income choices.

Another important regulatory change that we believe needs to be made is the alignment of regulatory regimes around financial advice and consumer credit. The current situation is such that in many cases it is easier for consumers to get unsecured credit (with high interest rate fees), than it is to invest in a savings product.

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

The outputs from FAMR need to focus on helping with the advice gap that exists in the workplace for employees. Due to the fact that a large number of employees seek advice from their employer on their pension and decisions around retirement income, the workplace can be seen as a more 'trusted' environment to improve consumer engagement with financial services.

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

We believe that the regulatory regime should focus on simplified products when considering safe harbour guidelines.

Pension scheme trustees are currently reluctant to take any active involvement on behalf of their scheme members in the area of retirement income products for fear that there could be future repercussions and possible litigation if the product to which they were connected ultimately proved not to be the ideal product for any individual member. There is also a lack of clarity concerning the regulation attaching to trustees in this area.

For these reasons, we would also support the introduction of a sensible longstop for example as detailed in the FAMR call for evidence, *"a longstop of 15 years (such as that applying to certain causes of action under the Limitation Act 1980), or using a different time period recognising the long life of financial services products."*

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

Good governance is the first step towards protecting the consumer. As an example, the Assurance Framework is being adopted by many Master Trust arrangements to demonstrate the strength of scheme governance. An independent accreditation system would be required to create a safe harbour structure. In the retirement area, we believe that the work that the PLSA's Pensions Quality Mark is currently doing in looking at the potential for a Retirement Quality Mark (RQM), could be a good starting point for regulators to consider.

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

We support the provision of high quality and affordable advice through on-line and innovative technological delivery. This would be particularly beneficial for those employees who work for small and micro firms where there is seldom access to any financial support via a dedicated HR or Finance department. We would be supportive of the introduction of an automated advice service which could be accessed by pension scheme members online. We also believe that there would be significant benefits in linking such a service to the establishment of an online 'pensions dashboard'.

However, we would encourage the use of a term other than 'robo-advice', which seems to have entered the lexicon recently, as we believe this creates a slightly misleading impression. We would prefer a term such as 'online advice' or 'e-advice'.

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

Please see responses to Q5, Q19 and Q20, which identify the advice gap we have identified and our suggestions on how to address it.

Q41: 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 the Government and private sector will need to appropriately fund any new advice service and ensure there are regular reviews and measurements of consumer outcomes to ensure the quality and standard of advice is appropriate as a result of any proposed changes from FAMR.

We also believe that significant attention should be given to the use of plain English and ensuring that people can understand terms and conditions around financial products and services, including financial advice. We would encourage the Government to consider the introduction of a kitemark for those providers of financial services and products seen to be reducing jargon and making their offer easier for consumers to understand. This kitemark could potentially be administered by TPAS or Pension Wise.

Public Financial Guidance Consultation

It is our view that Pension Wise should be taken out of the Department for Work and Pensions (DWP) and placed under the control of TPAS with adequate financial provision and appropriate oversight from central Government.

However, we would suggest that in order to have an informed opinion on this matter, data concerning the success or otherwise of the three constituent parts of Pension Wise (TPAS, CAB and MAS) should be published to allow the performance of the full service to be publicly scrutinised.

While we are not too concerned at this stage with a Pension Wise uptake rate of only around 10%, we also believe it is vital that more specific data is captured and published on the demographics of the people using the service are. We believe there is a risk that the 10% who are using it so far may actually be the people who need the service least – i.e. those with high levels of financial literacy and access to other sources of financial advice. Gathering adequate data on the people using the service will be vital if we are to ensure that it is reaching the right people. We would like a commitment from the Government to publish this data on a regular basis.

Signposting to the service is also vital if those who would most benefit from Pension Wise guidance are to be made aware of it. We would therefore urge Government to ensure that adequate resources continue to be made available for the promotion of Pension Wise.

As mentioned previously we also believe a 'pensions dashboard' initiative that collates all of a persons' retirement income in one place, including state pension entitlements would allow people to understand what they have saved, but also help Pension Wise provide appropriate guidance (and subsequently advice if the service evolves as a consequence of FAMR) to people about their retirement income choices.

Financial Advice Market Review (FAMR) Input

Questions

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

A1. The range of circumstances that could be classed as putting people in a vulnerable situation are many and varied and it is unlikely there is one single solution to what is a range of societal issues. There will be many groups within those classed as vulnerable who may look to seek financial advice from financial planners and in doing so they are more likely to receive appropriate advice and care from firms who are already clearly articulating their proposition, treating their customers fairly, building trust with their clients by knowing their individual client's circumstances in detail and ensuring best customer outcomes in all that they do. Being vulnerable may impact decision-making by the individual and this may impact the ability to be able to source suitable advice options. That said, it is too easy to generalise and say as a group the vulnerable are 'easy prey' for the unethical and indeed being able to recognise the vulnerable is likely to be a task in itself. Those firms with a clear customer led approach rather than a product sales approach will more easily identify cases of vulnerability and be in a better position to deal with each individual case appropriately.

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

As an industry we've tied ourselves in knots over different definitions of advice – independent, restricted, professional, basic, guided, open, guidance, information etc.

Regardless of what the industry calls it, communication is always two way and if a client perceives she has received 'advice' after using an online tool then that's all that really matters. So we would call for real simplicity in this area and would suggest the following:

- Advice – whenever it has been paid for through an explicit 'advice' charge
- Help or Support – whenever there is no explicit 'advice' charge

The clear distinction being that if you pay an advice charge you know you have received advice. If you do not then you have not received advice but merely given some support or help in your own decision making process.

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

We would agree with the findings that consumer demand is typically driven by the complexity of need and size of investment. Support for simpler products such as general insurance is readily available online and in the main, consumers are very comfortable making these very simple financial transactions online eg. Home and car insurance.

Equally, those who are younger and starting to save relatively small sums for retirement are not likely to need to pay for financial advice. By contrast, the introduction of the retirement reforms is likely to lead to more advice being needed at relatively modest sums particularly where consumers are moving from accumulation to decumulation.

There is likely to exist a middle ground where consumers may have a relatively small DC pot or collection of pots today, are still some years off retirement but also have a number of older DB schemes which they are unaware of the value of. Advice is clearly valuable here but the value of advice at this stage may not be quantified by the individual and not actively sought out by the adviser firm as these individuals may not have obvious, significant investible assets.

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

It is clear that help or support in making financial decisions is being sought by consumers at every level across a range of complexity of needs.

Short term lending, GI, mortgages etc are clearly being delivered through help, guidance and support through the internet and whilst the consumer may still be unaware that they are ultimately paying for this guidance through a margin being taken - for example comparison site providers facilitating the provision of information on which decision is being taken where the provider has a margin agreement with the comparison site provider. So there is inevitably a charge for this 'free' support.

Saving for more complex financial products such as retirement is a space where so called 'robo advice' is going to become more prevalent but we should be clear that the extent of this 'advice' is in the selection of the underlying asset allocation rather than any complex tax or trust advice.

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

See A4 above. Also need to factor in the different life stages identified as part of the FCA spotlight. It is important to acknowledge that the perceived advice gap is very different to the savings gap and that while some groups may lend themselves to advice solutions eg. 'those starting out', it is highly likely that other priorities will take precedence eg. saving for a house deposit, new car etc.

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

Yes there is merit in the FCAs consumer segmentation model particularly in determining:

- Complexity of investment solutions required for individual needs at different lifestages
- Ability to be able to pay for advice or support
- Likelihood of seeking out that advice or support
- Ability to access different help and advice solutions

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

Broad generalisations can be made on the following lines:

- Living for now / Hard pressed / Striving and supporting – 20m people - likely to have simple financial needs which can be self served online or in their bank branch

- Starting out / Stretched but resourceful / Retired on a budget – 16m people – likely to have slightly more advanced financial needs which can be satisfied through self serve online, through new robo advice options or through light touch face to face advice with (say) triennial reviews and low annual charging options (client review conducted every three years and normal annual charge split across three years eg. If this is usually 1% per annum then split into 0.35% per annum in the full knowledge that the next review period is due in three years. This covers the basic administration cost of managing the business, rebalancing where appropriate and issuing six monthly statements etc but reflects the fact that there is only a ned to review every three years.

- Busy achievers / Affluent and ambitious / Mature and savvy / retired with resources – 16m – these consumers are more likely to have more complex financial needs which are best served in the main through paid for professional advice though some needs will be capable of being served through new robo advice channels

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

A7 deals with much of this. The majority of the population have more basic day-to-day living needs to contend with and require basic GI products, debt management services etc rather than the need for professional face-to-face advice. This can be achieved through government services such as Pension Wise, Money Advice Service and Consumer Advice Bureau.

Those who can afford to pay do currently pay. There is a mid ground where new solutions are required to serve those with either a more complex need but limited wealth at this stage in their life. New thinking such as triennial review periods that allow a limited annual advice charge for reviewing progress once every three years may solve some of the issues of those starting out on a journey to retirement and this can flip over to full professional face to face advice at a point in time when they move onto a different spotlight group such as the move from say 'starting out' to 'affluent and ambitious'.

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

Issues are well known and in the main relate to complexity of need and cost. The majority of the population do not have the wealth to require complex financial planning or the funds to pay for complex financial planning in its current guise. The internet is serving a mid tier of people with basic financial needs to self-serve with simple products. There is a tier below those currently being served by professional advice that are effectively on the path to requiring full financial advice that may be better served by some new thinking in terms of how advice is delivered for example the triennial review example above or the advent of robo advice services but again these are effectively delivering asset allocation solutions for simple investment products so aren't going to be able to be as effective as professional advice.

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

No evidence as such. Nucleus only deals with clients of financial advisers and net sales show strong and continued growth across all product lines.

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?

Increased competition from direct to consumer online platforms, advent of auto enrolment and workplace solutions, increased confidence from a new generation of savers used to researching options online and feeling more capable of making informed decisions without the need of professional face to face advice.

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

There is much talk of the advent of robo advice but we should be clear that this type of solution provides help and support in determining risk appetite and matching asset allocation. It is therefore limited in the extent to which it can provide complex tax and trust solutions at this stage – unless it is tied up with a telephone based service such as evestor. This is likely to serve a segment of the market well, particularly those who are starting off on a savings journey. For those who are still some way of retirement but have an ability to save and with some solid savings behind them in terms of DB or DC arrangements, a gap still exists in the market where an annual review of their finances is unlikely to yield much change in personal circumstances, long term goals, attitude to risk, asset allocation or tax wrapper complexity but an initial face to face meeting and a check in meeting every few years may be a perfect solution. Current advice solutions tends not to cater for this segment which is likely to include the FCA's Mature and savvy and some Affluent and ambitious segments.

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

Acknowledging that advice firms need a way of incubating clients prior to them becoming financially viable as long-term clients. Creating a model that supports initial advice and allows the maintenance of a long term relationship from simple needs at a younger lifestage through to more complex needs in mid and later life.

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?

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

Those with sufficient assets to justify the cost of advice. Busy achievers, affluent and ambitious, mature and savvy are all well covered by the current market. Starting out, stretched but resourceful striving and supporting and retired on a budget could all use help or simple advice at various stages in their life a reasonable cost through a different model.

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

The FSCS levy is a particular issue than needs to be addressed urgently.

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

Entirely depends on your definition of advice and help/support.

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

It doesn't. We should acknowledge that there are simple solutions available for simple financial needs that can be achieved on a self serve basis.

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

	Taking an income in retirement (including through equity release)	Saving into a pension	Saving for short-term needs	Taking out credit and managing debt	Investing	Getting retail general insurance cover	Getting life insurance and protection cover	Taking out a mortgage
Starting out								
Living for now								
Hard pressed								
Striving and supporting								
Stretched but resourceful								
Busy achievers								
Affluent and ambitious								
Mature and savvy								
Retired on a budget								
Retired with resources								

No need
Gap
Well served

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

Agree with the evidence provided in the FCA paper and from working closely with Nucleus users over the years.

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

Those that are stretched but resourceful and possibly an element of busy achievers seeking to invest and save for a pension

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

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

Yes

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?

The current obligations to ensure firms act in the best interests of clients, the suitability rules and the requirement to ensure all communications are clear, fair and not misleading all provide a reasonable framework within which adviser firms can operate.

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?

Nothing specific.

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

The review starts with a premise that there is an advice gap. There are large segments of the population who can't afford to save, those who can but actively prefer to spend on living for today – not a hand to mouth existence but prefer to buy a new car every other year, invest in a larger home, spend on school fees, spend on the latest technology rather than save for a very or not so very distant future. This is probably more a savings gap than an advice gap. There are equally those who want to do it themselves not because they perceive an advice gap but because they think they can achieve the same result without paying for advice.

There are some merits in in providing an entry level into full face to face advice but the industry has been highly reviewed for many years now and there needs to be a period of stabilising from RDR, the sunset clause and the various retirement reforms before we can definitively say there is an advice gap.

Ignoring the savings gap at the same time seems counterintuitive. This initiative will not close the savings gap.

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

Extending the RDR ban on commission across all financial services products and ensuring all kickbacks are properly disclosed including price comparison sites, general insurance etc would be welcome as per the Australian and Netherlands models.

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

There should be an acknowledgment that inertia has always and will continue to drive behaviours and that a solution shouldn't be deemed to have failed because of a limited uptake. The provision of service has to be market led not market forced. A lack of knowledge has been blamed on poor take up of stakeholder type products in the past when in fact inertia may well be the real driver. There is a certain segment of the population where the only solution is compulsion and the steps taken with auto enrolment is an effective first step in this direction.

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

Those advisers who have moved from a product led solution to a client led solution are selling their advice as the 'product' and the cost of regulation has to be controlled. A clear separation between paid for advice and 'support' needs to be made and all providers giving 'support ' appropriately regulated.

Where advice, suitability, risk and personal recommendations are clear there should be no need for safe harbours. A more effective ombudsman service and a review of the complaints procedure with more emphasis on the client's side of the contract – their ability to make a reasoned judgement when presented with all of the facts, clearly by the adviser - needs to be taken more into account.

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

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

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

We see no firm evidence that the current absence of a longstop is leading to an advice gap or that advisers are choosing not to advise on certain products or clients needs due to fear of potential liability.

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 see no evidence that the absence of a longstop is leading to barriers to entry or exit for advisory firms. There is undoubtedly an untenable increase in the cost of regulation on firms and this absolutely needs to be addressed.

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

It is important that consumers feel they have access to redress for long-term advice but it is equally important that consumers fully understand the risks they take with any solution they enter into on the advice of their adviser. If they are at all concerned or unhappy at the outset with the advice being given it is incumbent on them to ensure they make an informed decision based on that facts presented to them at the point the advice is given.

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

Only 4% of complaints in 2014/15 of which only 1% were upheld related to advice older than 15 years so we need to be careful of not over engineering a solution. The product is advice and as such separate longstops per individual tax wrapper does not seem appropriate. If the industry is to be more professional then a review of the current equivalents in the legal and accountancy professions would seem appropriate in terms of advice 'shelf life'.

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?

Automated online technology will be limited in its ability to provide advice on complex financial needs. At this stage most are offering 'advice' on asset allocation and risk profiling rather than reviewing complex tax, trusts and tax wrapper advice so a clear understanding of the role they can and do play and the limited part of the market that this might be suitable for is important.

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

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

Their understanding of what they have or haven't paid for, the availability of other advice sources and the liability implications of taking a decision and ensuring they are full y informed when they do so.

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

Provide a solution that allows firms to economically serve those who are at the start of a journey and need simple advice infrequently but are likely to need more complex face-to-face advice in the future.

Clearly separate paid for advice and help or support through online tools.

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?

Be very clear about what constitutes advice and what constitutes help or support, how both are paid for and how each will be regulated. Also need to be very clear about the circumstances in which support or help is appropriate depending on the complexity of client needs.

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

See above.

nutmeg

Nutmeg submission

Financial Advice Market Review

Nutmeg Saving and Investment Limited
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I. Introduction

Nutmeg is well-known for arguing that financial markets do not serve ordinary people efficiently. Our main argument in this submission is that an advice gap does exist, that it can be narrowed substantially (but not eliminated) through the widespread introduction of online automated advice, and that regulation is an important factor in making this happen.

Below, we make a series of policy recommendations, as well as offering our views of the advice market as it stands, and as it could be in future. Some recommendations relate mainly to the demand or consumer side of business activity; others relate mainly to the supply or regulator side of business activity.

Summary of main recommendations

- We recommend that the FAMR **simplify the definition of financial advice**, so that it aligns with customers' understanding of that term, and so that today's "advice" and "guidance" are both referred to as "advice".
- Within the umbrella term of "advice" there should be two categories: "information advice" and "proposal advice"
- We recommend that those delivering financial advice make two distinctions clear: **is the provider liable** if the advice is bad?; and **what is the scope** of the advice being provided?
- We recommend that **new standards be introduced to improve industry transparency and foster competition.**
- We believe that the **government and regulators should facilitate the creation of a single, online personal finance dashboard for every UK citizen**, displaying all of an individual's key financial information. This should be activated or promoted particularly at key life stages.
- The Money Advice Service database of financial advisers should treat **online and offline advisers equally**.
- We would like to see **a more flexible regulatory approach**, including mechanisms for hearing and acting on consumer views.
- We believe the FCA should **promote financial advice more actively**, and we believe it should be a **statutory objective of the FCA** to improve consumers' access to affordable financial advice.
- The personalisation of financial advice should be encouraged and not limited by regulation. Specifically: the route to product and service purchase should be as light/heavy as the user requires. And the encouragement of action by vitue of "nudges" e.g. "people like you do this" should be allowed.

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II. Problems with the advice market today

We see several problems with the financial advice market today.

Financial advice is too expensive

Our view is that real demand for financial advice, including online advice, exists. But the advice in its current form is too expensive.

According to research commissioned by Nutmeg, and carried out by a third party agency, only 23% of UK adults would be willing to pay £150 for an hour of financial advice from an Independent Financial Adviser (£150 is roughly the UK average hourly fee). At the same time, 68% of UK adults are happy to receive financial advice via online tools and online questionnaires, although today 65% of UK adults would rather get financial advice from a human financial adviser.

Although Nutmeg does not yet deliver financial advice, our business proposition helps customers better understand and reach their financial goals. In our view, the demand for our investment service mirrors the demand for an online platform that delivers a lower-cost, high-quality advice service – reflecting latent demand for an online advice proposition that isn't yet widely available.

The industry does not serve the mass market well

Today, financial advice is not easily accessible to many, and those who have the least money and who face the hardest marginal choices – who perhaps need advice the most – can be excluded. There are exceptions, but we believe the industry on the whole does not view serving this market as a priority – the focus, instead, is on serving more wealthy customers, who tend to be more profitable customers. So today there is a shortage of providers (online or offline); new models of online advice are yet to gear up (MoneyFarm and Nutmeg) or are taking off more slowly (Money on Toast).

Financial advisers are slow to adopt online options

There is a growing expectation among customers that services will be provided online, offering a high standard of user experience – in terms of functionality and ease of use. But customers are not getting this from the majority of existing financial advice providers. There is a lack of design-centred thinking, and more focus on product distribution.

Financial advice does not cater well to certain special circumstances

We are aware that the industry does not deliver on issues or questions faced by many. The switch in the pension world from accumulation to deccumulation, for example, is one of the most complex and hard-to-navigate financial steps customers have to take, and one on which we feel advice should be more widely available.

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Financial advice is often not a priority exactly when it should be

People need financial help most when a specific life event occurs. For example, wedding or childbirth. At this point the person tends to be busy! So they need to be engaged beforehand and require proactive prompting. Currently most financial advice is re-active. Customers tend to seek and receive financial advice too late. Good quality advice is pro-active and happens before the event in question e.g. setting up a stakeholder pension before a child is born.

The system that pushes people into advice is too complicated

The Treasury is considering changing the pension laws, but in Nutmeg's view what is really required is a major simplification. This is true for other investment products: we need simplification. In our view, if people understand the financial advice offerings more clearly they will feel more comfortable about when and from where they should obtain financial advice.

III. How should we think about the market today?

We view the FCA's Consumer Spotlight segmentation model as a useful tool for exploring consumers' advice needs. But other distinctions – for example, those based on attitudes toward investment – can be useful too. Attitudes toward and knowledge about investment do not necessarily align with socio-economic background.

For this reason, Nutmeg often thinks in terms of Delegators, Starters and Optimisers. **Delegators** know a little about investment but would rather outsource the effort and time of managing investments to a professional, so they can focus on other priorities. **Starters** are first-time investors who would most likely hold their savings in a bank if they did not invest with Nutmeg; starters only have a passing interest in investment and tend to want solutions that require less effort and time. **Optimisers** feel they could do a similar job to Nutmeg, but would prefer not to if the costs work out the same or less. If they felt there were a more cost/time/tax/effort-efficient way to invest, they would do it themselves.

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IV. What is Nutmeg's view of online advice?

We are vocal advocates of online financial advice and online investment management. We believe it offers a range of advantages.

Why does online advice matter?

Online is flexible. Online advice can be provided on the customer's terms and to the customer's timescales. Advice can be adapted quickly and easily to meet changes in a customer's circumstances.

Online can be audited. Because online advice is either based on a decision tree or delivered by a human through a platform where 100% of advice is recorded, online advice can be easily and properly audited, unlike face-to-face interviews.

Online cuts costs. Decision trees deliver significant economies of scale; online conversations between customers and advisers cut travel times.

Online is tailored. Online can deliver tailored, non-generic advice that adds value to offline advice or can stand alone. We do not believe that online advice will ever replace humans completely but there is no obvious short-term limit to the level of sophistication that can be delivered.

Online gives clarity through interactivity. Online platforms allow customers to visualise likely returns and potential losses, to visualise fees as a proportion of total returns or of total investment, and to visualise the likely impact of current saving/spending decisions on future income/pot size – all by using interactive, intuitive tools. These allow customers to explore better the impact of trade-offs over time. Many industry providers are not open about fees, and so resist introducing technologies like these that would help customers understand their financial situations.

Online gives up-to-date, accessible advice. Decision tree advice can be accessed 24/7 regardless of location, and online platforms can give 24/7 live view of one's portfolio and analytics showing fees, performance, relative performance, and more.

Online creates a better interface between advice and investment. The transition from advice to investing is relatively seamless compared to receiving advice offline and making an investment decision.

Online can facilitate coaching. An online platform creates a space for coaching customers and prompting good behaviours through 'nudges' – educating customers who might be inclined to make uninformed investment decisions that would reduce their returns.

Online is mobile. Customers can access advice through a mobile or tablet, not just through a PC or laptop – devices that are relied on less and less by internet users.

Online is less selective about whom it serves. There is a reduced or no concern about a minimum level of wealth and pricing can be designed to facilitate services for all

Online does not create social barriers to entry. Customers of all backgrounds can use online services without feeling discriminated against, or nervous that advice is "not for them".

How do we make online advice easier to use?

The most urgent challenge is to persuade customers to take a greater interest in their long-term finances. Apathy is a real barrier, as is the feeling that advice is not accessible. In some ways, those who have chosen to go to get advice have already passed the biggest hurdle. Given apathy and the ability to defer decisions, services with lower hurdles (e.g. all-online KYC, a service that regulation could help to make more widespread), with low perceived time commitment, no judging ("I know I should have done this ages ago"), and interactive tools that allow easy personalisation are the ones most likely to maximise consumer engagement.

After this, firms must develop customers' trust. Trust online is formed through repeated high-quality interactions - by a high quality user experience, excellent customer relationship management. Well-delivered automated and personalised communications based on customer and behaviour have the potential to drive greater consumer engagement. Think of the increased engagement customers have on apps on their phones each day - for instance, tracking daily spending or budgeting - compared with booking a face-to-face appointment. Timely reminders based on life changes - for example, news of a new baby posted on Facebook, or triggers such as a rainy weekend - have the potential to "nudge" customers into action.

Online advice should help customers to think through their situation and their aims carefully. When setting up a customer fund, Nutmeg highlights the range of risk levels that are appropriate (based on a risk assessment), and asks for specific reasons customers would like to access other risk levels (this goes for both too much risk and too little risk). All of this encourages customers to consider their risk carefully and helps prevent customers from experiencing nasty surprises regarding volatility.

Nutmeg's philosophy is to present information, by default, in such a way that results in behavioural outcomes that are best for the customer, while keeping all the detailed information a customer could possibly want accessible if and when they want it. This way we maintain transparency while also helping to keep customers invested and thinking about their goals and progress.

In all of our engagement with customers, we rely on CRM – customer relationship management – to keep customers engaged, to convert registrants into investors, and to encourage regular investment. CRM can include anything from the tailored emails we send, to the calls we make, to the targeted messages we display on our website. Good CRM aspires to recognise that all customers are unique; any insight a provider can gain into a customer's priorities – from the way they interact with online services – can be an opportunity for a provider to personalise its service to meet customers' needs more efficiently.

We use a range of other tools to make online investing user-friendly, many of which would have a valuable application in the delivery of online advice:

- Smart defaults which where possible reduce the barriers to getting started while reassuring customers they can make changes later
- Automated real-time identity checks that don't require sending sensitive documents by post
- Using test-and-learn (through feedback and observation of customer behaviour) to optimise the way we help customers to make decisions
- Every bit of the way a site/service is designed influences customer behaviour, and we make many design decisions with the explicit goal of yielding good behavioural outcomes. For example, when creating a fund, we ask customers to select a goal and name their fund - two small steps to connect investments to real-life goals that our data show help keep customers committed to their goals and less likely to withdraw
- Performance chart timeframes are defaulted to "All time" to encourage a long-term view

Good investment is boring, but we can increase engagement and interest in investment by making the product more exciting, and more of a pleasure to use.

What is online advice not?

We do not view online advice as a wholesale replacement for offline advice. We view online advice as a value-add or as a way to replace certain forms or parts of advice, depending on the products and services offered by a provider. We do not view offline advice (phone, video, or in-person) as redundant in the age of online advice, and recognise that some financial situations are of such complexity that they cannot be answered by automated advice platforms, at least for the foreseeable future.

V. What limits does economics put on the supply of online advice?

It is economically difficult to develop automated products for customers who cannot save with some regularity. But, given the cost efficiencies that can be delivered through automated advice, the market should be able to deliver advice to a significantly wider range of customers than those who receive advice today. Automated online tools should be able to offer advice with excellent economies of scale.

Note that transparency and access come with some burdens, as well as benefits. For example, some customers make many more changes to their portfolios than they should. Sometimes this incurs a cost to the provider, which has to execute these repetitive and non-revenue generating transactions; however it can also incur serious costs or opportunity costs for the customer, particularly when customers disinvest during market routs and re-invest during recoveries. These behaviours are more likely to affect providers that have no punitive exit fees.

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VI. What can FAMR do to improve the provision of financial advice?

Clarifying the definition of financial advice

In our view, the current legal distinction between advice and guidance is confusing to customers. Customers tend to view all forms of recommendation or assistance as advice – from casual comments made by a family friend, to a newspaper article, to a face-to-face meeting with a professional adviser.

In place of the current legal distinction, we propose that the scope or definition of advice be widened substantially to align with the customers' understanding of the term – so that today's guidance and advice are both referred to as advice.

Within the all-encompassing term "advice", we propose two tiers be created.

The first tier would be called a "proposal". By default, all advice proposals would carry adviser liability – that is, the customer would have comeback against the provider in the event of certain bad outcomes. In some circumstances, however, customers would be able waive adviser liability (see below). This tier would be reserved for more complex financial decisions and takes the place of what is known today as "regulated advice".

The second tier would be called "information". All advice classified as information would not be subject to adviser liability. This tier would be reserved for advice about simpler financial decisions, such as information about financial products, or information about who typically buys such products.

In both tiers, the provider would be obliged to state clearly what the scope of the advice is – that is, what is being taken into account and what is not (e.g. the customer's health, the size of a customer's mortgage, etc.).

Whatever approach is taken to clarifying the definition of financial advice, it is vital that there is clarity in the relationship between the MiFID II definition of advice and the UK's own approach.

"Proposal" and opt-out of liability

Some customers purchasing first tier, "proposal" advice are time-poor and chiefly want to make a financial decision after answering a number of simple questions. These customers will tend to consider themselves expert or experienced in financial matters, and will be regular purchasers of financial products. In our view these customers should have the option to reject the chance to complete a full fact-find or go into any depth, in exchange for which the liability of the firm should be eliminated. We advocate that this is clearly stated to the customer i.e. "chose this route and you will not have the ability to submit a complaint to the FOS". We believe these people are willing to accept the tradeoff between an increase in overall utility over certainty that they can claim compensation, on the basis that they would otherwise not make the purchase at all.

This is distinct from products in the "information" category – which might be referred to as a "safe harbour". And also distinct from an "execution only" or "non-advised" purchase because advice will actually have been given to the customer.

This latter point is important as it looks to the future, when people are more likely to travel through online journeys as a matter of exploration, than they would today find and visit a financial advisor who gives an equivalent experience.

"Information" – or, the safe harbour

Creating a safe harbour could significantly lower the barriers to innovation in online advice. The information category should only be available for simple services, decisions or products. For example "should I invest in an ISA?" or an investment decision to purchasea multi-asset portfolio that has daily liquidity and all-in pricing of no more than 1% per annum. But not, for instance, the transfer of a complex, defined-benefits pension into a new scheme. We advocate that all products in this category adhere to a set of a rules (consumer standards). These would include fee caps and transparent pricing, to name two. Furthermore, the answers to these questions or outputs from decision trees should be based on "people like you" data rather than the detailed fact find and question and answer suitability that pertains to 'proposal advice'.

The existence of this category – where the provider is not liable – should not be a serious restriction on the time taken to bring a product to market. It should also not be a barrier to innovation, given the simplicity of the service and underlying products.

Thinking about and defining the advice gap

We are happy with the definition of "advice gap" suggested in the review. We agree that FAMR should focus its initial work on advice in relation to investing, saving into a pension and taking an income in retirement. These are key drivers of an individual's financial position over the course of a lifetime. Decisions taken today determine outcomes later in life, and decisions taken in these three areas will have a particularly powerful impact.

We agree that FAMR should focus its initial work on consumers with some money but without significant wealth (those with less than £100,000 investable assets or incomes under £50,000). FAMR needs to include those who have less than £100,000 in investible assets, regardless of their income. There are many customers (increasing in number) who have relatively high incomes but no assets, and who have not started using financial advice.

We recognise that an advice gap exists, consisting mainly of an under-served mass lower wealth bracket market. This group - customers starting out, some number of whom are not yet economically viable customers for most businesses - are vital for the review to address.

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Good behaviours need to be taught early, and knowledge gained while investing in an ISA will transfer into valuable knowledge when it comes to investing in a pension. The educational agenda is useful, but we also have to deal with adults who may not understand the extent to which they have to plan for their own retirement. In particular, this group should understand that sometimes the greatest risk is not taking enough investment risk (dangers of erosion of returns by inflation, etc.). We need to make this understood while reassuring first-time investors, who can sometimes walk away simply because the process can seem so intimidating. We believe the review should force the engagement of a number of parties who can be of significant influence, including employers, in both consulting and implementation.

Closing the advice gap

In our view, there are many ways to approach the advice gap problem. We view the following four problems as some of the most urgent.

Firstly, customers need a better understanding of what products are available in the market, and how they can help them to make better financial decisions. Secondly, the sector needs more products and services that build trust both offline and online. Thirdly, the sector needs products that are more transparent, and that offer greater clarity (e.g. on pricing) to customers. And fourthly, products need to be made available at prices that more customers can afford, and this should be made possible through automation.

Whilst RDR's impact may be taking time to be seen, we feel that it was a positive initiative. Although incumbents have been slow to respond to the advice gap, new entrants like Nutmeg are addressing the problem and the rate of change is (slowly) accelerating. Initiatives like this review should reinforce that.

It would be tragic to see the initiatives proposed in MIFID II and PRIPs to increase transparency sidelined because of a postponement due to the more general regulations. We urge HMT and the FCA to implement "quick wins" more rapidly – such as a requirement for fees to be shown in pounds and pence. The more the regulator can help "nudge" the industry to be transparent, the better chance the industry has of regaining trust.

Creating new industry standards

Customers need to be able to compare like with like – this helps to develop transparency and proper competition. Therefore we recommend that it be mandatory for fees to be displayed, either including or excluding VAT, and both in money terms (i.e. in pounds and pence) and as a percentage of a total investment. What should be included in the fee should be clearly set out for all product providers. Furthermore, as noted above, we recommend that it be mandatory for customers to be made aware a) whether they are entitled to consumer protection (i.e. adviser liability) and b) what is the scope of the advice being given.

The regulatory approach

To optimise online advice requires a test-and-learn approach that sits at odds with a regulatory approach based on a single "right" way to do things developed on a face-to-face model of delivering advice. For this reason we are encouraged by development of the FCA Sandbox and hope it will give the market the flexibility it needs to develop online advice propositions that work effectively for the customer and for the provider.

The voice of the consumer should be made stronger in that process, perhaps through a fast-track mechanism for resolving consumer concerns about certain aspects of regulation. Much of the debate is conducted within the industry only, and ideally we would all be able to learn more rapidly from consumers and adapt regulation quickly and easily.

Terminology matters in particular, as many find financial and regulatory language challenging. Although most of the regulatory framework is principles-based, some of the FCA's guidance is very prescriptive on the use of particular words and phrases. We have often found through research and feedback that customers would prefer simpler language, even if it lacks the precision preferred by a regulator. There should be an agreed way of establishing and responding to consumer preferences for language, rather than prescriptive guidelines.

In our view this measure would lead to more engaging, accessible marketing of both financial advice and financial products.

Is regulation a barrier?

Many firms flag regulation as a barrier to cost-effective provision of advice. Nutmeg does not believe it is a significant barrier. UK financial regulation is principles-based and is flexible to serve the interests of the customers.

The FCA's efforts to support innovation through the Sandbox and Innovation Hub have been beneficial, and this work should be joined-up with the FOS' scope, responsibilities and principles with regards to automated online advice. The FCA must – as far as possible – have a similar view on the meaning of the terms fair, clear and not misleading. In spite of the need for coordination, we believe the two entities should remain separate, creating a double barrier to standards of excellence.

We do not believe that regulation should be blamed for creation of the advice gap.

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Other policy changes that FAMR might initiate or achieve

Helping consumers deal with online advice

One consideration is whether guidance could be given to customers to help compare automated service providers – for example, how to use performance figures, which few wealth managers are willing to offer publicly.

Setting up a nation-wide "personal finance dashboard"

We recommend that the government and regulator facilitate the creation of a single online personal finance dashboard for every UK citizen. The dashboard, which might be managed by third parties, would be able to display all of an individual's financial information – connecting with employers, pension providers, and other services. It would serve a useful joining-up function (e.g. tracking the ISA allowance across different providers, aggregating pension data, etc.). It would be read-only, so no decisions could be made through it. The data collected would allow government to nudge individuals into better savings behaviour (e.g. starting a pension), and might send a statement to users once every year with a traffic light system or "financial score" to evaluate individuals' behaviours.

FCA should publicly promote advice

We believe the FCA should be more active in stating the importance of good financial advice. We believe that many people could benefit from a clearer understanding of what advice is available, as well as a better understanding of what insight and expertise financial advisers can offer. At the same time, the FCA will need to help customers differentiate between "want" and "need", to create realistic expectations among all parties (industry and customers) – customers may *want* free advice at all times, which is of course impossible to resource, but *need* advice at critical points in their lives (e.g. retirement).

In addition, we believe it should be a statutory objective of the FCA to improve consumers' access to affordable financial advice.

Helping consumers deal with online advice

One consideration is whether guidance could be given to customers to help compare automated service providers – for example, how to use performance figures, which few wealth managers are willing to offer publicly.

Money Advice Service database should treat online and offline advisers equally

We understand that the Money Advice Service has a database of financial advisers. We urge the MAS to treat online advisers and services and offline advisers equally.

Portable fact find

All firms should use a standardised template of the customer facts and figures required for minimal fact find. These should be refreshed at least once a year. The minimum standard template must make customer fact find data easily transferrable from provider to provider (conforming with data protection regulation), in a portable (i.e. not proprietary) format – aiding competition.

Some things should stay the same

We view certain elements of the current regulatory regime very positively. We support the principles-based regulatory structure. We believe the Innovation Hub at the FCA should remain. We are eager to protect the new Sandbox.

We also believe that the use of an impartial and third part ombudsman is helpful for consumers, industry practitioner and regulators.

VII. Concluding note

In the years ahead, as government provision for retirees becomes necessarily less and less forthcoming, pensioners will have to rely increasingly on their own investments for income during retirement. Perhaps now more than ever it is vital that finance and financial advice be better understood, and more widely available to the mass market. People who today view investment as a risky activity, one which is "not for them", will need to recognise the value of taking risks on long-term investments – for house purchases, later-life care, retirement, and other important life events. Creating this modern understanding of risk is the challenge faced jointly by the regulators and the industry.

The main challenge specifically for the providers of financial advice is to deliver innovation, transparency and clarity, especially for the sake of those consumers in the advice gap. Online customers in future will increasingly have the chance to "see what they are buying" from online service providers – already, one can test the experience of a given app by watching a video, or running a free trial, before the commitment to buy the final product has to be made. We hope the same will increasingly be true in the buying and selling of financial advice.

The main challenge specifically for regulators is to create a regime capable of governing products that haven't yet been designed, let alone implemented. The regulators have to design rules for a quite different future, not just for now. And the regulators have to support businesses in their drive to create the online tools that will help individuals eventually to become less dependent on the state in older age.

Most importantly of all, the tools that the industry and regulators jointly create should be easily accessible, affordable, and governed by clear, simple regulation.

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FAMR Secretariat
Financial Conduct Authority
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London E14 5HS

21st December 2015

Dear Sirs,

FAMR Call for input – Response letter

We, the undersigned, are all member firms of the Berkshire IFA Group and wish to make our response to the Financial Advice Market Review as recently requested.

The Berkshire IFA Group was established in 1992 as a voluntary self-help and learning group to assist members who are directly authorised by the Financial Conduct Authority. The intention of the group, who meet formally once a month at Maidenhead Golf club, is to assist members by giving a forum to discussions about industry topics and specifically compliance matters, whilst also providing two industry speakers each month to assist with meeting ongoing CPD requirements, and to promote professional standards of advice.

We have in the past received speakers from both the PIA (Richard Cockcroft) and FSA (Linda Woodall), as well as representatives of the IFA community (Roddy Kahn and Garry Heath).

Please would you be good enough to treat this letter as being from each authorised member as listed below rather than as one response from our Group as a whole, and we should also like to add that one or two members have responded in their individual capacity rather than on behalf of their authorised company.

Yours faithfully

Elaine Given

Orchard House IFAs Ltd

Berkshire IFA Group members

Elaine Given	Orchard House (IFAs) Ltd	Marlow
Christopher Culley	Culley Financial Services Ltd	Newbury
John Ashworth	The Safe Insurance agency	Maidenhead
Lachhman Banwait	Amar Financial Services	Hayes

Gary Brooks	Jarvis Watson	Reading
Anton Cross	The Devereux Partnership	Windsor
Ian Davis	Hynes Davis Limited	Newbury
Helen Fraser	Orchard House (IFAs) Ltd	Marlow
Carl Hope	Douglas Hope Financial	Newbury
Kevin Hopwood	Hopwood Ash Financial	Newbury
Hugh Hornby	The Devereux Partnership	Holyport
Paul Howard	Box Financial Planning	Theale
Hugh Morton	Morton Financial Services Ltd	Whitchurch
Linda Hulls	Cameron Trinity	Charlton
Geoff Mason	Geoff Mason Associates	Didcot
Charles McCarron	Carlin Insurance Services	Guildford
Andrew Nicholls	Beaufort Asset Management	Reading
Peter Chesworth	Ethikos LLP	Reading
Tony Ross	The Ross Partnership LLP	Windsor
Baldev Sihota	Guardian Financial Planners	Slough
Dawn Slater	Dawn Slater Wealth Management	Newbury
David Stephenson	Wise Investments	Reading
Andrew Watt	Watt Money	Maidenhead
Mark Wilkin	Alexander Rowan LLP	Reading

Addendum

May we start by making comment regarding the make-up of the advice panel for the FAMR. As far as we can tell, only one member is actively involved in advising clients on an ongoing basis, which given the aims of the review, seems outrageous and something that urgently needs to be addressed.

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

As essentially we are all small firms, it is very difficult to provide any real documented evidence relating to the increase in the advice gap that has undoubtedly occurred since RDR. In some senses for this particular group of consumers this was already happening, as more consumers have joined employer pensions schemes (group stakeholder and now auto-enrolment) through their employers, who may previously have been IFA individual clients for their retirement planning.

- We agree that for general insurance, banking and deposits, credit products and even the lowest levels of savings, consumers have not generally sought advice from advisers and this is likely to remain the case in the future. However, historically IFAs have been the main source of advice for retirement planning, but less so in the future. This has helped to cause the problem now occurring with pension freedoms, as many clients seek to access their pensions, but have no adviser relationship to support them. As from a consumer point of view RDR increased all associated costs of advice (and restricted consumer choice as to how to pay for advice), this resulted in closure of advice channels and the loss of a great many IFAs (either at the date of RDR or earlier knowing that it was coming and unwilling/unable to comply with exam requirements and other issues). Other advice channels were lost to the consumer as a result of increased regulation and the conversion to fees rather than commissions.

We have all been faced with turning away potentially new clients with relatively small pension pots as they were unwilling to pay the level of fee that we feel we need to charge to cover full compliance with FCA rules (especially for insistent clients) and the potential future liabilities that all business could entail. Previously these clients may well have had a relationship with an IFA and would probably have been offered ongoing advice, including at retirement.

- Whilst there may well be potential clients who have a lack of trust in advisers (according to your Mintel survey), this is not an issue for those clients who use an IFA, as this has been the major (and at very many firms the only) method in which IFAs obtain their new clients, through existing client referrals. Clearly therefore there is trust between IFAs and their existing clients, as without this client referrals would not happen. A great many small IFAs so not advertise their services whatsoever, relying only on client referrals for expansion. The 'lack' of trust referred to as a reason why clients will not approach IFAs is largely based on the continued negative press that the industry receives (with little or no positive press coverage), but really is a damning confirmation of the complete failure of regulation to stop scams and frauds from taking place, despite the seeming billions spent of this.

- Small IFAs are reluctant to assist certain types of client as Interpretation of regulation is unclear creating known unknowns. It could be argued that the cost of over-regulation has added to the advice gap, as advisers cannot operate cheaply under current requirements. It is also the case, despite what the FCA say, that Small IFAS are running scared of FOS. The effect of this is

to over document for protection against FOS, with the consumer having to pay for this, or in perhaps more cases, being rejected as a new client on a cost basis.

- Pre-RDR, a great many advisers used larger commission business cases to subsidise smaller unprofitable business, which has subsequently become impossible. This has had an effect on the advice gap, and also to a large extent, on 'pro-bono' work, which has increased the advise gap. Now that most pay fees, which tend to be lower than commission payments, advisers do not have the spare financial capacity to offer lower paid clients advice for next to nothing. And although many advisers offer pro bono advice to some clients who can't afford advice such clients tend to be the ones who seek Claims Management Companies when opportunities arise.

- Perhaps the biggest reason however for the increase in the advice gap has been the removal of commission from advice, as the consumer had been willing to seek advice on the basis that there was not initially a direct cost to them personally, but now the middle wealth/ mass affluent no longer think advice is worth paying for when the result of the advice is 10 + years ahead. It is this lack of ability to see value short term that has put off consumers seeking advice, as pre-RDR, even though they undoubtedly knew that they were paying for the advice, they were not having to pay out of their own bank accounts here and now. Also, the compliance costs of taking on a new client are so high that unless the client's future fees can cover that cost, the adviser makes a loss on that client.

- It also appears true to say that consumers are having difficulty in understanding what constitutes 'free guidance' and what is advice. Feedback seems to suggest that consumers do not understand these mixed messages.

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

- Costs – The biggest barrier faced by firms is the cost of regulation; the fact that large parts of it are totally unknown in advance; and that these costs in no way relate specifically to what the firms actually do (i.e. FSCS levies). Costs for seemingly unexplained reasons go up by much more that the rate of inflation annually, whereas firms find it difficult to increase fees to consumers accordingly.

- Regulatory rules are complex, shifting and require a great deal of effort to be understood, even by advisers of many years standing. Far too much time is spent generating suitability reports, which cover every possibility in order to be compliant and which the majority of clients do not read, often fear, certainly only file. That same information is then included in the product information and documentation – again far too lengthy, drowning the essential points in legalese and compliance statements which are intended to inform the consumer, but in fact confuse them. Simpler rules and regulation are needed along with simpler products.

- FOS – Acting somewhat like an ambulance chasing Claims Management company, by rejecting actual complaints and then ruling on something that was not actually complained about. It is also alleged that FOS apply current rules to historic complaints.

- Claims management firms marketing alarming headlines, but mostly submitting speculative claims not based on any actual facts, with no penalty or restrictions for doing so. This appears to create an open-ended liability for advice firms, and which result in the adviser's insurers excluding insurance cover at the next review.

- FSCS levies - Exiting firms reduce the pool from which these and other levies may be requested. This in turn creates higher costs for the remaining advisers. Taken to its logical conclusion it must follow that as costs increase ever more advisers, most of whom are nearing retirement age, will wind up their businesses until there are no personal adviser businesses remaining. Younger advisers can see that the business of running a financial service firm is fraught with difficulty and uncertainty and are reluctant to take the financial risk of joining a business or setting up a new one. The funding of the FSCS needs a fundamental rethink.

- Clients don't know the value of advice or what sort of advice they are looking for. There is surely a strong case for making financial planning mandatory at schools for 15 year olds upwards.

- The 'Long Stop' – The lack of a time scale for bringing a complaint is a major disincentive for advice firms. Your report suggests that only 64 cases have been upheld by FOS where a 15 year period has elapsed since the advice was given. As we know, that may well be 76 advisers now living in poverty in retirement through being financially wiped out.

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

- All new products to be screened and approved by the FCA – meaning that if the product subsequently failed through fraud, the adviser would not be liable for claims made for losses incurred.

- A new regulator to be set up to regulate the provision of professional advice only – perhaps called the 'Professional Advice Regulator'. All other firms would remain regulated by the FCA or the PRA. This would bring together under one roof all the better qualified advisory firms, with one rulebook specifically for professional advice. Currently advice firms are amalgamated with Investment, Life Assurance, Pension companies and banks and the bad news sticks to the wrong sector.

- The introduction of low risk products and specify who/ which type of client the products may be sold to as overseen by independent due diligence provider. And perhaps drop the concept that of products being low/medium/high risk. The idea that anyone can quantify the risk associated with any investment is flawed and misleading. In particular, it misleads the consumer into thinking that someone, somewhere, typically the adviser, has measured the risk of a product. Risk as a relative measure may be used, but again, the consumer tends to confuse the concept of risk as a relative measure with risk as an absolute value. Instead, the measure of risk to the client's financial well-being should be measured against the strategy promoted and recommended by the adviser, not on the basis of a product being deemed suitable or otherwise.

- Better guidance on insistent client versus best interest rules. Currently the rules put the adviser on an un-even playing field. One adviser confirms inappropriate advice, another may have a different motivation and end up with a claims management issue. In fact consider a rule that an insistent client who signs a disclaimer cannot therefore approach FOS at a later date. The relationship between the adviser and the consumer must be stated and clear at the outset. The adviser provides advice concerning a single product for a specific need and/or advice that encapsulates a range of products comprehensively. Advice is only an opinion to which the consumer is free to adopt or reject. Insistent clients have a right to determine how to spend their

money, even if the adviser does not agree. However, the blame for a subsequent change of heart should not be laid at the door of the adviser and their insurance companies.

- Meaningful due diligence is extremely difficult at small adviser form levels – introduce some system to assist firms in this area. Perhaps make this the responsibility of the regulator when approving products.

- Reintroduce the 'Long Stop' for future liabilities.

- Fund the FSCS through product levies, which is how it should have been set up originally.

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

- Robo user friendly advice opportunity is vast, as is the cost. An older generation may struggle. The above points without protection of a 'Sand Box' for 18 months, are likely to overshadow development

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

- Promote proper client focused labelling of what is guidance, but not advice, and what is advice – consumers remained confused.

- Proper promotion of independent advice – the benefits of using an independent financial adviser. Fragmented trade bodies appear unable to do this effectively. Planning should be considered in the same light as an MOT for the car. Only once a year, nothing might need to be done, and if it does, then up to the client as consumer to decide whether to proceed or not.

- Financial education in schools.

- Publicity for the benefit of advice and the good news associated with planning. Media education that independent advisers offer a different service to those offered by banks in the advice sector.

- Simplify the products and the regulation that covers them. The constant obsession by governments to introduce new rules for pensions and ISAs mean that the consumer does not acquire a working knowledge of these two main means of saving. The rules for both must be reduced, must be fair so that genuine errors – especially in relation to pensions - are not penalised severely. It might also be a chance for the FCA to examine proposals for new products before they are marketed. Back in 1997 "Which" recommended that the focus of regulatory attention should be on the product rather than the advice. This advice was ignored by the government of the day, which preferred to place the onus for failed investments on the shoulders of the adviser. However, it is the product that makes the money, and not the adviser. So back to basics: what about an insurance policy by all product advisers to ensure that the consumer is protected in the event that the product failed? Consumers would then be able to choose products that were insured and perhaps choose to avoid the uninsured ones, which would be treated as "relatively high risk".

- Promote transparency of the product apply a guide like T.E.R.

- Reduce the paperwork needed for basic advice
- Inform FOS that there is such a thing as Limited Advice
- Consider reintroducing choices of remuneration including commission payments on all business. Whilst it is unlikely that clients now on a fee basis would switch back, it may encourage those less well affluent to seek advice, knowing that there is not likely to be an immediate up-front cost to them. Why not simply have fixed commission rates that apply to all institutions and insurance companies. If the consumer pays fees to the adviser the commission can be rebated.

Chris

Christopher R Culley APFS
Chartered Financial Planner and Director

From:
Sent: 03 December 2015 10:40
To: FAMR@fca.org.uk
Subject: Ovation Finance Ltd

My suggestion for the FAMR is as follows (this was originally posted as a blog: http://www.adviserlounge.co.uk/2015/11/22/my-solution-to-the-advice-gap/)

Thank you

Chris Budd

Two events recently have helped me form a suggestion for how we can solve the problem of the majority of people in the country being unable – and often uninterested – in taking financial advice. The so-called 'advice gap'.

The first was a round table discussion with HMRC and the FCA. I was impressed that this event happened at all, there was a clear interest in hearing the ideas of the adviser community. There were some really interesting ideas put across, along a few inevitable self serving suggestions that were less helpful.

If we're going to solve this problem, we need to think a little wider than our own business models.

The second was a conversation with Damian Davies of The Timebank, a man who clearly cares. We knocked a few ideas around, so I need to credit what follows as being in no small part down to him.

Let's look at some resources that are available. Firstly, there is the £120m currently being spent by the Government on giving financial advice to the public (MAS, Pension Wise, Pensions Advisory Service).

Secondly there are the 28,000 authorised financial advisers in the UK.

If we assume that one adviser can only realistically deal with around 100 clients (an arguable point, but go with it), that means that the adviser community can reach a maximum of 2.8m clients. Many of these will be couples, so let's say 5m people take financial advice. That leaves a lot of people we simply cannot reach, even if we wanted to and they could afford to pay us.

Plugging the advice gap cannot come from the adviser community. Or can it….

Most advisers do some sort of pro bono work. It might be seeing someone for a free initial consultation that you know will not sign up as a client, it might be helping at the local Citizen's Advice Bureau. My proposal is therefore to build on the knowledge and goodwill of the adviser community.

With these points in mind, here is my suggestion:

- The Government set up an organisation to facilitate free financial education sessions (perhaps use an existing organisation such as the Business Links or Chamber of Commerce). In the workplace, in sixth form colleges, universities, local village halls, anywhere and everywhere
- These sessions are delivered by registered individuals. They give their time for free
- The sessions count towards CPD, and every adviser is expected to a certain amount each year – perhaps 1 hour per month.
- That's 336,000 1 hour sessions per annum. 20 people attending each session, that's 6.7m reached. Each year.
- The adviser is allowed to mention their services for those attendees who might be in a position to engage a financial adviser

I believe this would create a dialogue between the professional advice community and the general public which, after a few years, would considerably improve the trust of advisers which is quoted as being such a major factor in preventing people taking advice.

Chris Budd
Managing Director

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immediately, and delete this message from your system.

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Parmenion
It's your future.

22 December 2015

Dear Sir/Madam

RE: Financial Advice Market Review

Please find enclosed the Parmenion response to the Financial Advice Market Review (FAMR). Our views include those from Wealth Horizon, an online advice service closely linked to Parmenion and one of fifty online advice services that we power.

We'd like to start by saying that we support the FAMR and agree that a fundamental change is required in the UK 'advice' landscape if more consumers needs are to be met. Our response covers the questions you have asked, but in addition we would like to make some strategic points which we believe are critical to improving consumer outcomes.

The FAMR appears to focus primarily on the 'supply' of advice, but we believe that we are primarily facing a 'demand' issue. Too few consumers are engaged with supporting their financial futures through the advice available. This is true whether we consider face to face advice with a professional financial adviser, or free services such as Pension Wise or debt advice; with all forms of advice there seems to be a consistent take up of only around 15-20%.

The issue appears to be partly cultural, where we have moved to a society based on a debt culture. Partly enviromental where the level of negative press around financial services seems to far outweigh the positives. Also partly functional in that it is far easier to borrow (or even gamble) than it is to save or invest. Given that some studies suggest there are c.12 million people failing to save sufficiently for retirement, we need to ask how have we got to a position where we put so many barriers before people who want to invest, especially those who want professional advice?

We believe the first priority to resolve these issues is simplification, putting consumer understanding and engagement at the heart of regulatory requirements. Education can help but we have found that consumers want support with a specific need at a point in time, and so the education needs to take place as part of that process. Generally consumer needs are simple and yet regulation tends to result in a complex process of questioning and checking in order to provide advice.

Turning the simplification theme to investing, we believe that most consumers would want regulated financial advice if the benefits and protections were understood and it was accessible at a reasonable cost. That is not to say a consumer would want regulated advice for every aspect of their finances; they should be able to choose how they access services at each point of need.

One important aspect of regulated advice versus the execution only option is that only the former brings with it suitability requirements and valuable protections; unfortunately, these can be lost in the confused language surrounding regulated advice. For example, the ongoing debates around concepts such as independent advice v restricted advice, advice v guidance, or advice v robo advice.

We believe the word ‘advice’ in the regulated sense needs a rebrand if it is to be understood and differentiated from the sorts of advice provided by the likes of Money Advice Service, The Pensions Advisory Service, and Citizens Advice Bureau. We need to ask ourselves what do consumers really want and need to know, and we would suggest that it is important that a consumer knows who they are dealing with and what the service provides. We strongly believe that for consumer clarity, trying to define a mid-point between ‘non-advised execution only’ and full ‘regulated advice’ is wrong. Full regulated advice can be delivered through a number of channels, and provided the outcomes are suitable, the channels through which advice is delivered should not be differentiated in regulation. We are uncomfortable that the term ‘robo-advice’ is widely used for online services that are not providing a regulated advisory process, and would also prefer to see a more positive descriptive term being used such as ‘online advice service’ for those where advice is being provided.

We have a vision for how advice is delivered and that it should be increasingly online (even as part of a primarily Face to Face offering) as that is the best way to increase demand, to give the potential for cost savings, and to give greater immediacy of service. We believe consumer journeys should be as simple as they can be whether online, by telephone or face to face (or any combination that the consumer might want). This means that the consumer should immediately feel engaged and should experience something more like a triage service where prioritisation is given to the most urgent and important needs, and quickly experiences benefits. The Parmenion ‘Interact’ online advice service, as used within Wealth Horizon, provides a sample investment portfolio based on risk tolerance and capacity, but what differentiates it is that once a potential investment solution is identified we then complete a further suitability check to see if investing is actually suitable for the client.

The failure to truly understand consumer wants and needs is one of the contributing factors to the disenfranchisement of the industry and low potential demand for services. For example, in spite of growing public interest in environmental, social and ethical issues only around 1.2% of retail funds are invested in ethical options (IA figures) . This is well below ‘potential interest’ levels indicated by consumer research (c30% dependant on various factors). It is our view that a consumer centric approach that focuses on delivering their desired outcomes would be beneficial in building confidence and trust. Consequently it is essential for the FCA to ensure that environmental, social, ethical and faith related issues are formally integrated into the advice process to improve the reputation of the financial services sector.

We believe an advice process where the consumer feels engaged, informed, educated, protected and in control is one that will be compelling, and we look forward to working with the regulator in making this future a reality.

I hope it goes without saying that we would be very happy to discuss any of the points shared within our FAMR response and in this letter.

Yours sincerely

Jeanette Cook

Jeanette Cook
Partner, Head of Compliance

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Financial Advice Market Review – Parmenion

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 not aware of any issues affecting those with protected characteristics under the equalities act.

We understand that many consumers have ethical, social, environmental or religious values or preferences that they would like to take into consideration within the context of their investment portfolio, and have done a considerable amount of work to deliver such solutions for advisers as we identified this as an under met need.

It's important to remember that consumers have values and principles that transcend their finances. It is for financial advice solutions to be moulded around these rather than for a consumer to have to forego their beliefs. Building solutions that have an appreciation for someone's lifestyle will help to build trust and enhance the industries reputation.

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

Clarification regarding the different forms of advice is a critical area in terms of consumer engagement and developing efficient markets for consumers.

We believe that the word 'advice' in the regulated sense needs a fundamental rebrand if it is to be understood and differentiated from the forms of advice provided by the likes of Money Advice Service, The Pensions Advisory Service, and Citizens Advice Bureau.

Firstly, and most importantly, given the protection a suitability process resulting in a personal recommendation brings, the consumer needs to know whether an organisation is offering 'regulated advice' or simply 'selling a product' through a non-advised sales process. We strongly believe that for consumer clarity, trying to define a mid-point between 'non-advised execution only' and full 'regulated advice', is mistaken.

As this paper has asked for suggestions on how advice can be categorised and described we have included some suggestions below.

Advice from regulated firms who are suitably regulated, have qualified staff, and appropriate Professional Indemnity (PI) cover could be termed 'Professional Financial Advice' and this form of advice should be about ensuring the advice/product is suitable for that consumer's circumstances.

Financial Advice firms could then be authorised to advise on one or more of a range of areas including investment, retirement, protection, mortgages etc.

So for example, a consumer could easily see a firm can deliver 'Professional Financial Advice' in the areas of say Investment and Protection.

Anybody getting Professional Financial Advice has access to protections if the advice turns out not to be suitable. Firms providing non-advised solutions should not be using the words advice or guidance anywhere in their marketing, as this should be based purely on information only. There are numerous consumers who want an 'execution only' service, many of whom also have Professional Advisers for some other aspect of their finances.

We would say that the likes of organisations who are free of cost to consumers and who don't have a commercial business model (charities, government/industry funded) selling advice or products, for example MAS, TPAS and CAB, can provide advice and guidance, but must make it clear this is not 'Professional Financial Advice' and does not bring any protection or opportunity for redress. This means that they can help consumers but those consumers can understand the value of then taking 'Professional Financial Advice' if required.

We would hope that this additional clarity would help consumers to differentiate between the product and advice options and the relative benefits of each option:

Non-advised solution

- Information
- Lower cost (potential for)
- Limited redress

Professional Financial Advice

- Help/guidance/advice
- Suitability requirement
- Personal recommendation
- Full consumer protection/redress

Free Advice and guidance

- Help and guidance

For the resulting product recommendation(s) from the first two options above, the consumer should know:

- Professional financial advice or non-advised sale?
- How does the firm work/how do they make money?
    - Product manufacturer, Intermediary

- What does the product do?
    - e.g. it’s a saving /pension /mortgage /protection product
- How does it work?
    - i.e. Deposit based, stockmarket, capital at risk, guarantees, death benefit, term etc
- Is the price reasonable?
    - i.e. how does it compare
- Why is it right for me? (Suitability only)

We do not believe that the whole of market and restricted definitions as currently used help consumers. The concept of an Independent Adviser is a good one but not with the current definition. It may be better to use the definition of Independent covered within MIFID II.

Even post RDR, regulation is focused on the eventual product sale rather than the advice that can be provided prior to product solutions being formulated. Many of the positive steps consumers can take in developing their financial capability don’t necessarily involve regulated products, for example becoming clear on their goals, support with budgeting, support with efficient spending, helping to identify their risk level and tax advice. It is important that education of consumers focuses on those aspects that can allow consumers to make better financial decisions.

A reduction in jargon is required; we have found that even with relatively basic product wrappers such as Individual Savings Accounts (ISAs) and General Investment Accounts (GIAs). There is a need to explain what they are and how they work in simpler terms. For Parmenion these are the most popular types of account, and still require advisers and/or educational content to explain how they work.

Full regulated advice can be delivered through a range of channels, and provided the outcomes are suitable, the channels through which advice is delivered should not be differentiated in regulation. We remain uncomfortable that the term ‘robo-advice’ is widely used for all online investment services, including those that are not providing a regulated advisory process. We would prefer to see a more positive descriptive term being used such as ‘online advice service’ for processes where advice is being provided.

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

Demand is low as there are significant barriers to overcome:

- Confusion

- Lack of perceived value
- Lack of financial education
- Apathy
- Lack of trust – generally negative PR!
- Behavioural finance issues as well documented

Many consumers don't understand advice versus execution only, let alone versus guidance, and it is vital that consumers better understand the differences and the value of 'professional financial advice'. We must provide a lexicon that consumers can understand, and where possible the entire industry should adopt the same language. Consumers do not understand advice, where to start looking, how to compare advisers, or what good advice looks like.

The watchwords for the regulator and the industry should be simplicity, clarity and transparency. The aim should be to create a frictionless environment, i.e. to make it as easy as possible for consumers and remove unnecessary barriers.

Our 'Vox Pop' research when building Interact, and the Wealth Horizon online advice service, made it clear that people find their finances boring and that in the vast majority of cases they don't want the detail, they just want it 'sorted'.

Demand will occur when complex financial needs arise, but due to the lack of trust in and understanding of the industry, only a proportion of those who would benefit from advice will search for it, and only the wealthy can afford face to face regulated advice.

Complex financial needs tend to arise when substantial assets or risk has built up and therefore it tends to apply more to the older and wealthier; these markets are well served. Those in greatest need i.e. those on average incomes, are not engaging through lack of awareness and lack of ability to pay high levels of fees. This is exacerbated for those who want to make regular savings versus lump sum investments.

We are seeing increased demand through the Parmenion Interact service and Wealth Horizon brand for online advice, and with the latter having the reassurance that should they wish to they can get support from the telephone support as they go through the process.

We find that consumers who are engaging are using multiple sources for information, and therefore the benefits of advice need to be understood, especially regarding how it adds value.

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

Demand is consistently low across all segments and product areas. For example, we know from the 'Financial Capability in the UK 2015' report produced by the Money Advice Service that there are c.8m people in financial difficulties through being over indebted and yet less than 1 in 6 are currently seeking help. The same report also suggests that 22% of people could not read the balance on a bank statement (more than doubled since 2005), and 40% of people do not understand the impact of inflation on the real value of money (nearly doubled since 2005).

We believe that the market complexity is impacting demand, and even when the advice is free, people are not taking it, therefore the underlying issue is not cost.

We have researched the google search terms used by UK population to assess demand for advice related topics, and it's clear that the volume of financial related search terms is tiny in comparison with other areas. We are happy to share our findings with you.

The market is not operating efficiently for consumers due to the lack of knowledge and impenetrability of the terminology and structure of products and advice.

Consumers want reassurance that they're doing the right thing, and so digestible and relevant information is useful, direct sales websites are accessible, 'people like you' approaches are attractive, but ultimately most consumers need support to make the right decisions.

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

The needs identified in the call for input document make sense. Areas such as inheritance tax planning and long term care could be added to your summary and are probably towards the more complex end of the scale.

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

Combined with the financial issues this makes sense in enabling the identification of key needs and risks for each segment/financial issue.

Terms used in the segmentation such as 'financially confident' and 'well informed' would need to be carefully defined, as they do not necessarily relate to competence unless tested against common standards.

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

Those segments where financial issues can have the biggest positive impact and negate the biggest risks should be the focus, i.e. those failing to save sufficiently for retirement, and those in debt. We would suggest that the key segments/areas of risk relate to those on average earnings/saving for income in retirement. According the MAS UK Financial Capability figures, 8m people have serious problems with debt and 12m are not saving enough for retirement.

Looking at the specific FCA segments we have some views as set out below.

'Starting out' should be pointed to a facility to produce a high level plan/prioritisation such as the Money Advice Service (MAS) Financial Healthcheck service.

'Living for now', 'Hard pressed', 'Stretched but resourceful' and 'Striving and supporting' can access information from the likes of public services like MAS, charitable organisations like the Citizens Advice Bureau, and commercial organisations such as Money Savings Expert, but they do need access to face to face and phone support as well as online. These groups need to be educated and pointed towards the sources of support.

'Retired with resources', 'Affluent and ambitious', 'Mature and savvy', and 'Busy achievers' are typically advice consumers and are also well represented within the Wealth Horizon online advice consumer base. Online advice services could help this group in retirement and preparing for retirement although the complexities of the pensions environment are a challenge when building an online advice proposition.

Retired on a budget should be benefitting from the various government reforms that have taken place over recent years including the triple lock on state pensions, pensions freedoms, and annuity second hand market. This group also should benefit from suitability advice given potential impacts of inflation and need to protect income and/or capital, but may feel it is out of their budget. Online advice services can help this group although the complexities of the pensions environment are a challenge when building an online advice proposition.

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

There is a clear link between increased wealth and the need for advice on complex areas such as saving and investing, retirement planning and tax planning. However, complexity is not the preserve of the wealthy, for example CAB have found that on average people seeking their help have three or four issues.

There is evidence from CAB that 20% of consumers would want advice but only 6% would be willing to pay £500 or more. Therefore, cost effective online advice solutions such as Interact and Wealth Horizon are vital for the delivery of advice to the mass market.

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

The points made in the call for input all make sense, and in addition we think there are further points as set out below.

External research we considered shows consumers' priorities are changing. Speed and immediacy are critical expectations. They are seeking personalised solutions but don't understand that this is what advice provides. Independence and choice are important but we should have less emphasis on choice and more on integrated solutions. Flexibility mean access to services on their terms, when they want, through the channels they prefer. Quality is not synonymous with complex; straightforward works. In summary, developments need to be focused on how a service makes consumers feel i.e. "the experience".

There are a lot of questions that potentially need to be asked for a suitable advice process to occur, however it is possible to structure the questions logically and dynamically to ensure that the consumer isn't having to answer questions that are not relevant. Historically (possibly in reaction to regulatory requirements and ombudsman reviews), advice firms have developed a compliance culture whereby every single possible question is asked and recorded. This holistic approach does not make advice feel customer-centric and can confuse and at worst arouse suspicion.

People don't want to engage in subjects that are boring and negative, and consumer protection is battling with creativity/marketing to engage more people in their finances. We should encourage the development of engaging communications, reports and web sites so that financial correspondence doesn't just end up straight in the bin. Legacy product packs are particularly poor.

The type of complex disclosure that has developed overtime is not helpful to consumers, it only serves to protect the provider. The regulator urgently needs to provide direction to providers regarding the key information to be disclosed, at all stages in the process to include pre-sale, post-sale, and ongoing service including annual statements and pre-retirement packs.

For many people the current tax incentives to saving are irrelevant to them i.e. they don't have £15,240 p.a. to invest in ISA's. Therefore, government should develop better alignment between commercial structures and tax structures i.e. ensure that tax incentivised products are aimed at the right group(s) of people.

Consideration should be given to how regulation impacts should be 'field tested' with consumers to minimise the impact of unintended consequences.

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

It would be good to think that if supply was increased that demand would follow, however, we only need to look at the lack of take-up within Pension Wise and of free debt counselling to see that people simply do not engage with organisations regarding their finances purely because they are available. We could separate the process of advice in its widest sense with the process of product sale. Unfortunately, the regulators definition of advice relates primarily to product sale, and there are external factors such as VAT treatment of advice which work against that separation.

Remotely delivered advice e.g. online advice is intermediation of product, albeit through a process that fulfils the definition of a personalised product recommendation. The entire process is about getting to a point where a consumer buys a suitable investment/product solution, but this is far better for most investors than a process where they are left to select their own investments. For example, research has shown that the main determinant of returns is from asset allocation rather than the selection of individual product, and advised processes will take into account asset allocation.

Much of the face to face advice available in the market place is also based on payment contingent on a product sale.

There has been much discussion about the reduction in the numbers of advisers, however what is not being considered is the increase in the number of paraplanners supporting the increased efficiency and improved consumer outcomes, plus the increase in online advice provision. It is too simplistic to look at adviser numbers as a proxy for the number of consumers that can be served.

The FCA finalised guidance paper FG13/01 banned, with effect from April 2016, the payment of cash rebates to "advised" and "non-advised" platforms. This means that the historic trail commission collected by platforms and paid to advisers will almost certainly cease. The resultant rise in "clean" share classes, which pay no trail commission, further accelerates the end of this source of revenue. At a stroke, this dramatically undermines the recurrent revenue and value of many financial advisory businesses.

It is clear that for advisers to retain their recurrent revenue they must now reassess every client whose assets they have advised on and agree a new explicit fee in return an appropriate level of service. Not only does research show that clients are reluctant to pay explicit fees but, even if they are successful, most advisers will find it uneconomical in the new environment to retain clients with assets under £61,000 [Source: Fidelity Cass: The Guidance Gap Jan 2013]. In this analysis therefore a large number of clients who have assets invested on a platform are likely to become un-serviced going forward.

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?

Not without a more in depth review of the data, but we suspect this could be as a result of pension freedoms and consumers accessing smaller pots and using non-advised drawdown. We are concerned that consumers, regulator and press are more focused on the cost of advice rather than the benefits it can bring in terms of suitability and protection.

We believe relatively few consumers are in a position to buy investment and retirement products from a fully informed perspective, and therefore this trend so self-directed investing may be indicative of an advice gap made up of those confused about the value of advice, or unwilling/unable to pay for it.

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

Technology can support a consistent process whether face to face, telephone or online, and provided the 'programming' is good then this can be a very positive move.

We know that through the Interact service and Wealth Horizon brand that advice can be delivered effectively online with telephone support:

- Allowing investors to invest with confidence for the future with as much, or as little, advice as needed
- Constructing a portfolio for their savings and investments that is scientifically optimised to deliver the best possible returns with the right level of risk
- At any time giving investors the option to contact a professionally qualified adviser by phone or online
- In future to help people make the right choices for their pensions and retirement

Mass-market consumers with no regulated advice easily and economically accessible, are currently faced with two distinct options when it comes to saving/investing:

- Remain in bank deposits, leaving the real value of their savings to be eroded by inflation; or
- Invest on an unadvised basis through an execution-only broker.

Online advice is a means by which advice firms can seek of offer professional services to these people. It is a process that offers consumers seeking simple, investment advice the ability to enter appropriate personal information into a system and either receive an immediate investment proposal or, by triggering safeguards within a well-designed system, an escalation towards full face to face advice either within the same firm or through a third party.

Our Interact service can be adopted by existing advice firms to provide an online advice capability and we have wide experience of integrating this within different businesses, and rapidly growing interest.

Technology-based advice is an option that can reduce the costs for some consumers, and allow consumers priced out of face to face advice to access the protection of a suitability based process, or simply provide consumers who would rather use an online advice process access to the service via their preferred channel.

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

Develop a commercially realistic model for providers of advice as this will ultimately impact the cost to consumers. The costs of regulation, which include FCA fees, FSCS levies, PI costs, capital requirements etc. all need to be manageable and to allow reasonable confidence in business projections to be modelled.

FCA fees need to be kept under control and aligned to the complexity of the regulated business being undertaken. FSCS levies should reflect the costs associated with the types of business being undertaken, in particular those firms who are not selling or intermediating high risk and complex products should not have to pay the costs for those firms that do.

PI costs are driven by market forces but the regulator should encourage market participation and competition wherever possible. Retrospective judgements have negatively impacted the willingness of insurers to enter the market.

FOS judgements need to be balanced and a route of appeal for firms to a trusted and independent third party would be a positive move. There is no doubt that mis-selling has occurred in the past and redress for unprofessional and unethical behaviour should be available, but the current environment encourages ambulance chasers, and requires little or no reasonable judgement by consumers. We need FOS, but firms also need to be able to appeal decisions. We have no strong opinion on how this appeal process could work but this could potentially be the remit of a newly formed Professional Standards Board.

As can be seen from the developing online advice models, with the availability of capital to build the technology and brand, the costs of advice (and minimum investment levels) for specific product areas can be reduced significantly from a face to face model. All advice related models need regulated and qualified individuals and the lack of supply is raising the costs for advisers and for paraplanners, especially for those who are qualified beyond the minimum levels. Increased professionalism and improved industry reputation should encourage new entrants over time but there will be a shortage in the short to medium term.

The overall point to be made here is that there is a cost of setting up and running a regulated advice business that depends on numerous external factors outside the firms control, and which ultimately impacts the supply of advice. Improved control of these costs to reasonable levels will increase supply and/or reduce costs for consumers.

So far few firms have successfully lowered the cost of advice delivery and the primary solution to dealing with increased regulatory fees/levies etc. has been to pass these on to consumers by way of higher fees. The regulator’s appetite to increase creativity and innovation in online advice services is much needed.

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?

A commercial model that subsidises advice through other revenue generation would find it difficult to satisfy the requirements of a fiduciary, and we believe that all businesses should be trying to work to that standard i.e. to try to do the right thing for the consumer in every interaction. That is why ultimately we believe that a regulated advice model works best for consumers, although we accept that providing choice as to how services are consumed is critical and can change from day to day for the same consumer based on the need at the time.

It is important that consumers have access to trusted education and information sources. The concept of levies on regulated firms to fund consumer 'advice' organisations such as Money Advice Service should be reviewed to ensure value for money.

We are prepared to share the nature and high level details of the costs of building and running the Wealth Horizon online advice business designed to make investing simple, accessible and affordable for everyone (which was launched in August 2014).

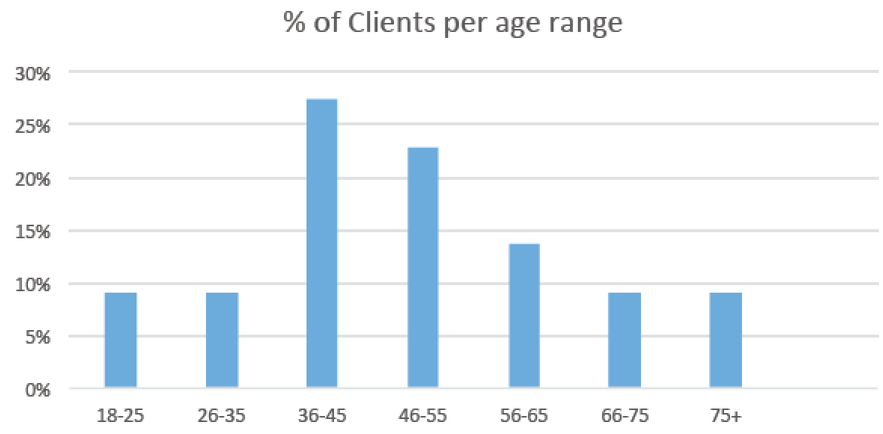
We are prepared to share information regarding the build costs and the cost of integration of the Interact online advice model into advisory businesses as we have now completed this process 50 times.

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

All consumer segments can be served given the availability of 'free advice' from the likes of the Money Advice Service, Citizens Advice Bureau and The Pensions Advisory Service.

The cost of advice or information depends on the route that consumers choose to use; clearly face to face advice will be more expensive than online only, with online plus telephone support or web chat being somewhere between.

Through the Wealth Horizon brand, we believe it is possible to support a fully advised investment process with telephone and webchat. Typical charges for a client with £10,000 using the Wealth Horizon investment advice are £25 initial and £93 p.a. for ongoing servicing. Any client with a minimum of £100 per month or £1000 lump sum can invest and access advice. We have clients ranging in wealth, age, and financial knowledge. Wealth Horizon's average investment amount is currently £11,050 therefore, the average client has accessed investment advice for c.£130 in year one. The average age of clients is 49, although they range from those in their teens through to their 70's as can be seen from the graphic below:



For those who want to save less than £100 per month/£1000 lump sum, non-advised investment options are available in the market from £25 per month or £100 lump sum.

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

Yes, we believe there are multiple barriers to overcome.

The regulatory approval process is confused and time consuming with a lack of effective safe-harbours stifling innovation. By effective safe-harbours we mean not only approval by FCA but also protection from future FOS retrospective decisions.

Direct and indirect compliance costs are high, and some of the requirements negatively impact the consumer experience, for example disclosure for many firms continues to be about protecting themselves against future claims as well as focusing on giving the consumer what they need. The lack of a framework that allows a ‘simple/focussed advice’ process to be developed without all of the liabilities and requirements that come with a full advice process is an inhibitor to consumer access.

Business administration costs are similar to other industries, however the delays from providers on say ISA and fund transfers and the inefficiency of the system brings unnecessary additional costs. We believe development such as the pensions dashboard putting consumers in charge of their information are excellent.

Recruiting, training and retaining qualified staff given the lack of supply, and rewards on offer from competitors, is a challenge. We support the raising of the minimum qualification standard to QCF level 4 and do not believe this should be reduced for anyone engaged in advice. There will be a long term benefit of RDR in that advice will be seen as a profession over time but in the short term, access to quality staff will be an issue.

Brand development costs to build awareness, salience and consideration, with the latter two being highly dependent on the ability to build trust, are high in a crowded market place in a sector that is generally not trusted

Marketing and customer acquisition costs are high due to lack of education and engagement in financial matters. The MAS Financial Capability Strategy report states that only 60% of the population have a comprehension of inflation and buying power, and more worryingly that only 78% can read the balance on a bank statement. The national curriculum needs to be strengthened to ensure that from primary school, students are taught the key principles of finance regarding budgeting, protection, saving and borrowing efficiently.

Culturally there are issues that are being exacerbated by regulation, and fundamentally the UK needs to change from a borrowing to a savings culture. It seems strange that it is easier to borrow money than invest it, and perverse that there are multiple checks when a consumer wants to invest but virtually none when they want to gamble. The financial services industry has been guilty of mis-selling in the past but consumers have had redress, and its time the regulator and government started to accept the changes that the industry has undergone and that the vast majority of advisers are professional and trying to do the right thing for their clients.

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

Firstly, we would like to comment that stating in the call for input that this review will not directly consider the savings gap is a missed opportunity. Currently the regulations prevent people from saving when we should be encouraging them. While areas such as protection and tax/estate planning are essential outputs of a full advice process, given the scale of the savings gap, increasing savings should be at the forefront of any review of how the advice market works.

In relation to the advice gap, we broadly agree with the findings of various analysis of the gap for the UK retail investments market including the ‘Advice Gap Analysis: Report to FCA’ conducted by Towers Perrin at the end of 2014, in that for those who have a particular need, have the wealth, and have the disposition to seek advice, there is adequate supply.

In our opinion the gap is primarily a demand issue. We do not see any evidence that there are large numbers of people who are currently demanding regulated investment advice but cannot find it. That is not to say that many more people would not benefit from regulated investment advice! We broadly concur with the work done by Citizens Advice Bureau (CAB) on their ‘four gaps’ (included below with their summary).

I. The affordable advice gap – there are people who can’t or won’t pay at current prices, but the levels they are willing to pay are generally unrealistic for full face to face advice, however we believe that online advice services can fill this gap.
II. The free advice gap – the biggest gap in numerical terms: some 14.5m people who would benefit from free advice but haven’t accessed it. In some ways

this is the most concerning gap if people are not willing to access free help then there is a serious engagement issue.

III. The awareness and referral gap – lack of awareness of the options open with the result that people do not find the option they need. The free advice options should be encouraged to be more positive about referring consumers to professional advice services.

IV. The preventative advice gap – primarily education and information at the time of the need when consumers would be receptive. It is important that we stop the hole getting any bigger by ensuring financial capability is a competence children leave school with.

There are numerous people who do not know where to start when considering their finances, who do not know who to trust, or maybe even if there is anyone that can be trusted.

The Money Advice Service Financial Healthcheck is an excellent service for getting consumers clear on what their priorities should be, but it has only been used c. 500k times. The plethora of organisations aiming to give advice (in its widest sense) must be confusing to the consumer and this can put off action, and potentially means that costs are not optimised, thereby increasing the gap.

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

The lack of demand for advice by consumers who would benefit from it does represent a gap, but this issue is common across many financial services areas. For example, MAS found that of the c.8m seriously indebted individuals in the UK only 1 in 6 had sought any sort of advice, only 50% of people with families have any life cover, and 19 million don't budget effectively.

Given the almost entirely negative PR about regulated advice, and lack of education, it is not a surprise that many consumers don't want advice.

There is much evidence that advice can add value well in excess of the costs incurred, and the industry needs to do a better job of getting this across, however the government and regulator should start working with the industry to build a savings culture, with appropriate consumer protection but not at the level that adds unnecessary costs. Lower cost advice models are developing and the market will react to demand.

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

See Q 17 above, plus specifically we would point to the most important gaps related to financial products being, the 12m million people failing to save adequately for retirement, the c.500k people who are reaching retirement each year, and the 8m people with significant debt issues.

It has not escaped our notice that the important gaps above also relate precisely to the three most complex areas identified in your report regarding issues for which consumers may need advice.

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

See Q 17 above, and the 'Financial Capability in the UK 2015' report published by MAS.

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

The most worrying gaps are around the 12m million people failing to save adequately for retirement, the c.500k people who are reaching retirement each year (as detriment here has a direct impact and will also impact the actions of those saving for retirement), and the 8m people in severe debt.

Interestingly for both those in serious debt and those reaching retirement, evidence would suggest that only c.15% of these populations are accessing the free advice available despite this being signposted by providers and heavily covered in the press.

This lack of engagement with professional financial advice combined with a debt culture are the critical issues.

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, these are the key areas, plus debt.

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

Yes, absolutely.

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?

On a big picture basis, regulators and government should consider how difficult they want investing to be in comparison to borrowing.

There are many firms who operate from an ethical culture and want to help consumers, and what is required is a clearer and less opaque explanation of what a viable 'suitability' process looks like, especially for online advice services as they will probably provide the solutions to fill the affordability advice gap.

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?

In our opinion EU legislation is not impacting the UK advice market, as UK requirements seem to be in excess of what is required by the EU, and/or implemented earlier.

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

We can see that generally they haven't been effective and that there may be more fundamental issues at play including trust, education, awareness, and culture.

We know that initiatives to reduce costs such as stakeholder products and capping fees do not increase demand.

We know that the market works inefficiently, and that saving (deferred gratification in behavioural finance terms) needs encouragement.

Treating the customer fairly (TCF) became a tick box exercise that did not overcome the poor culture within some firms, and additional reporting requirements did not necessarily support improved consumer outcomes. We believe that the senior managers regime is a positive step forward, although there should be a limit to the size of organisation included.

We support the FCA's 'Smarter consumer communications' initiative and hope that this will lead to mandatory disclosure requirements being based on what is effective for the consumer as opposed to protection for the provider. Unfortunately, with retrospective advice reviews by the likes of FOS, the provider must find a way to show that all relevant information has been given to the client, not only based on current requirements but also anticipating what may change in the future.

Advisers we speak to who produce financial plans and reports know that their clients very rarely read all of the paperwork they are given and so attempt to summarise it effectively, and where possible personalise communications for the needs of that particular client. There is plenty of good practice to be built on.

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

Not that we are aware of.

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

Technology allows us the provide a one to one experience without being face to face, whether that be through webchat, voice contact, or video call. These options are not the same as meeting physically in the same location, but can provide the reassurance and trust building, and the immediate interaction that can support effective engagement.

Education would definitely help, and creating a saving culture where people take responsibility for themselves is a fundamental requirement.

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?

Any that allow for innovation through constructive dialogue and collaboration are welcome.

Interact and Wealth Horizon support the need for a middle ground between full advice and execution only sales, specifically in our case around focussed advice where the consumer is requesting support with a specific need, for example investing. We believe that guidance without a personalised recommendation can be helpful however we have concerns about the control of the 'advice' given and the consumers perception of whether they are buying a product that is suitable for them or whether they are subject to caveat emptor.

We support all of the new initiatives aimed at improving competition in the market; the regulatory sandbox concept is particularly interesting however, the wording 'without immediately incurring all the normal regulatory consequences of engaging in the activity', suggests that any developments that impact consumers could well lead to future regulatory and FOS issues, and so any work in this context would still carry high risk.

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

Areas that should be considered for safe harbours are Simplified/Focussed advice propositions, and insistent clients. Regarding the latter, it should be relatively easy to bring a step into the process where the ceding scheme/trustee would ask for a client declaration that they have taken advice and understand it's not the advice to transfer but that they want to proceed anyway.

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

Consumers participating in these new developments should still have access to redress and compensation but who funds that and oversees the process would need to be agreed. It would potentially be unfair for the rest of the industry to fund, and potentially a negative for providers if the FOS operates in its usual way. A body consisting of more experienced and professionally qualified staff should have the oversight and appeal role. If one was ever formed this could be part of the remit of a Professional Standards Body.

The current FCA enforcement fines, or at least a proportion of them, could be directed towards increasing access to advice rather than going directly to the

Treasury, and part of this pool could fund the elements enabling project innovate.

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

No direct evidence, however, longstop is adding to risks, costs and potential capital requirements of regulated advice businesses and must either be reducing or inhibiting supply, or increasing costs and therefore reducing demand.

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

No direct evidence, however, we believe this is one of the factors encouraging the 'phoenixing' of firms as individual directors do not want to carry an unlimited liability.

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

Consumers do need access to redress for issues that only become apparent some years after the advice is given. Consideration should be given to scenarios where issues will only become apparent after 15 years and ensure that appropriate fact find and disclosures are utilised.

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

The issue for the consumer can be either that the product was ok but not for that consumer's circumstances, or that the product itself was flawed.

For the first issue its fair that liability for the advice should continue to the point where the issue would become clear (this may be less than 15 years). It should also be borne in mind that the situation is very rarely black and white and therefore should be tested on the balance of probabilities

For the second issue, the liability could be reduced if the FCA was to approve products providing quality control and giving reassurance to the consumer and the adviser.

In terms of the FOS, their performance could potentially be improved by the upskilling of staff, but the most important aspect is that there must be an appeal process for the firm to another body.

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

We believe the Parmenion Interact advice solution as used by 50 firms including the

Wealth Horizon business provides consistent, high quality, automated investment advice, and at a very reasonable cost (see above).

Parmenion wanted to produce a consumer focused high quality online advice solution that would allow the growth of advice supported by face to face models. Supporting the launch of Wealth Horizon allowed Interact to benefit from consumer research and testing of all aspects of the service, and are very pleased to now be supporting 50 different brands. In Parmenion's user testing of the automated advice services, users consistently responded positively to the advised nature of the service, and in particular that the service would not let someone proceed with an application if there were any indications of unsuitability.

In addition to the continued growth of the Parmenion Interact solution, we believe that there are approximately 30 new launches planned for the next 12 months.

There is a concern that some of these propositions are providing execution only services but appearing as advisory through a guided advice model. It is imperative for the market to operate efficiently for consumers that they are able to assess the relative value of the services being offered and the suitability protections that advice brings.

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

Work closely with online advice providers and large financial institutions that can enable access to advice for the mass market. Provide clarity on rules and increased support working collaboratively in the interest of engaging and helping consumers.

Provide clarity in the way the options are promoted to consumers on execution only versus regulated advice, so that consumers can understand the relative benefits.

Consider a regulatory 'kite mark' so that consumers could see the regulator has confirmed the process and technology achieve reliable/desired outcomes, rather than potentially to say it's wrong in retrospect. If a kite mark is unrealistic then at least don't object when online firms use the fact that they are an FCA regulated entity prominently in their marketing, as we have experienced in the past.

Ensure that the regulator has technically 'savvy' staff with digital expertise so that collaboration is effective.

Enable the consumer access to, and ownership of, their financial information so that they can engage easily with digital propositions. Concepts such as the pensions dashboard are very positive, and we would also like to see the development of consumer-owned 'fact finds'.

Finally, try to reduce the amount of regulatory and legislative change, or ensure that there is plenty of notice for digital propositions to implement change.

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

Broadly in priority order:

- Trusted brand
- Usability/Engaging online experience/accessibility/performance
- Consumer confidence particularly related to data security
- Price
- Access to education/information
- Access to a live individual support via webchat/telephone/video call

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

Saving for retirement – make changes that will support a move to saving culture, encourage employer-led education, develop auto enrolment to meaningful contribution levels, support technology innovation and online advice service propositions.

At retirement – continue to build awareness of the value of advice, increase awareness and take-up of pension wise.

Debt – cultural shift, education around budgeting, education around efficient expenditure, education around understanding of interest, greater signposting of support.

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?

Do not over regulate - the advice market has changed and become more professional, but regulatory complexity and related costs mean that the advice profession focuses on serving HNW consumers face to face. We are now in a position where it is more difficult for someone to invest than it is for them to borrow (often at incredibly high interest rates) or gamble their money away – how can that be right? What message is that sending to consumers?

Help rebuild trust in the market. In protecting consumers by publicising every negative issue, confidence has fallen and the press have understandably focused on the negatives rather than the benefits of advice. Support the publication of the benefits of advice and how consumers have generally been better off as a result.

The market is inefficient as a significant proportion of consumers do not understand what good looks like (either in terms of proposition or cost), this has not been helped by complicating disclosure with restricted/independent definitions that make no sense, and with the wide use of the term 'advice'. Regulated advice with a personal recommendation needs to be rebranded.

Ensure that capital adequacy requirements are appropriate to that specific market to ensure that smaller players are not unnecessarily excluded from the market.

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

A regulatory regime that identifies areas of concern, whether thematic or firm-specific, and that then resolves the issues quickly and removes any 'bad eggs' swiftly.

Specifically ensure that the handbook clearly sets out the differences between execution only and full advice, so that both firms and consumers can understand the difference, and that the regulatory requirements and risks have a differential impact on the costs of running each model so that the consumer can benefit from the lowest cost possible from the level of 'advice' they select.

Where possible the regulator should commit an opinion when given specific scenarios rather than simply refer back to the handbook. This is particularly important to supporting innovation.

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Financial Advice Market Review: Call for input
Submission from Partnership Assurance Group plc (Partnership)

About Partnership

Partnership is a long established UK insurer specialising in the design and manufacture of financial products for people whose health and lifestyle means that their life expectancy is likely to be reduced. Partnership aims to offer higher retirement incomes than traditional providers through undertaking a detailed assessment of people's health and lifestyle conditions. It is a leading provider of enhanced annuities; typically, our average customer will receive approximately 18% extra income for life, compared to a standard annuity provider, and for those with more serious conditions, potentially much more. We estimate that over 50% of people at retirement could qualify for one of our annuities.

Medically underwritten annuities allow insurers to take into account a person's lifestyle and medical history to determine the probability of them living through each future year and therefore the rate at which they can be provided with their retirement income when they buy an annuity. An enhanced annuity can potentially offer consumers significantly higher levels of guaranteed income in retirement.

Introduction

Partnership welcomes the opportunity to respond to the joint FCA and HM Treasury consultation – Financial Advice Market Review: Call for input. The advice market has changed significantly since the introduction of RDR in 2012, and we therefore believe that this review offers an opportunity to explore the outstanding issues and identify areas for potential change.

Partnership strongly believes that Independent Financial Advisers will continue to play a significant role in helping consumers to make appropriate retirement choices. However, we also believe that more work is required to help people access simplified or 'focused' advice for those who do not want or cannot afford to go down the full advice route. In our response we have chosen to refer to simplified advice as 'focused' as we think that the word 'simplified' may lead some consumers to conclude that this is a substandard advice offering. Currently those who are prepared to pay for full advice receive the best retirement outcomes, however, the majority of people who do not do so, are excluded not only from the best outcomes – but from affordable advice and from good retirement outcomes.

While we acknowledge that focused advice is currently available, many financial advisers do not offer it. This is due to a number of key issues, such as high professional indemnity costs for financial advisers which mean that for some it is not worthwhile to offer the service. Focused advice is regulated in the same way as full advice and meeting regulatory obligations means that the costs for both are similar. Financial Advisers are businessmen and few can afford to offer services at a loss.

We believe focused advice can benefit a large number of people at or approaching retirement who do not want, or cannot afford, full advice. In particular, focused advice has an important role in concentrating advice around retirement to retirement income choices only and would therefore serve as an ideal next step on from the guidance offered by Pension Wise for those who require further help with their retirement income plans.

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 advice?

We believe that those who require self funded social care provision, and/or their Power of Attorney have a particular need for financial advice to find viable solutions to fund their social care needs for the remainder of their lives. With an estimated 24% of self funders depleting their assets prematurely and falling back on state funding (in 2012, at a cost of £425 million in England alone[i]) we believe that it is crucial for both the care user and local authorities that financial advice is sought to address this. While the inclusion in the Care Act 2014 of a duty on local authorities to provide information and advice on how to access regulated financial advice will help nudge people to visit an IFA, we believe there needs to be far greater public awareness that a large number of people will need to fund their social care needs, and that unlike the NHS it is not free at the point of need.

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

It is our belief that further work needs to be carried out in this area to ensure that there are clear descriptions of the different forms of advice, including what they cover and what they do not. These descriptions need to be easy to access and easy to understand for consumers. As part of this work, we believe that focused advice needs to be included to help meet the needs of many consumers who are not prepared to pay the costs of full advice, and who are accordingly excluded not just from the best outcomes but also in the absence of focused advice from good outcomes. This focused advice should be available to consumers who wish to get advice at and for a single point in their life (e.g. retirement) at a lower cost to reflect this narrow objective. This would help to meet the needs of consumers who are deterred by the cost of full advice.

We also believe that any new descriptions which are subsequently developed need to be up-to-date and reflect the changing advice and guidance environment and therefore include services such as robo-advice and internet channels.

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

Partnership believes that one of the hurdles that professional financial advice faces in terms of increasing demand is the lack of understanding among consumers about the difference between advice and guidance. To many, advice and guidance is the same thing; indeed the Chancellor of the Exchequer even referred to 'advice' when making his announcement for a guidance service. (In addition many of the guidance vehicles in the Pensions Wise Service – Citizens Advice Bureau, Money Advice Service – have the name Advice in their titles – although they are delivering guidance).

Many studies have demonstrated a resistance to paying more than a nominal amount for financial advice. This can be explained, in part, by a general lack of experience by many consumers for paying for advice and a failure to understand the benefits and risks of not getting advice, compared to guidance. Therefore, we believe there needs to be a greater awareness among consumers of the benefits of financial advice including that financial advice involves an adviser acting on the consumer's behalf and taking responsibility for actions which may be subsequently taken.

We would therefore like to see greater emphasis placed upon the important role of financial advisers, and increased understanding in the service that they offer.

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

We believe there is often confusion among consumers around the difference between advice and guidance, with many consumers believing the two to be the same. With the increase in websites offering information, some may even believe they have received 'advice' from websites and newspapers offering opinions from well-known experts, such as Martin Lewis. Further confusion may arise because while information websites are used by many retirees, in general they wish to speak to someone to test their understanding and conclusions before committing to a course of action. This can further blur the lines between the advice and guidance processes in the consumer's mind.

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

AND

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

While we feel that it is useful for targeting sections of society, we also believe that further research should be conducted to ensure that it is up-to-date and is also built around consumer research. We would also urge the inclusion of the two distinct groups when considering policy developments – those who are financially confident and those who are not.

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

There is an emerging trend for people to think that 'self-service' is not only possible, but is much easier. However, while this may be the case, it could be argued that 'self-service' makes it easier for people to get themselves into trouble through making inappropriate decisions or making decisions based on a low level of understanding of the options or low financial capability levels. For many, there may be a belief that undertaking 'self-service' when purchasing products is cheaper, however, this may not necessary be the case. In addition to this, for those who are eligible for an enhanced annuity a financial adviser will know what medical conditions to declare, while those who undertake 'self-service' may still be in the mentality of purchasing other insurance products where people are more reluctant to declare medical conditions.

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

We believe that the cost and perceived value of financial advice can act as a deterrent for some people who would benefit from regulated financial advice. One explanation could be that while consumers may be able to see the benefit of paying a £500 fee to gain an 'extra' lump-sum (e.g. a specific amount with an enhanced annuity), they may not see the benefit if this figure is represented by an extra amount a month over their lifetime.

There could also be a continued assumption that advice is 'free' as it was viewed by many to be when commission was commonplace. This may lead some consumers to continue to believe that it should be free. Others may not view advice as a 'service' which should be paid for, but rather they pay for the end product (e.g. an annuity or drawdown product).

We therefore believe that more work needs to be carried out in order to promote the benefit of financial advice, along with improving awareness and understanding of financial decisions.

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

We believe that there is a clear advice gap that needs to be addressed as a matter of urgency. While the upper end of the income scale are well served and those with smaller pension pots are more limited with their choices with many likely to take their savings as cash, it is those in the middle, who would probably benefit the most from advice, but are unable or unwilling to pay for full regulated financial advice.

It is for this reason that we believe that focused advice should be available to consumers who wish to get advice at and for a single point in their life (e.g. retirement) at a lower cost to reflect a clearly defined objective. This would help to meet the needs of customers who are deterred by the cost, or simply cannot afford full 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?

It is our belief that the increased cost of advice has driven the recent shift away from sales based on professional advice; this in turn has driven more people to non-advised sales, and advisers to focus on wealthier clients. However, non-advised is still commission based, so while the consumer thinks that they are getting whole of market access, they are in fact only able to access those providers who choose to pay to be part of the service. It is unclear how many consumers understand that this is the case or that they are actually paying as much as they would if they took regulated advice in many cases.

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

Partnership believes that there is an important role for new and emerging technology in delivering advice. However, we also believe that proper consideration needs to be given to which customers it would be appropriate for, and those whom it wouldn't e.g. it may not be appropriate for complex decisions. We would also suggest that any robo-advice service also offered a personal contact (i.e. a regulated adviser) as many people may feel more comfortable discussing their final choices or decision with a 'human-being' as a catalyst for action; this should be reflected in the price of the service.

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

The cost of giving advice (in terms of allocation of time), regulatory costs, business costs, customer acquisition costs and business margins are all expensive. However, with a mass consumer shift away from full financial advice, there is a risk that it has essentially become a cottage industry. If the larger IFA companies entered the market offering both full and focused advice then many of the costs (including customer acquisition and regulatory costs) would be reduced.

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

AND

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

AND

Q19. Where do you consider there to be an advice gap?

We would agree with the definition outlined in the Call for Input. However, we also believe that the gap suggests that the advice model does not meet the needs of a large group of consumers, many of whom will not want or need full regulated advice, but instead focused advice. Focused advice should be available to customers who wish to get advice at and for a single point in their life (e.g. retirement) at a lower cost to reflect the narrow objective.

It could also be suggested that low levels of financial capability in the UK could be further exacerbating the advice gap as people simply do not understand what financial advice entails. Many may believe that financial advice merely offers one a list of options, and they may not fully understand that financial advice actually provides the individual with a recommendation, and the adviser taking on the 'risk' of the decision.

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 also urge the FCA to extend some of their initial work to include long term care. Financial advice should play an important role in long-term care planning and funding for the 53% of people in England who must pay for some or all of their social care. Financial advice enables these people to find viable solutions, such as an Immediate Needs Annuity, to be able to fund their social care needs for the remainder of their lives.

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?
We agree that the focus should be on the mass middle market.

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?
It is Partnership's belief that the current rules do not align properly with the Pension Freedoms and therefore need to be adjusted. It is for this reason that we welcome the FCA's CP15/30 consultation 'Pension reforms – proposed changes to our rules and guidance', and look forward to submitting a response outlining some of these concerns. We also believe that the suitability requirements, which are based on face-to-face advice, currently do not allow for innovation around automated advice due to FOS risk. We would therefore like to see the suitability requirements adapted to allow for such innovation.

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?

AND

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

AND

Q31. What steps could be taken to ensure that a safe harbour includes an appropriate level of consumer protection?
We support the concept of safe harbours for focused advice. While the details will need to be carefully considered, ultimately there needs to be a process whereby the adviser is responsible for the recommendation they make to meet a specific need based on the information disclosed, without any liability for information that they were not given but 'should have asked for'. Not only should it be clear in FCA rules, but also reflected in FOS practice looking at individual cases.

However, we do not think that safe harbours for individual products work, as we believe that they stifle competition and innovation, and are not good for consumers in the long-run.

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 jurisdiction?

AND

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

AND

Q38. What do you consider to be the main consumer considerations relating to automated advice?
Partnership believes that automated advice should be encouraged, as they will inevitably meet the needs of some consumers. However, in addition we believe that any automated/digital advice offering shouldn't exclude the opportunity to speak to a person on the phone or through a 'live chat' feature before making a final decision.

We would also like to see the development of automated systems to be dynamic enough to relay to the customer potential outcomes from products, particularly those with investment elements.

Q39. What are the main options to address the advice gaps you have identified?
Partnership strongly believes that more work needs to done to help people access focused advice for those who do not want to go down the more expensive full advice route. While we acknowledge that focused is currently available, it is not widely delivered due to a number of key issues, such as the 'boundary risk' where what is supplied as focused advice is later interpreted as a poor full advice service or should have covered additional areas that were neither explicitly ruled in or out, and high financial adviser professional indemnity costs which mean that for many advisers it is not worthwhile to offer the service. Focused advice is regulated in the same way as full advice and therefore the costs are the same. This means that few advice businesses would be willing to provide this service at a loss.

However, focused advice could benefit a large number of people at or approaching retirement who do not want, or cannot afford, full advice. Focused advice would concentrate the advice to retirement income only and would therefore serve as an ideal next step on from the guidance offered by Pension Wise for those who require further help with their retirement income plans.

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?

AND

Q41. 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 consumer outcomes should be at the very heart of any changes to the advice market and that steps should be made to help as many people as possible to get the advice they may require, in a way that meets their needs. We therefore support innovation in the advice space. While consumer protection must be central to any new regulations or requirements, we believe that

perfect should not get in the way of good – there should be good outcomes for the majority rather than perfect outcomes for the few.

In the case of focused advice, while it will never match consumers' overall requirements as much as full advice, it will be more than balanced by the far greater reach of potential consumers, particularly in the retirement market where many end-up confused and purchasing poor-value default offerings from incumbent providers. We therefore believe that a good focused offering would result in overall greater consumer outcomes, than seeking perfect outcomes for a few.

Further information:

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[i] LGiU – *'Independent Ageing 2013: Council support for care self-funders'*

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FINANCIAL ADVICE MARKET REVIEW: CALL FOR INPUT
THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

"A NEW APPROACH IS REQUIRED TO ENSURE GOOD RETIREMENT OUTCOMES: ONE BASED ON SAFE HARBOUR SIGNPOSTING TO SOLUTIONS MEETING NEW QUALITY STANDARDS"

22 December 2015

THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION

We're the Pensions and Lifetime Savings Association; the national association with a ninety year history of helping pension professionals run better pension schemes. With the support of over 1,300 pension schemes and over 400 supporting businesses, we are the voice for pensions and lifetime savings in Westminster, Whitehall and Brussels.

Our purpose is simple: to help everyone to achieve a better income in retirement. We work to get more money into retirement savings, to get more value out of those savings and to build the confidence and understanding of savers.

OUR CONCLUSIONS AND RECOMMENDATIONS

The Financial Advice Market Review takes an important and wide-ranging look at the way in which consumers engage with and seek help for making financial decisions at various stages of their lives. Our response focuses on those aspects of financial decision making that affect retirement outcomes and in particular the new and more complex set of decisions to be made as retirement approaches and during retirement.

Financial advice alone cannot solve the dilemma of how to enable millions of people to benefit from the Pension Freedoms. Our response highlights the need for fresh thinking and, in particular, the replacement of an environment where savers are left largely in the dark about the specific options open to them to one where they are **signposted to quality-assured retirement income solutions**. While leaving savers with the right to decide how to use their own retirement pot this would ensure that the path of least resistance is much more conducive to good outcomes than today's effective default of taking cash.

The key points of our response are:

- This is just one of several consultations proposing interventions that propose to add a layer of support and protection for those seeking to access their pension savings (others include the FCA's CP15/30, the FCA's forthcoming Retirement Outcomes Review, proposals for new retirement risk warnings for trust based schemes). We are concerned at the piecemeal approach to this important debate around the inherent tension between consumer protection and the pension freedoms. This debate needs to be lifted above a debate on detailed regulation or interventions and to more broadly clarify what good looks like.

- Having said that, the Association applauds efforts to improve retirement outcomes, in particular initiatives designed to help those who wish to provide for an income in retirement;
- There is evidence not only of gaps in information, guidance, support and advice of all kinds but indications that the most informed and independent sources are not widely used by consumers;
- Guidance and regulated advice have an important role to play in navigating complex decisions and shaping outcomes and making those services more accessible and more affordable can only be a good thing;
- However, experience of the annuity market and early research of pension freedoms suggests that this will not be enough to achieve widespread good outcomes;
- The Association believes that a new approach is needed based on two components that take learnings from the lessons of automatic enrolment and which support the principles of pension freedoms. The approach would have two components:
    - **Safe harbour signposting by employers, trustees and others such as Pension Wise**;
    - **To retirement income solutions that meet a set of quality standards.**
- Granting trustees, employers and others a safe harbour in primary legislation would extend considerably the support available to those at retirement.
- The safe harbour would operate only where savers are signposted to one or more retirement solutions that met independent quality standards designed to deliver good outcomes for the majority of their members / customers[1].

[1] The PQM Board is currently consulting on standards for an in retirement quality mark: PQM (2015) *Developing a retirement quality mark* http://www.pensionqualitymark.org.uk/documents/31_rqm-consultation-paper-on-developing-a-retirement-quality-mark-november-2015.pdf

INTRODUCTION

The Pensions and Lifetime Savings Association has, since the introduction of Freedom & Choice, stressed that there is a need to examine the way in which individuals accessing their pensions under the new pension freedoms are helped and guided towards good outcomes. As such, we support the Financial Advice Market Review, in particular the proposals to focus on: advice in its very widest sense; those individuals with modest levels of wealth and income; saving into a pension; and the use of pension funds at and into retirement. These are also the sections of the call for input on which our response is focused.

This is just one of several consultations proposing interventions that propose to add a layer of support and protection for those seeking to access their pension savings (others include the FCA's CP15/30, the FCA's forthcoming Retirement Outcomes Review, proposals for new retirement risk warnings for trust based schemes). We are concerned at the piecemeal approach to this important debate around the inherent tension between consumer protection and the pension freedoms. This debate needs to be lifted above a debate on detailed regulation or interventions and to more broadly clarify what good looks like.

Our response is structured along the lines of the Call for Input paper and the questions posed, although we preface the main sections with some comments that the Association made in response to the FCA's scoping of next year's Retirement Outcomes Review, some general observations about the impact of the new Pension Freedoms and some findings from our latest consumer research (from the Understanding Retirement programme).

This is then followed by our views and research findings on:

- consumer needs and wants from financial advice;
- the nature, size and location of advice gaps;
- some of the options for closing the gap.

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?

It would seem likely that both age and disability characteristics might present challenges for individuals in accessing financial advice, particularly in later life. The new pension freedoms bring new challenges and complexity to later life finances.

Prior to the new freedoms, decisions about pension provision beyond retirement age were largely limited to those with DC pensions to the few, typically more financially sophisticated and/or IFA supported consumers, in income drawdown. Those with DB pensions generally continued to receive a regular income from their scheme throughout their retirement while those with DC generally converted their savings to a lifetime annuity income that similarly paid out an income throughout retirement.

While new decisions and behaviour are not yet certain, it seems likely that a growing number of people beyond retirement age will need to remain engaged to a greater or lesser extent with their pension savings if they are to manage the risks associated with managing a DC pension fund. Over time, the characteristics of those exposed to investment and longevity risk in retirement and, potentially much later life, will change to include individuals without the support of an IFA, and with a wide range of capabilities and disabilities. Policy and regulation, both that associated with the delivery of regulated advice and that associated with broader information and support of customers or pension scheme members, may need to adapt over time to protect such individuals.

PENSION FREEDOMS AND RETIREMENT OUTCOMES

The Association, in response to the FCA's call for views on the scope of its forthcoming Retirement Outcomes Review, put forward the following analysis of the changes to the risk landscape for pension savers at and in retirement. We have repeated some of this analysis below as a preface to some of the observations that we make in later sections of this response.

The introduction of pension freedoms has fundamentally changed the risk landscape for pension savers, both DB and DC. Prior to April 2015, risks for the saver were largely mitigated by a combination of rules and other protections that ensured that an individual could secure a lifetime income in retirement. Those who chose to take additional risks by taking an income through income drawdown were most at risk of failing to secure a lifetime income but even those risks were mitigated by rules around the amount of money that an individual could take unless they had secured a separate income elsewhere.

FIGURE 1: OUTCOMES AND RISKS FOR PENSION SAVERS BEFORE APRIL 2015

	Majority	*Minority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity)
Risks	• Employer insolvency (DB) • Annuity provider insolvency • Failure to maximise lifetime income • Failure to provide for spouses income • Inflation (for DC)	• Investment volatility erodes fund • Taking too much income and running out of funds • High charges • High advice costs • Poor investment choices • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• HMRC rules on capped and flexible drawdown • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

NEW OUTCOMES AND RISKS

Since the introduction of the pension freedoms in April 2015, both the outcomes and the risks have become wider ranging and more complex and, as a result, the systems to mitigate those risks have also had to become more complex. However, ultimately pension savers can no longer be as well protected against some of the risks that they now face. What was an outcome for the minority of securing an uncertain income in retirement from drawdown products or being exposed to pension or other investment scams is now an outcome faced by the majority. Moreover, the outcome of withdrawing pension savings and trying to secure a retirement income from other savings and investment options is already happening, while for some pension savings have become a route to paying off debt or for immediate gratification.

FIGURE 2: OUTCOMES AND RISKS FOR PENSION SAVERS AFTER APRIL 2015

	Minority	*Majority*
Outcome	• Lifetime income secured through DB scheme • Lifetime income secured through purchase of an annuity	• Variable retirement income drawn from capped or flexible income drawdown (or short term annuity) • Variable income through other (non-pension) savings or investment vehicles (including property) • Paying off debt with pension savings • Withdrawing and spending pension savings before or in early years of retirement
Risks	• Employer insolvency (DB) • Annuity provider insolvency • Failure to maximise lifetime income • Failure to provide for spouses income	• Taking too much income and running out • Investment volatility erodes fund • Inflation erodes savings • Property market crash • High charges • High advice costs • High tax charges • Poor investment decisions • Poor advice • Provider insolvency • Scams
Risk mitigation	• DB funding requirements and Pension Protection Fund (PPF) • Financial Services Compensation Scheme • PRA capital / solvency requirements (annuity providers) • ABI code of conduct • FCA disclosure and advice rules • Financial Ombudsman Service (FOS)	• PensionWise guidance service • Advice requirements for DB to DC transfers • Retirement risk warnings • New regulatory requirements (not yet defined) for in-scheme decumulation • Financial Services Compensation Scheme • PRA / FCA capital / solvency requirements • FCA disclosure and advice rules for drawdown • Transfer regulations • Financial Ombudsman Service (FOS)

PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

EARLY EVIDENCE OF BEHAVIOUR, OUTCOMES AND RISKS

Early analysis of recent research conducted for the Pensions and Lifetime Savings[2] Association reveals that in the first six months of freedoms, among the first cohort with access to the freedoms (estimated to number approximately 3.7 million[3])[4]:

- Around 100,000 have transferred from DB to DC (5% of those with DB not yet in payment in the age group concerned).
- Around 320,000 have taken some action on their DC (15% of those with DC) in the first six months of freedoms.
- Some have simply taken their tax-free cash and have left their remaining funds invested in their existing scheme or elsewhere.
- Among those with DC funds, while investment in drawdown has been the most popular option (around 80,000 people), many have taken cash beyond simply taking their tax free allowance (around 60,000), or purchased annuities (around 60,000).
- Those in a drawdown type vehicle may be using this as a temporary home before taking more lump sums or may be using it or plan to use it to generate a regular income.

While these outcomes may not be a sign of any detriment our research indicates that some do not fully understand the risks to which their decisions expose them and others may come to realise that their decisions were not fully informed:

- Of the pension savers aged 55-70 surveyed in April 2015 who expressed an interest in drawdown, 53 per cent believed that this option would offer them a guaranteed income in retirement, with a quarter believing there were no risks involved[5].
- Around one in three who accessed their freedoms in the six months from April 2015 found it harder than they expected while nearly half found the terminology difficult.

The research also highlights evidence of advice and support gaps (defined broadly by a lack of demand as well as a lack of access) among those accessing their pensions:

- Among those who have already accessed their pension, only 39% sought out financial advice and only 21% sought help from Pension Wise (the majority using the website only).

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[2] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.
[3] NAPF estimate based on ONS population statistics and ONS Wealth & Assets survey table 6.8
[4] PLSA estimate based on ONS population data and ONS Wealth & Assets survey data
[5] Understanding Retirement Wave II: Breaking the Deadlock, Interim Finding

- 56% of those who can now access their pensions through the new freedoms and who have started to think about what they might do not plan to pay for regulated financial advice, 55% do not plan to contact their employer, 47% do not plan to contact Pension Wise and 40% do not plan to investigate options using the internet and 20% do not plan to contact their pension provider to discuss.
- Among the same group, 73% have not sought professional financial advice and 75% of these do not plan to.
- Those not taking advice cite a preference for making their own decisions, the cost of advice or a lack of trust in advisers as the main reasons or barriers.
- Around one in five of those who have used Pension Wise (mostly by accessing the web pages) did not find the service helpful.

The Association will be happy to share further research findings with the FCA and HMT as part of the review.

CONSUMER NEEDS AND WANTS FROM FINANCIAL ADVICE

In an efficient market, consumers would understand their needs or wants, have access to perfect information, shop around and compare product benefits and risks (either themselves or using trusted advisers) and ultimately make informed decisions. Firms would listen to consumer needs and competition would drive product features and pricing. The pension market has been shown, through successive reviews (FSA misselling reviews, Pickering 2002, Sandler 2002, Pension Commission 2003-2006, FCA thematic review of the annuity market 2013) and analysis of consumer and firm behaviour, to be far from efficient and lacking true competition. This position has been exacerbated for those reaching retirement by the introduction of Freedom and Choice.

Analysis of consumer behaviour at the point of accessing their pensions has, understandably, been confined largely to those individuals who purchased an annuity with their DC pensions at retirement. In spite of several market and regulatory interventions designed to change behaviour (for example changes to the wake-up pack and the emergence of a comparison website) and through that to improve outcomes, there was limited evidence of either. Shopping around didn't happen to an adequate extent:

- the use of advice was limited to approximately 35% of annuity purchases in 2013; and
- most individuals buying an annuity did so from the provider that they saved with (64% in 2009 and still 61% in 2013)[6].

In considering why individuals engage little with pension decisions, the Pensions Commission, having reviewed the evidence from behavioural finance theory and experiments, concluded that new interventions would be necessary to ensure that more people saved for their future and that they achieved good outcomes[7]. The interventions addressed consumer inertia, the cost of attracting and accessing customers and the cost of advice. The first part of the solution was to introduce automatic enrolment with an opt-out clause which provided both a positive way of dealing with inertia and removed the need for costly advice to encourage people to save for retirement. Another part of the solution was to influence competition for savers through the introduction of a low-cost, well-governed pension arrangement for employers to enrol their employees into; now known as NEST. This was then followed up by a set of Government policies designed to ensure that automatic enrolment schemes met minimum standards of governance and low charges.

The roll-out of automatic enrolment has to date been largely successful at encouraging saving (more than 5 million more are now saving for retirement through

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[6] Wells (2013), Pension annuities: a review of consumer behaviour
[7] Pensions Commission Implementing an integrated package of pension reforms: The Final Report of the Pensions Commission

workplace pensions[8]) and in reducing advice and investment costs and driving competition in scheme design and pricing. However, for many, the levels of contribution are likely to be inadequate to generate a comfortable replacement income and further incentives, support and encouragement may be needed to lift future contributions.

A similar set of interventions is now required to deal with much the same set of issues but focused on the decumulation or retirement income phase of the pension system. We explore elements of this approach – safe harbour signposting and quality standards for retirement income solutions - in the final chapter of this response.

[8] https://www.gov.uk/government/news/millions-more-saving-thanks-to-automatic-enrolment

THE NEED FOR ADVICE

People making complex and infrequent decisions, whether or not financial, generally look to others to help them find a good solution. Even before the pension freedoms, retirement income decisions for those with DC pensions fell into that category of decision.

As the analysis above indicates, and our research supports, most people reaching retirement do not seek professional financial advice. Furthermore, our earlier research has shown that most savers are unwilling to pay for advice: in our work place pension survey 57 per cent of the savers surveyed were not willing to pay anything at all for advice, with only 3 per cent willing to pay over £200[9].

The most popular sources of information and support at retirement among those aged 55-70 who had started to think about accessing their pension between April and September 2015 were[10]:

- The scheme or provider that the individual saved with during the accumulation phase (71% of those who had started to plan how to take their pension between April and September 2015 had either contacted or planned to contact);
- 49% had researched or planned to research on-line;
- 45% had spoken to or planned to speak to family & friends;
- 37% had contacted or planned to contact their employer;
- 34% had read or planned to read newspapers;
- 34% had or planned to contact Pension Wise;
- 31% had paid for or planned to pay for independent financial advice.

Among those who had already taken action between April and September, all of these response levels were considerably lower (for example only 7% had sought help from their employer) and the majority (around 60%) had sought help from only one source.

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

The Association has no strong views on the different descriptions of advice but would support attempts to align descriptions with consumer understanding and needs. Common sense tells us that consumers think differently about the word 'advice' than does the industry and the regulator. It is not clear that any of the expressions such as

[9] The NAPF's *Workplace Pensions Survey May 2014* can be accessed at: http://tinyurl.com/WPSsept14
[10] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.

‘restricted advice’, ‘focused advice’, ‘simplified advice’ or guidance will resonate clearly with consumers.

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

The Association agrees with the general thrust of the NMG Consulting analysis of demand. However, it is important to recognise that the role of advice for many of those joining pensions has been changed by the introduction of automatic enrolment and the parallel regulations surrounding qualifying schemes. In essence, the combination of behavioural nudges and quality standards have reduced the need for advice in the early phases of a pension journey.

Prior to the pension freedoms, the same was largely true of those reaching retirement. Although an active decision was required for those with DC savings, many followed the path of least resistance and, as noted above, the majority did not seek out advice. Those who did seek and pay for advice tended to be those with larger funds.

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

As outlined above, research shows that, when making financial decisions, a range of sources are consulted.

Where purchases are relatively frequent and where sources of informal support and product information and comparisons are more readily accessible (such as car insurance) demand for professional advice is naturally lower.

None of these criteria is applicable for those now reaching retirement (or age 55) with DC savings. New social ‘norms’ have yet to be realised, friends and family will often not have the experience to inform the decision, the market is not yet fully formed, generic options at retirement have important implications for later life but some are not reversible and product information is complex and not easy to compare.

In such an environment, professional advice would appear to be the answer. Indeed for some, it may well be so, either because they have the profile of income and/or wealth that enables them to access the market or because they are lucky enough to work for an employer at retirement that provides access to advice (whether or not the employer pays for such advice). However, for the majority this is unlikely to be the case and our research supports the view that the cost of advice can be a barrier. For the majority, other sources of help and support will be critical.

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

The FCA's analysis of the alignment of financial needs and demand for advice (in its broadest sense) would appear to be broadly supported by consumer behaviour as evidenced from market data and surveys. The analysis raises three issues that we would draw out:

- While not a regulated activity, the issues that face many about the interaction between state benefits and their finances would also seem to be an issue that would appear at the complex end of the spectrum and one which often drives the need for advice and support.
- Given our comments above about the role of automatic enrolment, we would question whether the decision to save in a pension is now quite so high up the list in terms of complexity. We would agree, however, with the placement of 'at retirement' decisions being high up that list.
- The analysis appears to stop short at retirement, whereas the new pension freedoms imply a need for help way beyond the point of making a decision on whether to buy an annuity, take the cash or go into drawdown, in particular for those in this last group.

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

By definition, any consumer segmentation model tends to be a static basis for viewing needs and behaviour. Moreover, segmentation models are typically built for a particular purpose and don't always serve other purposes well. It is not clear that the model described here is particularly suitable to understand the needs for advice and support.

People's lives and often their financial needs evolve and change and some of the most important decisions are made at the point of transition. Those transitions, not the segment they are in before or after, often drive the need for advice and support. For example:

- Decisions about starting a pension arise most often in that transition between studying (perhaps those in the 'living for now' segment) and beginning a career (perhaps those in the segment 'starting out');
- Decisions about debt can be most important in the transition between work and unemployment which may also imply a shift between FCA segments;
- Mortgage decisions are often aligned with lifestage transitions such as marriage, career developments, becoming parents which may also lead to individuals moving between FCA segments;
- At retirement and in retirement decisions also tend to align themselves with transitions between segments. Someone who sits in the 'affluent and ambitious' segment may move into either the 'retired and on a budget' or

‘retired with resource’ segment depending upon the decisions they make at retirement.

- Further transitions associated with health, disability and cognitive ability may also drive the need for advice and support in later life, particularly for those needing to make pension, benefit, housing or investment decisions (and particularly those with multiple decisions to make).

There may be other important financial decisions that not only are made at important transition points (such as divorce, loss of a partner) but which can also influence the future segments that an individual lands in. A completely static segmentation that does not recognise the importance of life transitions and the fluid nature of people’s lives does not appear to be adequate as a tool for exploring advice needs. The Association recommends that any analysis of consumer needs focuses on transitions as well as static characteristics.

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

Focusing on long-term savings decisions and, in particular, pensions, the segments that are most likely to drive the need for advice and support are those that include individuals near to, at, or in retirement. However, recognising the points made above in response to Q6, a further focus on the transitions that trigger the need for advice is required.

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

The analysis conducted here by the FCA appears to be rather simplistic in nature. It is not clear that the **need** for advice and support is strongly correlated to income or wealth, although we would agree that the **demand or ability/willingness to engage with** regulated advice is. Those on low incomes may have complex needs and decisions to make, often interacting with the benefit system. Those with small pension funds may need advice as much as, or perhaps more so, than those with larger funds. However, it is almost certainly the case that the ability to deliver advice and support to all requires a cross-subsidy from those with money to those without, either through taxpayer / central Government funding or through some other mechanism.

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

The FCA’s analysis includes most of the reasons why individuals say that they do not seek professional advice. The cost, trust and difficulties in accessing advice feature commonly in the Association’s and others’ research.

However, another factor may be at play. As the suppliers of professional advice have focused increasingly on the more affluent elements of society and the suppliers of advice have themselves been drawn from the more professional and affluent sectors of society, it may also create an unintended vicious circle of exclusion. Those not obviously (to themselves) in the target market may take it as given that professional advice is not for them; something that would not have been the case when information and support was provided by the home service companies such as Pearl and Prudential in most of the 20th century.

ADVICE GAP(S)

The existence of advice gaps is clearly a function of both demand and supply-side issues. As discussed above, not all consumers demand or are willing to seek out guidance and advice while not all guidance and advice services are accessible to all consumers. The Association has little experience of the supply and economics of advice, although its members (principally larger employers with a geographically concentrated workforce) often make advice available in the workplace to those approaching retirement. No detailed analysis has been undertaken of this, although employers rarely fund the full regulated advice process and individuals are required to pay directly for any personalised advice.

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

The Association's members (whether funds or employers) are drawn largely from the larger employers and pension schemes in the UK. Many of these larger employers (rather than the pension schemes themselves) provide current employees (and therefore active members of the employer's pension schemes) with access to retirement planning seminars and/or personal advice through relationships with independent financial advisers or broking services.

Research undertaken by the Association among its fund members in April 2015 shows the type of support afforded to employees / scheme members at or near retirement. In spite of the freedoms, annuity broking remained the most common support (offered by 54% of respondents) followed by collective retirement seminars (43%) with 13% providing access to financial advice (but paid for by the employee) and 10% funding financial advice.

The pension scheme itself, through its administrators, delivers information to the member about their pension, the options available at retirement and, now, the services of Pension Wise.

The workplace can be an efficient place to deliver both communal guidance and planning sessions as well as individual advice. However, by definition, it reaches only those currently employed by the company. Deferred members of pension schemes, particularly those who are no longer working but not yet retired and taking their pension, do not tend to have the same level of access to support from their past employer or the pension scheme. Some of this issue is being addressed by the emergence of on-line support to pension scheme members, although anecdotal evidence suggests that usage of this support remains low.

Furthermore, at the point of accessing pension freedoms, many older individuals will no longer be in work. Our research among the first cohort aged 55-70 with a pension not yet in payment suggests that 20% of this group already consider themselves to be fully retired and around another 40% are either not retired but also not working or are working part-time[11]. This analysis alone would suggest that supplying 'at retirement' advice on retirement choices may not have sufficient reach, even if individuals engage with the advice, are willing to pay for it or it is in some way subsidised. Moreover, if advice may be required into retirement, the workplace becomes increasingly irrelevant to that relationship.

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 Association has no data to add to the evidence base.

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

The Association has limited experience of the role of technology in delivering advice. However, technology is playing an increasing role in providing information and retirement planning tools to members of pension schemes.

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

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

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

The Association has no experience or evidence to add to the analysis underlying these three questions.

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

Some of the barriers outlined, while applying to regulated adviser firms, are also issues for employers and occupational pension schemes. The lack of regulatory clarity

[11] Understanding Retirement wave II: baseline research April 2015, working status, 1041 sample of UK adults aged 55-70 with a pension not yet in payment

around the new pension freedoms and the uncertain regulatory risks and potential liabilities can inhibit employers and schemes from delivering anything beyond factual information to pension scheme members and employees.

Q17 What do you understand to be an advice gap?
Q18 To what extent does a lack of demand for advice reflect an advice gap?

The Association agrees with the Review's definition of an advice gap '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'. Within this definition we would include not only advice in its regulated form but other forms of support and guidance that can help consumers achieve good outcomes.

However, we would extend the definition to include circumstances where consumer demand is low, not only because the benefits of advice are not fully valued but also where the complexity and consequences of decisions are not fully understood.

Q19 Where do you consider there to be advice gaps?

Notwithstanding the points made earlier in this response about the FCA segmentation model, we would broadly agree with the proposed framework. We would make the following additional points:

- Decisions about retirement income and other options (such as taking a pension as a cash lump sum or doing nothing) are not limited to a single event and may need to be made several times over during both later working life and in the transition towards 'full-time retirement'.
- Decisions about saving into a pension include decisions, for some, about how monies should be invested and whether and how to increase, decrease or even stop making contributions.
- Decisions about investing may also involve decisions about disinvesting or taking an income from investments (other than pension)

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

In the retirement market, it remains very early days to evidence the existence of advice gaps as defined above. However, there are some early indications from our research on both the more narrow definition of the advice gap and the wider definition predicated on low demand and a wider definition of advice.

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

Given the lack of a fully formed market, the complexity of the decisions to be made and the potential for large scale and high impact consumer detriment, the

Association believes that the 'advice' gap at and in retirement for those accessing their pensions should form an important part of the review.

Other aspects of finances that require attention in relation to the advice gap and consumer engagement are the slightly earlier phases of pension saving as individuals approach their retirement years as well as decisions relating to the funding of support and care in later life.

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

Yes, although the last aspect should cover all of the decisions made about pensions at retirement and managing an income throughout retirement (whether or through a pension scheme or related products).

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

Yes, although the threshold for this may prove to capture a very significant proportion of the adult population. The exact thresholds do not matter for defining policy – the inability to access the information, guidance and advice needed should determine the focus, not a precise income or wealth threshold.

OPTIONS FOR CLOSING THE ADVICE GAP(S)

We have again focused our comments below on at- and in-retirement pension decisions.

If the end goal is, in an imperfect market, to help individuals make good (but not necessarily perfect) retirement decisions that suit their needs (rather than their wants), the generic options available to society to help achieve that outcome are:

- INFORM AND EDUCATE: To regulate the market in a way that:
  - encourages consumers to engage actively with their decisions, seek out and analyse information about the options and the market and to shop around for themselves, and
  - facilitates the supply of appropriate information, guidance and support for decision making at an appropriate price.
- ADVISE: To regulate the advice market in such a way that both the demand for and supply of advice grow or are mandated; thereby providing personal advice suitable to individual needs;
- NUDGE: To shape the market and decision making in a way that encourages the supply and demand for solutions that meet quality standards and to use behavioural traits in a positive way to steer individuals towards solutions that limit the risks to the individual but still afford flexibility in retirement;

Our analysis of the current market for support at the point of retirement and into retirement under the new pension freedoms suggests that:

- the first of these options (inform and engage), while laudable, will take many years to be realised during which time some unsuitable social norms might develop and many may suffer detriment;
- the advice gaps are similarly unlikely to be filled through a greater or modified supply of regulated advice and that any attempts to mandate advice are likely to prove unpopular;
- to avoid several years of uncertainty and poor outcomes for those retiring, a new approach is required that learns lessons from behavioural economics and the implementation of automatic enrolment.

Employers, trustees and providers can all play an important role in shaping outcomes. Moreover, these are the sources that most people retiring turn to most commonly. Using their expertise in a positive way could improve outcomes.

However, some tell us that they (and their lawyers) are reluctant to engage in activity which may be considered to be personal advice, either by the courts or the regulator. An atmosphere of risk aversion exists that prevents them from providing help and support that could be considered to approach the regulatory boundary. This stems from many years of pension misselling, a fear of litigation, Ombudsman cases going against schemes or employers, and a real or perceived lack of clarity around what constitutes advice.

In order to reach out to and support those in the first and third groups described above, a new approach is required. Granting trustees, employers and others a safe harbour in primary legislation in certain circumstances would extend considerably the support available to those at retirement.

The safe harbour would operate only where savers are signposted to one or more retirement solutions that met quality standards designed to deliver good outcomes for the majority of members / customers. This would not be a personal recommendation and the design of the solutions would have to allow flexibility and transferability for the saver. Trustees, employers and others would also have to demonstrate that they received no benefit from the scheme or provider to whom they signposted. Different rules would be required where providers signposted to products in their own group of companies and where a clear commercial incentive was at play.

As part of its initiatives to drive forward quality standards in pensions, the Pension Quality Mark has issued a consultation on standards for retirement income solutions[12]. This consultation sets out an initial view on how those standards may emerge.

We call on Government and regulators to work together with the pension sector to develop and refine this solution.

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?

Clarity over what does and does not constitute regulated advice continues to be somewhat elusive in spite of regulatory guidance on the matter. As a result, trustees, employers and providers of services to pension schemes tend to err on the side of caution and steer well clear of anything that might be deemed by the regulators or the courts to be personal advice. This prevents those organisations closest to members in the accumulation phase from providing anything more than factual information at the point when members most need help, particularly post the introduction of pension freedoms. Members of pension schemes are therefore left with only three pathways to making a decision:

- Rely on their own research abilities among family and friends, on-line sources and websites such as Pension Wise, MAS or TPAS and the information provided by their scheme. Some may be able to navigate their

[12] PQM (2015) Developing a retirement quality mark http://www.pensionqualitymark.org.uk/documents/31_rqm-consultation-paper-on-developing-a-retirement-quality-mark-november-2015.pdf

way towards a good solution but others may fall by the wayside during the process and choose considerably sub-optimal solutions;

- Find a financial adviser who will deliver a personal recommendation and help effect any transactions necessary;
- Make a decision based on no research but one informed by behavioural biases such as present bias or inertia. Taking the cash or doing nothing might appear to be the most attractive or the easiest solutions for this group; outcomes that may or may not prove good for the individual.

The Association's research suggests that, of all of the sources of information that retirees call upon, their pension provider or scheme is the most common (71% % of those taking action in 2015)[13]. Faced with under-demand for formal advice, an undersupply of advice and, for many, expensive advice services, an alternative approach is required.

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?

The development of safe harbour signposting in the UK would have to be considered in the light of EU legislation. However, we have not undertaken an initial assessment here.

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

By far the most important lesson learned by the pension sector in the past 10-15 years is the power of aligning market interventions to work with rather against the norms of consumer behaviour. As the findings of the Pension Commission suggested, and the implementation of their proposals has endorsed, good outcomes can be achieved by deliberately and carefully designing the path of least resistance. In this way, acquisition costs are reduced, scale investment, administration and communication solutions can be offered that should deliver a reasonable return on investment and people can be encouraged to do the right thing without too much effort and cost. Designing a safe harbour for signposting allied to quality standards for retirement income solutions would build on this learning.

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

The Association believes that lessons can be learned from a number of overseas markets including Australia, USA and some European countries about the behaviours

[13] Understanding Retirement wave II, unpublished results, survey of 2000 adults aged 55-70 with pensions not yet in payment at April 2015, survey conducted October 2015.

that emerge when pension freedoms are at work. Australia and the US are now looking at whether default pathways and/or heuristics can be designed for those with DC savings that will help deliver more sustainable incomes in retirement. Options which incorporate standards around product design should be considered.

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

The design of a safe harbour pathway to well-designed retirement income solutions could be built on the evidence from behavioural economics. It would accept that behavioural biases will inevitably lead to the use of the path of least resistance and design that path in a way that leads to a good outcome.

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 safe harbour described above would apply only where there was not a personal recommendation. The safe harbour would need to extend to the courts (if possible) and Ombudsman decisions as well as FCA regulation. Safe harbour for regulated advice on long-term pension decisions are incompatible.

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

The safe harbour would apply to support given to individuals seeking to access their pension after age 55. It should not be extended to a personal recommendation.

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

Our outline proposals on safe harbour would provide protection to consumers in two ways:

- Firstly, it would apply only savers are signposted to schemes that meet independent quality standards that included strong governance of the arrangements;
- It would not apply to commercial arrangements or inertia selling. .

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

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

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

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

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

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

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

The Association has no comments on these questions.

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

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

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

See our comments above.