the people's pension

provided by B&CE

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Financial Advice Market Review
B&CE Response

Executive summary

The new retirement freedoms mean that savers need more help than ever to make the right decisions when it comes to how they use their pensions. Advisers have an important role to play in this process. Currently it can be hard for savers who want access to advice to get it. There are various barriers to more widespread use of advisers. These can include visibility, credibility, trust and cost. The whole financial services industry needs to work hard to ensure savers are getting the right information, guidance and advice at the right times.

We hope that the outcome of this review will be to start breaking down the barriers to advice. Advice and guidance should be accessible to anyone who wants it. We think that robo-advice could significantly alter the advice market. It won't solve the advice gap in isolation. Face to face tailored support from a financial adviser will still be important. But we think that robo-advice will allow savers to achieve better outcomes than taking no advice at all and can provide a gateway towards savers taking full advice.

Our detailed response to the questions raised in the consultation follows.

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?**

No comment

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

No comment

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

As a provider our typical customer is relatively low paid, with unsophisticated investment or saving requirements. We believe that the additional value that can be added by professional advice is not clear or visible to this group. The likely cost of advice will also act as a disincentive in two ways; firstly as a barrier to obtaining the advice, and secondly because the value of advice may not recoup the cost.

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

We have anecdotal evidence that some of our savers use unofficial "advice" sources. These are generally characterised as 'the man at the end of the bar'. Our customers will also ask us for an opinion about the best course of action. We are non-advisory and we make this clear to the customer, but customers will still ask our agents what they would do.

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

We are primarily a pension provider, so the questions we receive will normally relate to pension issues. The need for advice on pensions is particularly acute because of the complexity of both pension regulations and the options available to retirees.

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

No comment

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

No comment

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

As noted in our answer to question 3, those with lower accumulated wealth will see a much reduced net benefit to taking advice, if they are able to access that advice.

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

For those with less accumulated wealth, while advice may be valuable, the net benefit after costs are unlikely to be significant. There is a perception that for small accumulated sums advice is not worthwhile. Whilst some advisers would probably be willing to offer advice to customers regardless of accumulated wealth, the costs necessary to produce advice of the quality required by FCA regulation makes this untenable.

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

No comment

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?

No comment

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

The development of robo-advice systems and processes offers the hope of closing the existing advice gap. Once developed, advice algorithms can be maintained at a low cost. This creates a real prospect that low cost, mass-market advice will become commonplace. Whilst early robo-advisers will focus on particular topics, this will change over time. Within the short to medium term digital delivery of holistic advice seems certain. Care must be taken, however, that robo-advice remains independent and does not lead to biased sales advice, such as has been seen in the past with human advisers. One clear advantage that algorithmic advice has in this respect is that it will produce predictable, verifiable, and auditable results.

It is important not to consider robo-advisers as a universal panacea though. Research for the Government Digital Service has suggested that up to a fifth of people will not go online because of trust issues. Many people may also have concerns about the uses to which the information they supply is being put. For this reason we believe that human back-up or intervention may be needed at points in the process. This may be to deal with queries or to deal with transactions arising from advice received.

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

No comment

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

No comment

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

No comment

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

No comment

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

It is clear that the market for financial advice only functions to a certain degree, and for a certain group of customers. For the mass-market advice, except for certain specific products, we believe that there is a dearth of advice available.

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

We believe that the lack of demand is, in part, a feature of the lack of available advice. The benefits of advice must be sold. There are no efforts to sell advice to the mass market. If advice was available it would be widely promoted, particularly as margins would likely be small.

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

As primarily a pension provider the lack of advice available to our savers is conspicuous.

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

No comment

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

No comment

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?

There are significant debates that can be had about the value of investment advice. As noted in the consultation document, a significant proportion of individuals consider themselves to be as good an investor as their adviser. Furthermore, the value of investment advice is likely to be delivered over the long term, with constant attention. This makes effective investment advice a time intensive and expensive process. By contrast, advice on pension income options is likely to be able to deliver a rapid, recognisable result. This makes it an easier advice process to sell, particularly because of the range of options now facing retirees.

23. Do you agree we should focus our initial work on consumers with some money but without significant wealth?

It is notable that two versions of this question appear in the consultation document. In both forms the question is phrased in financial terms. It looks at those with investible assets, or incomes above a certain level. There are many failings to such an approach as the circumstances of parties within this categorisation will vary immensely. Our preferred approach would be to try to identify those groups, or personas, which would benefit most from receiving advice.

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?

No comment

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?

No comment

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

Past experience shows that financial services have either to be sold, or defaulted into, in order to become a success. It is unrealistic to expect the mass market to engage with any but the simplest and most immediately rewarding financial services. The low early take up of Pension Wise demonstrates that many people will not take even free advice on financial matters. The FCA would do well to examine ways in which taking professional (or automated) financial advice could be normalised.

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

No comment

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

Even if face to face financial advice can be encouraged to serve the mass market, it is unlikely that this will lead to consumer engagement with financial services. They will instead become an intermediated commodity. Consumer engagement will not improve, but consumer outcomes will.

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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

No comment

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?

Any system providing algorithmic advice should produce consistent results. The specification for early advice systems is comparatively low, but this will change rapidly.

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

The FCA sandbox initiative is welcomed and will provide a boost to those developing algorithmic advice. Given the inherent predictability of algorithmic advice, the FCA should work with developers prior to deployment of new services. This would not be FCA approval, but rather an opportunity to prevent inappropriate advice before it occurred. This would be a unique opportunity in regulatory terms and would help build confidence in such services.

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

Consumers expect digital services to be provided at very low cost, or for free. It will therefore be necessary to enable consumers to distinguish between legitimate and illegitimate services. The development costs of a legitimate service will be considerable, and costs will be amortised slowly at first. Unfortunately development of scam services will take much less effort.

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

No comment

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?

No comment

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

No comment

About The People's Pension

The People's Pension is the largest private sector master trust (multi-employer pension scheme) in the UK. It has 1.8 million members and over 14,000 employer accounts. Run by B&CE, a not for profit company, it offers a simple and low cost automatic enrolment workplace pension solution for employers of any size from any sector.

We tweet as @peoplespension.

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Response to the Financial Advice Markets Review; Call for input – Sesame Bankhall Group.

Sesame Bankhall Group welcomes the opportunity to provide input into the Financial Advice Markets review as it believes that this work will provide key stakeholders with a greater understanding of how the industry can better serve its customers and how it can work together to promote financial inclusion in a sustainable and effective way.

Sesame Bankhall Group has undertaken work of its own in order to formulate a response to the 'Call for Input' that takes into account the widest range of views possible from the financial advisers that it provides services to, as well as those of its Executive and Senior Management teams. It has conducted seminars and workshops with both appointed representatives of its network arm and directly authorised firms (that purchase services from Bankhall) so as to discuss ideas about how the financial advice sector can better serve customers. It has also conducted a survey which covered particular consultation questions raised in the review paper and also explored ideas on how the financial advice sector could better support mass market customers. It received 222 adviser responses to this survey.

Please note that Sesame Bankhall Group has focused on providing responses to specific questions contained within the 'Call for input' document where it believes that its experience (and the feedback from advisers) can provide the most benefit. Sesame Bankhall Group does not have any further comments on the other questions contained within the 'Call for Input' document.

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

Sesame Bankhall Group agrees with the comments set out in the 'call for input' paper on this point, insofar as it believes that most customers in the lower wealth/lower income segment do not typically have a high demand for financial advice because they do not appreciate the need for it, or understand tangibly either the benefits of receiving advice or the consequences of not receiving advice. It is also of the view that customers need to be reasonably well informed to even be aware of the need for advice; without an appreciation or understanding of the potential complexities and risks associated with a potential investment, a customer cannot adequately gauge the requirement for financial advice. Sesame Bankhall Group is of the opinion that customers often do not trust themselves to make the right decision alone, however many are either unsure or unclear on the support options available to them. Customers may not know which way to turn for help with their decision making.

Another observation that Sesame Bankhall Group has made is that mass market customers struggle to engage in financial advice because, it is unclear what the outcomes will be until the advice process has been followed and the recommendation is provided. This makes it difficult for the customer to gauge whether the service is worth the cost of advice, which is negotiated up front. Clearly, this is very different to most services that customers pay for, where the outcome from the delivery of a particular service is known at outset.

The results of Sesame Bankhall Group's FAMR survey also agreed with the view that, where there is demand for designated investment advice from lower wealth/lower income customers, such customers often do not receive advice because they either cannot afford it, or because advisers believe that providing the service would not be commercially viable for them. Another finding of the survey was that the economic climate in recent years has led to a reduction in the amounts that consumers are able to save. This is most predominant in the lower wealth/lower income category, where disposable income is more likely to be significantly affected by adverse market conditions; which may have impacted consumer demand for advice in this category.

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

Sesame Bankhall Group believes that there have been significant changes to the savings culture in recent decades. This may be due (in part) to the wider availability of credit and the growth in online services.

Historically, the savings culture in the UK was driven by interpersonal contact between service providers and customers. In the work that Sesame Bankhall Group conducted when gathering information for this response, many advisers and stakeholders referred to the concept of '*The man from the Pru*' dealing with customers directly at their homes, collecting premiums and providing information on products. Although the architecture of the products (and payments/charges associated with them) may be quite different to those available in today's marketplace, the interpersonal element meant that customers engaged directly with financial services professionals, which may have provided them with the confidence to enter into designated investment arrangements and other savings plans.

Growth in online services has also meant that a huge range of financial services and products are available to a wider population than ever before. But it is clear that the provision of online financial products and services are only appropriate for certain types of customers. Others may feel disengaged if they are not comfortable with (or do not trust) online services, or if they are simply confused by the sheer amount of information that is available to them. Many lower wealth/lower income consumers may fall into these latter categories.

Many consumers will not take a proactive approach to making changes to provision for future financial wellbeing if they are not encouraged to do so by another person. This is despite any promotional activity that they are subject to, such as television and online advertising/information.

Another potential issue that may be a factor in why consumers do not seek advice is commonly held views/misconceptions about how they can provide for themselves in later life stages. For example, advisers have fed back to Sesame Bankhall Group that many consumers believe that equity built up in their home will provide for them in retirement, without paying due regard to issues such as inflation, house price fluctuations, their required/target levels of income in retirement and indeed, the extent to which they are prepared to downsize. Such views are often strongly held, meaning that some consumers simply do not appreciate the need to make other provisions. Advisers often need to work hard to help consumers understand the risks associated with these types of approaches, which are unlikely to be appropriately challenges using automated services alone.

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

Results from Sesame Bankhall Group's FAMR survey suggest that, on average, advisers require a minimum fee of £500 to provide an initial or 'one-off' advice service. Consumers who are unable to afford this are commercially unviable for financial advisers to provide services to. This is particularly so with regard to regular premium/regular contribution business, which is typically how most consumers (especially lower income consumers) begin to build their wealth.

Anecdotal evidence gathered by Sesame Bankhall Group suggests that previously, some advisers have provided advice on a 'loss leader' basis, with a view to securing potential future business with customers, based on their likely future earnings. However, it would appear that there is little incentive for financial advice firms to do this currently. Advisers have told Sesame Bankhall Group that the reduction in designated investment adviser numbers in recent years has led to an increase in the number of medium/higher net worth consumers requiring advice from their firms. As a result, financial advice firms do not need to make concessions in order to compete for or secure new business.

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

Sesame Bankhall Group's FAMR survey suggests that firms do not struggle with barriers when providing advice to customers that can afford/are willing to pay for their services. Feedback also suggests that from a financial adviser's perspective, this market is currently buoyant due to the reduction in adviser numbers over recent years.

In terms of lower wealth/lower income consumers, the primary barrier is cost of service. One of the key issues is that generally, the cost to advisers of providing services to lower wealth/lower income and higher wealth/higher income consumers are largely the same. There are no concessions in process (or indeed, in FCA rules) in dealing with these two types of customers which in turn means that there is no difference in the cost of advice, so provision of service ultimately depends on whether the customer is willing and/or able to pay for it. For example, if a financial adviser is asked to review a consumer's pension provision and the consumer currently holds three separate pension policies, there is no difference in the process and analysis that the adviser is required to undertake if total funds amount to £30,000 or £300,000. The consumer with a total funds amounting to £300,000 is more likely to value the service provided by a financial adviser and is more likely to be willing to pay for that service. The consumer with total funds of £30,000 may believe that the cost of the service is too high, but advisers are generally unable to reduce their charges materially in these circumstances, given that the cost of providing the service would be the same.

Following the implementation of the RDR, many advisers have told sesame Bankhall Group that the only interaction they have with lower wealth/lower income consumers is in relation to auto-enrolment. This is largely due to the fact that the employer (rather than the consumer) has paid for the service provided by the adviser.

Designated investment advisers have also told Sesame Bankhall Group that there is no incentive for them to develop their services to cater for lower wealth/lower income consumers at present, as there is currently no shortage of customers who are able to pay for their services. However, if they were to develop new services for lower wealth/lower income customers, it is clear that a reduction in their own costs, both now and in terms of future liabilities, would be required to help facilitate this. Sesame Bankhall Group's FAMR survey showed that:

- 94% of advisers agreed or strongly agreed that a reduction in their liability in relation to 'simpler' advice scenarios / greater regulatory clarity would need to take place in order for them to provide an appropriate and sustainable service to lower wealth / lower income consumers.

- 87% of advisers agreed or strongly agreed that a reduction in their business costs would need to take place in order for them to provide an appropriate and sustainable service to lower wealth / lower income consumers.

In terms of a reduction in potential liabilities (and in order to allow existing firms to innovate and widen the range of services that they offer) Sesame Bankhall Group supports in principle the provision of a long stop. It also believes that the provision of a long stop would help to encourage more new participants into the advice sector. But, in order to fully consider the potential benefits of any proposed long stop, more detail would be required. For example, unless the potential levels of any proposed new industry levy was known, it is impossible to determine whether the introduction of a long stop would meet its aims as the cost of an additional levy may outweigh the benefits of introducing a long stop.

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

Sesame Bankhall Group agrees that there are no advice gaps in terms of mortgage advice. In its view, this market is working well and consumers know when they need advice and are generally willing to take it.

Sesame Bankhall group also believes that no advice gaps exist in the general insurance market. Although the proportion of consumers taking advice on these products is low, comparison websites and other online resources provide adequate levels of support in this area.

Sesame Bankhall Group is of the view that one of the largest advice gaps exists in the pensions market, particularly at decumulation stage. The 2016 pension reforms have meant that retirement choices have become more complex for almost everyone of pensionable age. However, the complexities of providing such advice have meant that the costs are unpalatable for the majority of lower income/lower wealth consumers. Furthermore, it has been widely reported that additional support designed to help such customers make informed decisions is not working as well as it could be, as demonstrated by the proportionately low levels of consumers taking up face-to-face guidance offered by the Citizen's Advice Bureau.

Sesame Bankhall Group also believes that there is an advice gap for consumers who may wish to make regular contributions to designated investment plans at relatively low levels. This is particularly so if contribution levels are well below the annual ISA limit. Consumers that make regular contributions above this level should generally be able to afford professional advice.

The advice gap also applies in particular to adults under the age of 30. This is regardless of the income/wealth categories that these younger consumers fall into. Advisers have told Sesame Bankhall Group that relationships with such consumers are almost non-existent. Advisers are of the opinion that this is because such consumers are generally less engaged with financial services as they have not been exposed to the historic savings culture in the UK (which their parents may have experienced) and such consumers may be more likely to take a short term view of their financial wellbeing. In addition to this, the wider availability/provision of credit means that these consumers may be less inclined to save for the medium to longer term, if they are under the misapprehension that credit will always be available for larger purchases and emergencies.

In contrast to the position stated in the 'Call for Input' paper, Sesame Bankhall group believes that there is an advice gap in the protection market. Although products may be relatively simple (when compared to some designated investment products) and easily accessible via online services, many consumers do not proactively seek to take out protection policies. Even less may take out such policies as appropriate to their actual, rather than perceived needs.

A protection advice gap may also exist where consumers are taking out mortgages. If consumers refuse the offer of advice on their protection needs when taking out their mortgage, only a small percentage subsequently seek out this cover themselves. Historically, mortgage lenders used to require evidence of how a mortgage would be paid off in the event of a customer's death, but this no longer happens. It may well be the case that consumers would be urged to at least consider their protection needs in some detail if mortgage lenders re-introduced the requirement to provide such information as part of the application process.

Sesame Bankhall Group believes that there is also a propensity for consumers to hold misconceptions about the number and level of claims settled by insurers; even though in reality a high proportion of claims are paid and relevant figures are made available by the Association of British Insurers (ABI.) The industry could potentially do more to promote these claims figures, to provide confidence to consumers that, should they need to claim on their policy the probability of it being accepted is high and regulatory standards underpinning the provision of protection should help instil confidence in purchasing decisions.

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

Given the potential to severely affect financial wellbeing if sound decisions are not made, gaps in advice for consumers at retirement should be a high priority. Advice gaps in relation to protection, designated investment savings and pension savings should also be given a high priority, as these are usually the 'entry level' contracts that consumers enter into. If consumers do not receive the appropriate level of services at this stage, the consequences on their future financial wellbeing could be significant.

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

Previous initiatives based on product solutions (such as the stakeholder suite of products recommended by the Sandler review) and those based primarily upon online resources/tools have failed to adequately address the problem of how consumer interest in engagement in financial services is initially raised. Such initiatives often involve significant amounts of money being spent on marketing and advertising; however a theme that ran through the workshops that Sesame Bankhall Group arranged was that the response to previous initiatives was disproportionate to the money spent on advertising them. It is the Group's view that more could be done by way of promoting engagement in a more targeted way. Sesame Bankhall Group believes that employers could play a much more significant role in promoting consumer engagement with financial services. For example, auto-enrolment has made significant strides in engaging a far greater number of consumers in their retirement provision. Steps could be taken to extend this to other savings and designated investment products. Although many employers currently offer benefits by way of other financial products (such as life cover and sharesave schemes) the information that is made available is generally limited to how those benefits can be accessed, rather than making available advice/information on how these might fit in with each employee's own individual arrangements, with regard to their savings, investment and/or protection needs.

Some initiatives have been launched to include financial education in school curriculums. Such initiatives are fully supported by Sesame Bankhall Group. In its view, financial education is key in helping young people make the right choices at the right times in their life stages. The Group would welcome any recommendations resulting from the Financial Advice Markets Review that helps to advance/enhance the provision of financial education within school curriculums.

In the meantime, as suggested above, it would appear to Sesame Bankhall Group that the most appropriate method of improving engagement with financial services amongst today's adults is via the workplace.

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

It may be the case that consumers in the lower wealth / lower income segment (where advice gaps have been identified) are the least likely to benefit from an automated advice solution, as they often have the least experience/financial education, and may be least likely to understand risks and complexities without further human engagement.

In the FAMR survey that Sesame Bankhall Group conducted, 75% of advisers disagreed or strongly disagreed that lower wealth / lower income consumers can be adequately served by automated / 'robo' advice solutions, rather than face to face services. Although it could be argued that, as primary providers of face to face services, financial advisers may hold some bias in this regard, Sesame Bankhall Group believes it is unlikely that this view has been materially influenced by a desire to serve such consumers themselves, as feedback has also demonstrated that these advisers feel there are significantly more medium to higher net worth consumers currently seeking financial advice, due to the reduction in overall number of designated investment advisers in recent years.

Sesame Bankhall Group believes that human interaction will still be required in any initiatives that are designed to improve customer engagement. Currently, there are a huge number of 'self-serve' information-only and non-advised services available online, yet these alone have still not adequately addressed the gaps identified via the Financial Advice Markets Review. Sesame Bankhall Group appreciates that not all advised services amount to the provision of a personal recommendation, however it is difficult to envisage that further increases in the number of automated services available (whether advised or non-advised) will adequately address the issue of improving the levels of initial consumer engagement with financial services. Improvements in consumer awareness about the benefits of financial advice (and the risks of not taking advice) must initially be addressed before such services could materially affect the identified advice gaps and the number of consumers who are willing to take up these services.

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

Consumer awareness

Improvements in raising consumer awareness on the benefits of obtaining advice will be key to any successful initiative that closes advice gaps. Many advisers that responded to Sesame Bankhall Group's survey believed that branding of government sponsored guidance is not as strong or recognisable in the financial services industry as it is in other industries. For example, within the healthcare industry, 'NHS Direct' is a very well-known and trusted source of information that the general public uses before going onto the next step and booking an appointment with a doctor or a specialist. 'Signposting' advice within current government sponsored financial bodies does not appear to have the same impact. Advisers feel that bodies such as the Money Advice Service and Pension Wise have not made the same type of impact to promote the financial wellbeing of consumers and it could be argued that private bodies and consumer interest groups (such as financial information websites) have made more inroads to assisting a much larger number of consumers with their financial affairs. If it is the case that private bodies are better serving consumers in this area then it may be the case that the industry funding made available to support the government sponsored bodies would be better deployed elsewhere.

One potential use of this funding would be to specifically target the promotion of financial advice to those lower wealth/lower income consumers that have been identified as falling within the advice gap. Such a campaign could prove to be particularly effective if it was coupled with the promotion of a specific type of simplified/standardised advice model that would provide lower wealth/lower income consumers with a 'stepping stone' into saving/investing for their future financial wellbeing.

Enhancement of workplace schemes

Sesame Bankhall Group believes that the workplace could perform a key role in closing advice gaps, as it could build on the success of engaging lower wealth/lower income consumers about their retirement provision. In terms of promoting savings and investments, Sesame Bankhall Group believes that consideration should be given to the implementation of a 'workplace ISA,' which could run alongside workplace pensions to provide a suite of workplace products that would meet the needs of the vast majority of consumers currently affected by the advice gap. As with current ISAs, such a product may offer both deposit based and designated investment based options. Sesame Bankhall Group is aware that there are vast numbers of such products currently made available by product providers; however, promoting such a scheme via the workplace could offer the following additional benefits:

- Delivering such a scheme via the workplace would provide economies of scale, which could assist the advice sector in providing advice to lower income/lower wealth consumers, who may not otherwise be able to afford/access advised services, due to their likely levels of investment

- Even if lower wealth/lower income consumers do not wish to contribute to such a scheme, programmes could be designed to increase their financial awareness. In Sesame Bankhall Group's view, consumer engagement via the workplace is far more likely to close advice gaps than other means that have been attempted before, such as those which have promoted via national advertising campaigns. Audiences will generally be captive and discussions amongst employees could help to promote a savings culture that could not otherwise be achieved if more traditional methods of promotion were relied on, which largely involve raising awareness via the media alone.

- Promoting medium to longer term investment plans in this way could help offset some of the well documented risks associated with the Government's recent pension reforms. It may be far less likely that lower wealth/lower income consumers will exhaust their pension pots at a relatively early age (for example, full encashment under flexi-access drawdown or triviality) if those consumers had built up even fairly modest savings and investments via a workplace ISA scheme - which they could withdraw free of income tax and capital gains tax without age restrictions being applied.

- Most small to medium sized enterprises and larger employers already offer a range of benefits designed to promote the financial wellbeing of employees, which extend beyond the provision of pension and protection benefits. For example, many actively promote tax efficient '*ride to work*' and childcare voucher schemes. If lower wealth/lower income consumers have benefited from these tax efficient schemes, it could be argued that they may be more prepared to enter into other tax efficient arrangements if they are promoted by their employer.

- Although some employers offer 'sharesave' schemes, direct investment into single shares (especially those of the individual's employer) carries significant risks. Access to mainstream pooled investments (via a workplace ISA) may provide a more appropriate means of investment for lower wealth/lower income consumers, as they would be capable of catering for consumers with lower risk profiles. If a scheme were to be implemented nationwide, investment risk (and chance for consumer detriment to arise) could also be managed by limiting the number and type of funds available via the scheme.

‘Safe harbours’ and standardised processes

Sesame Bankhall Group is of the view that the only way in which ‘safe harbours’ could reasonably be implemented is if a standardised ‘attitude to risk’ profiling process was implemented for lower wealth/lower income consumers across the industry. This may need to be coupled with a standardised method of fund risk profiling, which could be applied to a limited number of funds that met certain criteria (e.g. UCITS compliant multi asset diversified funds.) Although such a process would largely remove the need for the skill and judgement currently required to make personal recommendations on designated investment products, it may also remove some of the cost, as advisers could serve this market segment in a straightforward manner.

Previous attempts to improve financial engagement and simplify the advice model in order to make it easier for lower income/lower wealth customers (such as ‘basic advice’ on stakeholder products) have not been enormously successful because they have not properly addressed the specific issue of investment risk and how a customer’s risk profile is arrived at. Although FCA has provided significant amounts of guidance on the subject of establishing a customer’s attitude to investment risk; this is the same for consumers entering into stakeholder products (via ‘basic advice’) as it is for consumers entering into any other product type. In Sesame Bankhall Group’s view, the industry sometimes bases its assessment on the ‘simplicity’ (and therefore the associated risk) of a product by its wrapper. For example, ISAs and Stakeholder Pensions are often regarded as ‘simple’ products. But generally, a product’s complexity (and risk profile) lies with the funds/investments that are being recommended. Unless the approach to fund/investment recommendation is simplified/streamlined for lower wealth/income consumers, it is difficult to envisage what else can be done in order to streamline the advice process and materially reduce the cost associated with providing a recommendation.

‘Safe harbours’ should not mean reductions in consumer protection and this type of advice model has the potential to strike the right balance between protecting consumer interests (and helping them to achieve their objectives) and removing some of the uncertainty surrounding risk/reward considerations that advisers currently make when deciding whether they should offer services to such consumers.

Retirees and the advice gap

In formulating this response, many of the advisers that Sesame Bankhall Group engaged with suggested that a government sponsored ‘advice voucher’ scheme could be implemented for lower wealth consumers who are due to retire. Such a scheme could help to enhance the uptake of advice as it presents a tangible monetary value available to consumers, which may have more impact than the provision of ‘free’ services, as described in the ‘Consumer Awareness’ section above. Advisers have suggested that a voucher scheme could be paid for by diverting monies currently used to fund guidance and self-serve websites that the industry currently funds.

The voice of banking

BBA Response to the Financial Advice Market Review Call for input

22 December 2015

Sent via e-mail to: FAMRSecretariat@fca.org.uk

Introduction

The BBA is the leading trade association for the UK banking sector with 200 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide. Eighty per cent of global systemically important banks are members of the BBA. As the representative of the world's largest international banking cluster the BBA is the voice of UK banking.

We have the largest and most comprehensive policy resources for banks in the UK and represent our members domestically, in Europe and on the global stage. Our network also includes over 80 of the world's leading financial and professional services organisations. Our members manage more than £7 trillion in UK banking assets, employ nearly half a million individuals nationally, contribute over £60 billion to the UK economy each year and lend over £150 billion to UK businesses.

The BBA welcomes the opportunity to provide input to the Financial Advice Market Review (FAMR).

General Comments

The BBA believes it is sensible to take a fresh look at the 'advice gap' issue following the 'pensions freedom' reforms and the increasing complexity which consumers face in their financial planning decision-making.

The UK has a very low household savings rate when compared to other competitor nations. A step change is required to support greater levels of saving to ensure we have financially resilient consumers who are secure in the context of their long-term financial planning.

Following the implementation of the Retail Distribution Review (RDR), further action is required to ensure customers have access to the assistance they need given the risks associated with a long-term advice gap in the 'mass market'. The RDR reforms led to a reduction in demand for investment advice by the mass market segment and a corresponding reduction in supply, most notably by the major retail banks.

The pensions freedom reforms not only increase consumer need for investment advice but present a clear opportunity for greater consumer engagement by the industry. Therefore we agree that FAMR should prioritise work on advice in relation to investing, saving into a pension and taking income in retirement for mass market customers.

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We believe that further work can be done to explore how new technological developments can add value at different parts on the advice/distribution, demand/supply chain and view these gains alongside potential changes to the regulatory landscape to help realise value.

Utilisation of technology, combined with the wider availability of consumer data (MiData etc), facilitates the development of advice algorithms that could help customers determine their own financial planning needs and suitable means of addressing these needs. If this was agreed and managed centrally, perhaps by MAS or another organisation leading on advice protocols, consumers would be presented with accessible next steps, significant duplication of effort would be removed from the market and firms could service the recommendation with reduced risk exposure. Such a move could address the needs of a significant proportion of the population, many of whom have very simple financial planning needs – but that currently remain unmet. 'Financial advice' could then be focused on more complex needs and/or the nuancing or increased personalisation of the centralised recommendation.

The use of technology as a complimentary tool is a key resource for banks to effectively, and efficiently, administer advice to the mass market. A regulatory regime that becomes overly-inhibitive and restricts technological innovation will severely undermine the progress that can be made.

Despite some evidence (as noted in the call for input paper) that the cost of regulated advice appears to be reducing slightly there are limits to the cost efficiencies to be gained from automating online regulated advice (either in full or in part) and so it is right that the industry liabilities side of the equation is considered afresh.

The FAMR call for input paper defines 'advice' as including unregulated & regulated advice which is aligned with customer perception. It will be important that the Review recommendations are clearly defined in terms of how these fit with the legal/regulatory framework, including the expected changes under MIFID 2.

We note that, whilst not strictly within scope, Product and Tax rules in the UK are key drivers of complexity and that simplification in those areas would be highly beneficial in encouraging greater consumer engagement and service innovation. We acknowledge that potential changes to product and tax rules could require a long lead time and should not delay immediate action to address the advice gap.

In summary, we think that a good outcome for the Review would be:

- To establish a common understanding on priority customer needs given a number of 'advice gaps' and the key barriers/enablers to address these needs;
- For providers to be given additional clarity on those areas where regulatory uncertainty persists to provide an environment which best encourages service provision; innovation and competition in the retail investment market; and
- A clear vision on how increased consumer access to quality and value enhancing investment advice can be supported by improved Public Financial Guidance services.

We set out below some recommended priority areas of focus given the above target outcomes.

Regulatory Clarity

- Concerns remain around a lack of clarity for providers on regulatory requirements/expectations notwithstanding the FCA's helpful Finalised Guidance on Retail Investment Advice. We recognise the non-linear nature of the regulated advice boundary and the importance of context in determining the status of any given scenario. We acknowledge that it is neither possible nor desirable for the FCA to provide an exhaustive list of boundary examples and firms will need to interpret examples in combination. However, additional clarity could give firms greater confidence, if not certainty, on their future liability risks which could encourage new services to be brought to market.

- Firms need to be able to identify when they would be 'stepping over the line'. Can greater assurance be given to providers that certain distribution/advice processes meet the necessary regulatory requirements? We are aware that in the United States the SEC issues 'No Action Letters'[1] which give providers a level of comfort that their operations are fit for purpose. Regulatory assurance is also important in the context of the incoming Senior Manager's Regime in order to manage internal challenges to the development and roll out of new services.

- There remains a lack of clarity over the boundary between regulated investment advice and a personal recommendation. HMT/FCA should consider aligning the Regulated Activities Order on investment advice with the MiFID definition (i.e. limit to personal recommendation). This would help to simplify the landscape and provide additional clarity on the obligations which apply for services which fall short of a personal recommendation. We are concerned that the provision of generic information/advice is being curtailed due to a perception that it may be deemed to be investment advice. Generic advice provision has already been impacted by the banks substantially stepping back from mass market investment advice provision.

- Regulation of both the product and distribution/advice simultaneously exacerbates supply side costs. A key challenge for the Review is whether a narrower and more clearly defined regulatory focus can be delivered without unduly loading risks onto customers. HMT/FCA should consider solutions which are expected to deliver 'acceptable' customer outcomes in the round rather than 'best' outcomes for each individual customer.

- We believe that further clarity on the regulatory requirements in relation to simplified advice could be beneficial. For example, FCA Finalised Guidance on Simplified Advice[2] (s4.15 onwards) confirms that there is scope for firms to seek customer agreement to excluding existing investments from consideration when meeting the suitability requirement under a simplified advice service. It would be useful if the FCA could expand on the "certain circumstances" in s4.16, whereby information on existing investments can be limited.

- In addition, it might be beneficial to revisit the professional qualification requirements for simplified advice/focused advice services. Minimum qualifications could be made 'narrow and deep' to deliver a better alignment with the service proposition whilst remaining at QCF Level 4 to ensure 'application' of knowledge is properly captured. Alternatively there could be greater reliance on a firm's internal Certification regime which could, if necessary, be certified by the FCA. Both of these alternative solutions could deliver more targeted and relevant T&C requirements aligned with delivering good customer outcomes.

- We are concerned that the RDR advice labels have not resonated with customers, with the 'restricted advice' label carrying negative connotations and acting as a deterrent from taking up advice. A simpler approach whereby advice is classified into generic headings such as protection advice; mortgage advice; investment advice etc. would stand a greater chance of being understood by consumers.

- Advice funding – The FCA has recently appeared equivocal on the application of the cost of advice cross-subsidy adviser charging rule which suggests a move to greater flexibility. For example, the application of the adviser charging rules to online advice - some firms appear to be giving advice for free. FCA should clarify its position, e.g. whether firms can cross-subsidise at a client level which could encourage service provision to certain customer segments which are currently under-served.

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[1] https://www.sec.gov/divisions/corpfin/cf-noaction/2015_14a-8.shtml

[2] http://www.fca.org.uk/static/pubs/guidance/fg12-10.pdf

Managing Liabilities

- The introduction of a longstop to limit the time in which complaints can be brought in relation to financial advice could help to address providers' concerns on liabilities and encourage fresh investment and innovation in the advice sector. A longstop should not lessen the responsibility of advice providers, but more balance must be struck so that potential providers no longer consider the ongoing liability as a risk that far exceeds the benefits of participating in the retail advice market. A longstop would help to mitigate the risk that advice providers are held retrospectively against current rules.
- A longstop, supported by appropriate customer communication strategies, would encourage consumers to make informed decisions about whether they wish to complain. It would also help to galvanise firm record-keeping and customer recollections which otherwise diminish in quality over time.
- More clarity is required on what information should be provided to customers which serves to make them 'reasonably aware' in the context of FOS referrals. This is especially pertinent to pension products (et al) where no target investment return amount is set and would have the effect of capping potential FOS liabilities where the firm can demonstrate it has provided the relevant information.
- There is a potential risk that advice which meets the standard set by the FCA regulations and guidance may not be consistently applied when reviewed by the FOS as part of a complaint. Members have expressed concerns that the FOS's approach has exceeded the regulatory expectations embodied in the FCA's Finalised Guidance on Retail Investment Advice and that this is hindering the development of a sustainable and more competitive retail advice market. Any enhancements to the financial advice market need to include the alignment of standards between the FCA and the FOS.
- We note the FCA's report publishing its plans for implementing the 'regulatory sandbox' to potentially deliver more effective competition in the interests of consumers. The BBA and its members are committed to working with the FCA and the Government to consider both the feasibility of the recommendations for industry, and how the FCA sandbox could most efficiently support new innovation (such as 'robo-advice') being introduced to the market.
- It will be important that firms receive sufficient clarity on protections/potential liabilities from participating in the sandbox. We would encourage FOS involvement when developing the framework that surrounds any changes, to check and test tools and processes in a flexible and collaborative way with real customers.

Interface with Public Financial Guidance

We believe that FAMR should prioritise work on advice in relation to investing, saving into a pension and taking income in retirement for mass market customers. The Review recommendations should therefore focus on enabling the development of regulated investment advice. However, it will be important that the Review recommendations are coordinated with the outputs from the related HMT consultation on Public Financial Guidance, which we would expect in combination to address issues relating to each of the following advice/guidance gaps:

- Affordable regulated advice for investment and protection;
- Availability of free advice;
- Effective referrals between public/regulated services;
- Effective preventative guidance/advice around life events – data sharing between entities.

We set out in the Appendix below our response to selected Call for input questions.

We hope you find this response helpful and would be happy to discuss any of the points raised in further detail. Please contact in the first instance.

Anthony Browne
Chief Executive
British Bankers' Association

APPENDIX

BBA Response to FAMR Call for 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?

We recognise that people with protected characteristics under the Equalities Act 2010, and consumers in vulnerable circumstances do have particular needs for financial advice and face specific challenges in obtaining that advice.

The need for guidance alongside advice from more specialist organisations, e.g. Age UK, Macmillan, Mind etc. is driven by a particular circumstance or vulnerability.

Our members take steps to ease the journey for customers so they can access the most relevant guidance/advice.

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

We would question whether the RDR advice labels have worked in practice, with the 'restricted advice' label carrying negative connotations which potentially discourage consumers from taking up advice despite this being in their best interests.

The FCA's Finalised Guidance on Retail Investment Advice, whilst helpful, laid bare the sheer complexity of the information/advice landscape. It might be better to classify advice into generic headings such as protection advice; mortgage advice; investment advice etc. as this would stand a greater chance of being understood by consumers.

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

Consumer demand for professional investment advice reduced in response to the RDR reforms, primarily due to cost of advice transparency. We expect consumer demand to increase going forward due to greater need for professional assistance arising from more complex decision-making under pensions freedom, as well as a reduction in the cost of advice through more efficient advice models being brought to market.

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

Please refer to our response to Q19 below.

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

The pensions freedom reforms not only increase consumer need for investment advice but present a clear opportunity for greater consumer engagement by the industry. Therefore we agree that FAMR should prioritise work on advice in relation to investing, saving into a pension and taking income in retirement for mass market customers.

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

The FCA Consumer Spotlight segmentation model is helpful as one way of exploring consumers' advice needs, although we would note that our members use their own internal models too to establish a broader picture.

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

The Review should focus on those segments which have the means to take advice to address financial needs but for whatever reason are failing to engage or do not currently have access to advice which would add value.

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

We have no comments.

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

Please refer to our response to Q3 above.

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

Crossing both the supply and demand sides, we think the Review should focus on investment advice which is:

- As straightforward and accessible as possible
- Reasonably priced
- Calibrated according to the advice needs of customers
- Appropriate to the risk associated with the solutions that meet customer needs

The advice needs of those with lower levels of net-wealth are not necessarily commensurately lower than their wealthier counterparts; indeed the need for advice is arguably greater for those with less.

A good outcome would see a market where help and advice is available to all customers irrespective of their financial circumstances.

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

We note the negative impact on the provision of free generic advice by banks as a result of the significant reduction on investment advice services to the mass market.

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

The use of technology as a complimentary tool is a key resource for banks to effectively, and efficiently, administer advice to the mass market.

Technology can reduce costs in information gathering and document storage; aid the person-to-person provision of advice; provide stronger protection at point of sale via checks and an audit trail.

Enhanced online tools can help customers to understand their financial needs and the options available to take appropriate action. Advice protocols, agreed centrally perhaps by MAS or another organisation, could help customers determine their own financial planning needs and suitable means of addressing these needs. Consumers could be presented with accessible next steps, significant duplication of effort would be removed from the market and firms could service the recommendation with reduced risk exposure.

As such, a landscape that facilitates the use of well-utilised technology (which of course ensures the customer is placed first, and that the providers' liability is not removed) is an important step for encouraging providers to re-enter/enter the advice market.

A regulatory regime that becomes overly-inhibitive and restricts technological innovation will severely undermine the progress that can be made.

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

We have no comment.

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

We have no comment.

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

BBA members will convey their views on the commercial position regarding specific consumer segments in their individual responses, although the clear shift up the wealth curve for existing advice provision is instructive.

Providers will need a clear business case to re-enter the advice market which is relatively attractive to alternative business propositions, as the strategic decisions to exit the market were not taken lightly.

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

Please refer to our general comments above.

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

We agree with the definition used in the consultation paper – "any situation where consumers cannot get the form of advice that they want on a need that they have, at a price they are prepared to pay."

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

A lack of demand for advice is partly driven by a lack of financial capability and awareness of financial planning need. Work to improve financial capability and effective public financial guidance can help to raise consumer awareness of their financial planning needs and encourage action to address these needs.

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

There is a range of advice/guidance gaps as follows:

- Affordable regulated advice for investment and protection

- Availability of free advice
- Effective referrals between public/regulated services
- Effective preventative guidance/advice around life events – data sharing between entities

The pensions freedom reforms not only increase consumer need for investment advice but present a clear opportunity for greater consumer engagement by industry. FAMR should prioritise work on advice in relation to investing, saving into a pension and taking income in retirement for mass market customers.

We recognise that access to investment advice is only part of the picture and will only be a priority for consumers who have sufficient funds to invest and have already met their core cash savings and protection needs.

It will be important that FAMR recommendations be coordinated with the outputs from the related HMT consultation on Public Financial Guidance which collectively should address issues relating to each of the advice/guidance gaps identified above.

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

There has been a clear and well documented shift up the wealth curve in terms of the customer base with access to bank investment advice post RDR.

A less well appreciated consequence of the reduction in bank advice to the mass market is the loss of free generic advice which was imparted during financial planning sessions, even if this failed to move to transaction. Prior to the introduction of the RDR reforms our larger bank members estimated that less than 50% of financial planning interviews proceeded to transaction.

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

We believe that FAMR should prioritise work on advice in relation to investing, saving into a pension and taking income in retirement for mass market customers. The Review should therefore prioritise work which supports the development of regulated investment advice. However, the Review recommendations should be coordinated with the outputs from the related HMT consultation on Public Financial Guidance which we would expect in combination to address issues relating to each of the advice gaps we have identified in our response to Q19 above.

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

Yes, we agree that this should be the priority for the Review.

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

Yes, we agree.

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

There remains a lack of clarity over the boundary between regulated investment advice and a personal recommendation. HMT/FCA should consider aligning the Regulated Activities Order on investment advice with the MiFID definition (i.e. limit to personal recommendation?). This would help to simplify the landscape and provide additional clarity on the obligations which apply for services which fall short of a personal recommendation. We are concerned that the provision of generic information/advice is being curtailed due to a perception that it may be deemed to be investment advice. Generic advice provision has already been impacted by the banks substantially stepping back from mass market investment advice provision.

Please also refer to our comments on advice labelling in our response to Q2 above.

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

We have no comment.

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

Please refer to our response to Q18 above.

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

We believe that the advice regime and experience of pensions freedom in Australia is instructive.

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

Please refer to our response to Q18 above.

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

Please refer to our general comments above on the need for regulatory clarity in certain areas and suggestions for how providers can be given greater assurances on the potential liabilities arising from investment advice.

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

Please refer to our general comments above on the need for regulatory clarity in certain areas and suggestions for how providers can be given greater assurances on the potential liabilities arising from investment advice.

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

A well designed safe harbour will ensure an appropriate degree of consumer protection.

We would welcome FOS engagement in the FCA's sandbox initiative and work on prototype advice models.

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

We do not have evidence although we believe the introduction of a long-stop could help to address some of the liability concerns which deter providers from re-entering/entering the advice market.

Please refer to our general comments above on the long-stop and our response to Q34 below.

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

Please refer to our response to Q32 above.

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

Uncertainty around potential liabilities arising from long term advice and a limited ability to manage these liabilities remain key concerns for banks when considering their participation in the retail investment advice market.

We recognise that unsuitable investment advice may not become apparent for several years but the right balance must be struck between consumer protection and provider liabilities to facilitate a vibrant and competitive retail advice market.

A longstop should not lessen the responsibility of advice providers, but could help to convince potential providers that ongoing liability risks do not far exceed the benefits of participating in the retail advice market.

A longstop, supported by appropriate customer communication strategies, would encourage consumers to make informed decisions about whether they wish to complain. It would also help to galvanise firm record-keeping and customer recollections which otherwise diminish in quality over time.

A longstop would enable remediation issues to be brought to an orderly and planned closure.

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

We have no comment.

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

We have no comment.

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

We note the FCA's report publishing its plans for implementing the 'regulatory sandbox' to potentially deliver more effective competition in the interests of consumers. The BBA and its members are committed to working with the FCA and Government to consider both the feasibility of the recommendations for industry, and how the FCA sandbox could most efficiently support new innovation (such as 'robo-advice') being introduced to the market.

It will be important that firms receive sufficient clarity on protections/potential liabilities from participating in the sandbox. We would encourage FOS involvement when developing the framework that surrounds any changes, to check and test tools and processes in a flexible and collaborative way with real customers.

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

The automated advice process should be designed with a clear focus on consumers' needs and how the service will add value for customers. The service design should incorporate appropriate safeguards which exit the customer from the process when necessary.

It is important that consumers are given sufficient information to help them understand the scope and nature of the service.

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

Please refer to our general comments above.

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

We have no comment.

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

FCA and FOS engagement with the industry throughout the development of new advice models will be helpful in ensuring service quality from the outset. We welcome the FCA's existing work under project innovate in this regard and believe the regulatory sandbox can take this engagement to a new level.

Ends
British Bankers' Association

BLACKROCK

22 December 2015

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

Submitted via email to: FAMRSecretariat@fca.org.uk

RE: Financial Advice Market Review Call for Input

Dear Sirs,

BlackRock, Inc. (BlackRock)[1] is pleased to have the opportunity to respond to the Call for Input on the Financial Advice Market Review (the "Review") issued by HM Treasury and the Financial Conduct Authority (FCA).

As a fiduciary for our clients, BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to address, and comment on, the issues raised by this consultation and we will continue to contribute to the thinking of HM Treasury and the FCA on any specific issues that may assist the Financial Advice Market Review.

Executive summary

The need to save

As responsibility for long-term income provision increasingly passes from the State and employers to individuals, access to simple, consistent help is more important than ever before especially when individuals are faced with an increasing choice of products. Many people find finance baffling, and need support to demystify the savings process. BlackRock's Global Investor Pulse 2015 ("Investor Pulse")[2] highlights the level of 'consumer disengagement' among key

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

[2] About Investor Pulse: BlackRock's survey was conducted on 4,000 adults aged between 25 and 75 in the UK. The fieldwork was conducted during August and September 2015. A summary of the findings is available at: https://www.blackrock.com/uk/individual/literature/brochure/global-investor-pulse-uk.pdf.

- The survey was conducted on both affluent and mass retail consumers. The threshold for affluent consumers was a requirement to hold more than £100,000 in household assets (not including residential property assets).
- The sample focused on household decision-makers in households holding savings and investments. This included some households with savings only. Around one-in-five households in our UK survey held no savings or investments at all.
- The UK survey was conducted as part of a wider global Investor Pulse survey which was carried out using an online methodology in 20 countries. The total global sample size was over 31,000 people making it one of the largest surveys of its kind in the world.
- Most of the comparisons below are limited to other European countries. Eight countries were surveyed in Europe with a sample of 13,000 adults. This included:
  - Belgium
  - France
  - Germany
  - Italy
  - Netherlands
  - Spain
  - Sweden
  - UK

sectors of the population and has found that many people – where they save at all – choose overwhelmingly to save in cash and cash-like investments such as Cash ISAs, rather than in other options like shares. Saving only in such a low-risk, low-return asset class is likely to prevent people from achieving their long-term financial goals. While the UK needs to encourage higher savings rates, people need to invest their savings to meet their long-term aspirations.

If these trends continue within two decades, Britain will reach a tipping point, a moment where one generation of Britons retires poorer than the last. This is highly uncommon – in fact, it will be the first time this has happened in a century, certainly since the creation of the welfare state. Changing the entrenched attitudes of a nation is no simple matter. In today's world of instant gratification, where you can switch a credit card online in a matter of minutes and 'save' money, we need to make it as easy to save and invest as it is to get into debt.

Advice is the cornerstone of developing a savings culture

The Review represents a much needed opportunity to rethink and rework the entire framework of financial advice in the UK. In the context of dramatic increases in longevity, it is key that individuals in the UK save more, and start earlier, if they are to achieve appropriate levels of retirement income. The need to save is not just about achieving an adequate replacement income in retirement. Too many individuals are unable to manage their monthly budget and do not have sufficient savings to meet their ongoing lifetime needs (paying off debt, saving for a house deposit, saving money for their children's education or paying for care for their parents in old age). The findings from our Investor Pulse survey show that increased savings rates are unlikely to translate into increased investment without access to advice to manage these conflicting objectives.

Providing advice which means an individual's needs

The current regulatory framework distinguishes between multiple types of advice and guidance. If we are to achieve the goal of ensuring that the majority of the population are equipped to save the process of delivering the help they require needs to be simplified, consumer-centred and consistently applied.

First of all there needs to be agreement on common terminology to describe financial advice rather than the confusing definitions of advice (pension advice, mortgage advice, investment advice, simplified advice, guidance) with different standards and liabilities. Rather there should be a focus on an individual's key financial needs and how to achieve them. We must find a way to break down these barriers and encourage people to become investors. In this new era of greater financial responsibility, finding a new way to talk about financial services will be crucial.

Our Investor Pulse survey shows that even where people have clear advice needs they are unwilling to use traditional forms of advice. The need to pay up-front for advice has discouraged many respondents from taking advice. Instead people increasingly rely on online services to support self-directed decision-making. This process needs to be as engaging as possible and drive effective rather than sub-optimal decision making. Current regulatory practice also assumes that individuals have well-defined investment goals and clearly articulated financial needs. In reality self-directed individuals find it difficult to manage numerous overlapping and ill-defined objectives.[3] Our Investor Pulse survey found that people tend to compartmentalise their objectives and need help to think holistically, otherwise saving and particularly investing falls down their list of priorities behind getting on the housing ladder. This is a particular problem for millennials who find it difficult to visualise themselves as retired and who face a perpetual tug-of-war between debt repayment and saving.

We strongly support the aims of the Financial Advice Market Review as a key plank in providing individuals the tool kit they need to make effective decisions, taking into account their multiple financial and savings goals.

[3] See AFM: Self-directed investors: important insights December 2015

Coherent financial education across industry and government

Financial education plays an important role and is certainly improving, but at the moment it is poorly co-ordinated and sends out mixed messages. People are still inclined to borrow rather than save when making major purchases, and those who do save are prone to holding inappropriate levels of cash to meet their long-term income needs. It is also far too complicated and difficult to invest. As a consequence, many simply do not feel sufficiently confident to invest in stock or bond markets and as a result have far too high a dependence on cash. Our research suggests that two thirds (67%) of UK savings are held in cash and cash like instruments such as Cash ISAs[4].

Saving benefits everyone. It ensures growth, stability and prosperity for the future of the UK and its people. It provides businesses with capital to grow, while ensuring that poverty in old age becomes a thing of the past and that people avoid the financial desperation brought by excessive debt. A failure to narrow the savings gap could adversely affect the UK's GDP, so it is of critical economic as well as social importance.

Significant amounts of work have been conducted on financial education at the moment, but it is being undertaken by 130 different entities. Given the challenge in persuading individuals to save effectively there needs to be more consistency both in the content and delivery of financial education.

Consistent online advice

We need greater consistency about how we equip people with the knowledge and tools to manage their finances successfully. The Review offers the opportunity for industry and the government to work together to determine the priorities and goals for financial education, both in schools and in later life. We recommend a concerted effort between government, industry, consumer organisations and media to build on existing services such as those provided by The Money Advice Service to provide an intuitive and easy to use online service which meet the many types of advice needs identified in our Investor Pulse survey. These portals can then serve as a filter to direct individuals to specialist sources of advice.

Particular focus is needed on longer term goals such as retirement savings

Individual savers are generally less equipped to meet long term saving goals than shorter term goals especially in terms of generating adequate retirement income. Even among people over 55 for whom advice is a necessity given the introduction of pension freedoms only 20% of the have actively sought advice or guidance since April 2015.

Individuals need access to engaging, consistent and standardised guidance which allows individuals to combine all their various sources of potential income, not only at retirement but well in advance and take informed decisions and break the cycle of debt. Individuals will benefit from clarity and consistent messaging across the industry as to what they need to save to achieve a given level of income.

To achieve this we recommend providing clear definitions of guidance and advice, with clear differentiation between the two concepts. In particular consumers are confused by the difference between the two concepts which is reinforced by the branding of Government backed bodies that provide guidance but include advice within their title such as the Money Advice Services and The Pensions Advisory Service. This needs underpinning by comprehensive specialist advice and guidance from product providers and advisers to empower individual participation.

Individuals saving for retirement are likely to have more than one type of retirement pot (as well as other sources of income, such as home equity and state pension entitlement under the triple lock). They think of their 'nest egg' as a whole, and focus less on the individual pot. There will be a greater impact if individuals are able to access holistic financial advice across all their assets when planning for retirement so they have a full view of their financial assets.

[4] BlackRock Investor Pulse Survey UK, 2015

A savings minister to fight for consumers in government

The frequent changes to the UK savings regime, especially in the arena of pensions policy, however necessary or well-intentioned, have not been accompanied by clear long-term messaging. The rate and speed of change causes uncertainty. The rules are still convoluted - each change brings an additional layer of complexity to negotiate that may continue to deter potential investors. It is also important that changes that lead people to embark on a particular course of action are not reversed by successive governments. As people take more individual responsibility for their retirement, it is vital the system is simple and transparent.

We support industry calls for a Savings Minister to develop short, medium and long-term projections to underpin consistent government policy. This minister could help ensure that there were no unintended consequences of government policy and bring cohesion to the savings agenda.

We would welcome any further discussion on any of the points that we have raised.

Yours faithfully,

Tony Stenning
BlackRock
Managing Director
Head of UK Retail

Martin Parkes
BlackRock
Director
Public Policy, EMEA

Responses to questions

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?**

BlackRock's Investor Pulse does not focus on all of the protected characteristics contained in the Equalities Act 2010.

However, within the scope of our survey it is clear that there are particular groups within society with advice gaps which merit concerns. These groups are discussed in further detail below and include the following:

People aged 35-44 – the "squeezed middle"

People aged 35-44 are much more likely to have dependent children, have the greatest concerns about job security and are more concerned about the high cost of property. Yet, they are typically among the least likely to seek advice of any kind. See further details in our response to Question 19.

People aged 55 and over

Only 20% of the over 55s have actively sought advice or guidance since April 2015 in spite of a clear need for advice since pension freedoms were introduced. See further details in our response to Question 5.

Gender gap

Women and the squeezed middle are least happy making investment decisions without advice but are also least likely to enjoy access to financial advice - See further details in our response to Question 19.

LGBT Investors

In Investor Pulse we also looked at whether financial priorities changed as a result of sexual orientation and asked our UK survey whether they identified themselves as LGBT.

Looking at financial priorities, the top two (see below) are unchanged regardless of sexual orientation. There is significant difference in the use of advice with the LGBT community being 7 percentage points lower than the UK average (17% vs 10%). Indeed two thirds of the LGBT community have never used a professional financial adviser compared to 52% of the general UK population.

However, we have noted that there are differences within the LGBT community on 'saving/ investing to ensure comfortable living through retirement'.

- 40% of those saying they are gay or lesbian rated this priority compared to only 27% of bisexuals

When it comes to paying off debt, again, the LGBT community have a higher focus on this when compared to the UK average (35% vs 28%). As with saving for retirement, there are nuances within this group with 41% of bisexuals claiming this is priority as opposed to 30% of gays/ lesbians.

Financial priorities	UK	Heterosexual/ Straight	LGBT Overall
Base	**4000**	**3726**	**197**
Saving money	45%	45%	43%
Saving/ investing to ensure I live comfortably through retirement	36%	36%	35%
Paying off credit cards/ other debts	28%	28%	35%
Paying off my mortgage on main home	23%	24%	20%
Growing my wealth	22%	22%	22%
Preserving/ holding on to my wealth	20%	20%	18%
Being able to earn or draw an income from my savings/ investments	18%	18%	18%
Financing my child's education	14%	14%	9%
Leaving an inheritance	13%	13%	7%
Paying for long term health care for me/ spouse/ partner	10%	10%	10%
Saving for a deposit/ down payment for a home	10%	10%	14%
Starting/ growing my own business	7%	7%	9%
Providing financial support to elderly relatives	4%	4%	3%
None of the above	9%	8%	12%
Net: Saving	*64%*	*64%*	*59%*

Use of financial advisers	UK	Heterosexual/ Straight	LGBT Overall
Base	4000	3726	197
Yes, use now	17%	18%	10%
No, although I have in the past	30%	30%	23%
No, never used	53%	52%	66%
Net: No	83%	82%	90%

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

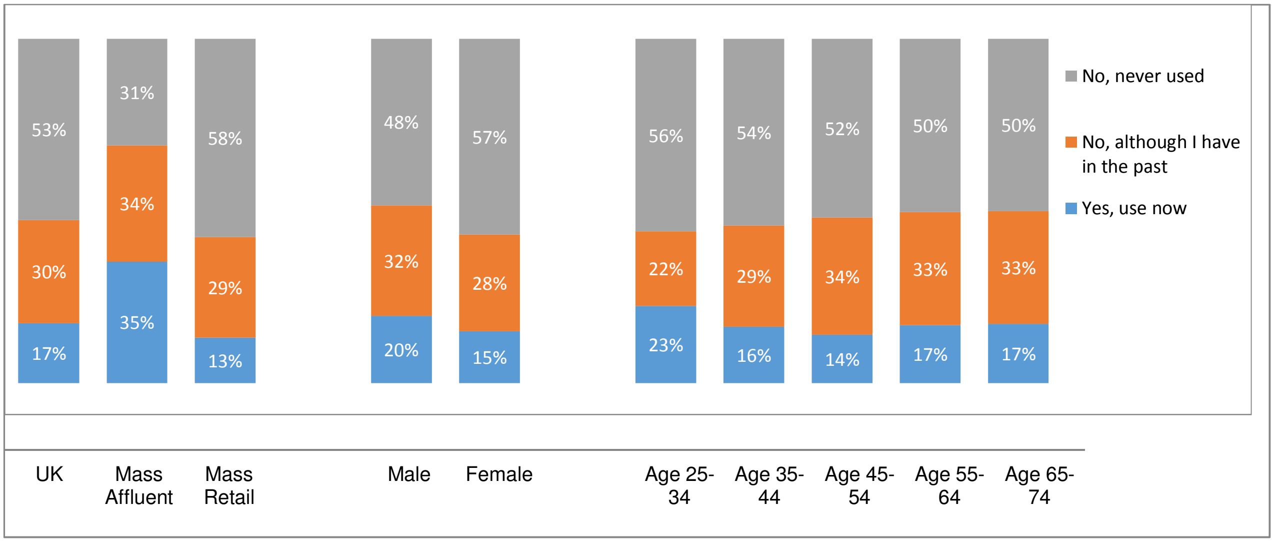
We believe that trying to distinguish between different levels of advice (guidance, simplified advice, investment advice) is confusing for consumers. Rather we would suggest a more consumer-focused approach e.g. " I want help on what I need to do to achieve a specific goal". We suggest a two stage process of initial access to consistent and standardised generic help/guidance with an easy-to-use consumer interface backed up by access to more specialised and regulated advice.

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

The demand for advice appears to be lower than what is required. As many as 83% of adults in the UK (aged between 25 and 75) are not currently taking professional financial advice. Many non-advised adults have clear current or potential future advice needs, but they either do not recognise the need for advice when it arises, or they do not act on those advice needs for a variety of reasons. These reasons include the cost of advice which is major obstacle for many people. Often, people do not know where to go to find good quality advice that offers value for money. This is why generic, simple, consumer focused consistent help/guidance would provide enormous help for people.

The chart below[5] presents advice usage by wealth, gender and age and shows low level of use across all groups.

Use of advice across segments, gender and age groups



We draw the following conclusions from this data set:

- 69% of mass retail advised consumers count themselves as being 'past users' of advice – this is higher than the European average. Only a small number (31%) of the mass retail market uses financial advice services currently or in an ongoing capacity.
- 26% of past users of advice had stopped using advice because it was too expensive. Cost is a bigger factor in why people stopped taking advice when comparing the UK to other European markets. This may be the result of explicit charging for advice as a result of RDR.
- Even within the mass affluent market, as many as one-third claim to have never sought advice. However, the lack of demand among this group is more likely to be driven by a sense that they are more self-reliant (i.e. self-directed investors) rather than concerns about the cost of advice or other obstacles.
- Overall, young people claim to be using more professional advice, but more likely to be using bank advisers – suggesting a focus on access/convenience/cost.

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

The chart below[6] asks people the following question: "*When making long-term savings and investment decisions which, if any, sources of information do you use to help inform you?"* The results show that people use a wide range of advice and information sources which vary according to wealth, gender and age. This highlights the importance of online services as primary source of information. This reinforces the need for engaging online information portals with consistent standardised messaging. We further break out the use of online services in our response to Question 12. This leads us to support industry calls for standardised kite-marked standards for guidance to provide reassurance to people that they can trust the messaging they receive. The framework for these standards for guidance should:

[5] Investor Pulse 2015
[6] BlackRock Investor Pulse 2015

- cover the scope, terminology, decision trees and outcomes to be expected from guidance and support financial guidance for people on low and middle incomes,
- allow the framework to be adopted by financial services, independent information providers, government backed organisations and the third sector so that people have a consistent experience regardless of where they seek guidance
- permit "Rules of Thumb" to be included in the framework to provide consumers with benchmarks against which they can consider their own circumstances

The demand-side equation of the advice market is very diverse in its preferred sources of advice and information. The main professional source of advice is the high street bank. For all but premier banking clients, this is likely to fall short of a full advice service. While we find that demand (or at least usage of advice – as seen above) is low, many Britons are accessing a diverse range of sources of information through both online and offline channels. More affluent people, men and older people often overlap with their use of more sophisticated information sources, such as using independent financial advisers. They will also be more likely to invest directly.

In contrast, the less affluent, women and younger people often overlap in using less formal channels such as relying on friends and family. Where they do use a professional, it is often likely to be a high street bank. Young people are likely to be using the widest variety of online channels of information and guidance, and we see rapid growth (albeit from a low base) in people using blogs and social media platforms. Few people seek advice direct from fund managers or insurers. The 'other sources' category also remains small.

	UK	Mass Affluent	Mass Retail	Male	Female	25-34	35-44	45-54	55-64	65-74
	(n=3241)	(n=737)	(n=2504)	(n=1656)	(n=1585)	(n=683)	(n=660)	(n=705)	(n=633)	(n=560)
Online sources\ websites	49	56	48	52	47	46	53	53	53	41
Bank	30	23	32	29	30	35	32	28	28	25
Family and friends	28	22	30	24	33	39	35	29	21	15
Personal finance newspaper articles or magazines	24	39	19	28	19	16	18	24	31	29
Professional financial advisor	19	32	16	20	19	17	20	19	23	20
Radio or TV programs	11	13	11	12	10	13	10	10	11	11
Fund management firm	6	14	4	8	4	9	6	6	6	5
Insurance company	5	6	4	6	3	10	6	3	2	2
My employer	5	5	5	6	3	10	8	4	1	0
Other source	5	7	4	5	4	2	3	6	7	6

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

Each year Investor Pulse asks people what their financial priorities are and each year we receive a relatively similar feedback. Some of these priorities evidence a clear advice need, others less so. For example, 'saving more' is commonly cited as the most popular goal (which can be addressed without advice), followed by saving specifically for retirement. This typically does require some kind of investment advice need, but large numbers seem prepared to action this goal without seeking advice.

We asked people in 2015 which financial decisions they think they will consider over the next five years. This also reveals some potential drivers of financial advice needs. For example;

- 29% thought that they would save for their retirement. The number who thought this peaks among the 45-54 year olds. But, as we see below, over half (55%) would be making retirement decisions without any support from a professional financial adviser.
- 7% thought that they would consider taking tax planning advice. These people are heavily concentrated among the well-off.
- 9% thought that they would make arrangements to leave an inheritance, peaking at 17% among the mass affluent (more than £100,000 in household assets) and 16% among those aged 65-74 demonstrating a need for estate planning.
- 6% thought that they would take equity from their home. In spite of the equity release market (targeting the over 55s) the desire to release equity is equally popular among all age groups. People in their 20s are as likely to re-mortgage as those in their 60s.
- In total, all but 40% of respondents indicated that they would do something over the next five years which would be likely to lead to a potential financial advice need.
- The most popular considerations among the mass retail (less than £100,000 in household assets) included saving for retirement (28%), creating a long-term financial plan (13%) and saving or investing for a child's education (12%). These are the likely savings and investment goals which will drive advice needs among these people.

<u>Pension advice needs: changing needs post-Pensions freedoms</u>

Given the changes introduced by the Government in April 2015 to remove the requirement to purchase an annuity, this is one area of the market where consumer advice needs have grown. We have therefore reflected this change in our 2015 Investor Pulse which asked a series of questions targeted at the over 55 market who are either approaching retirement (and will need to make a decision about what to do with their pension pot when they enter retirement) or who have already retired.

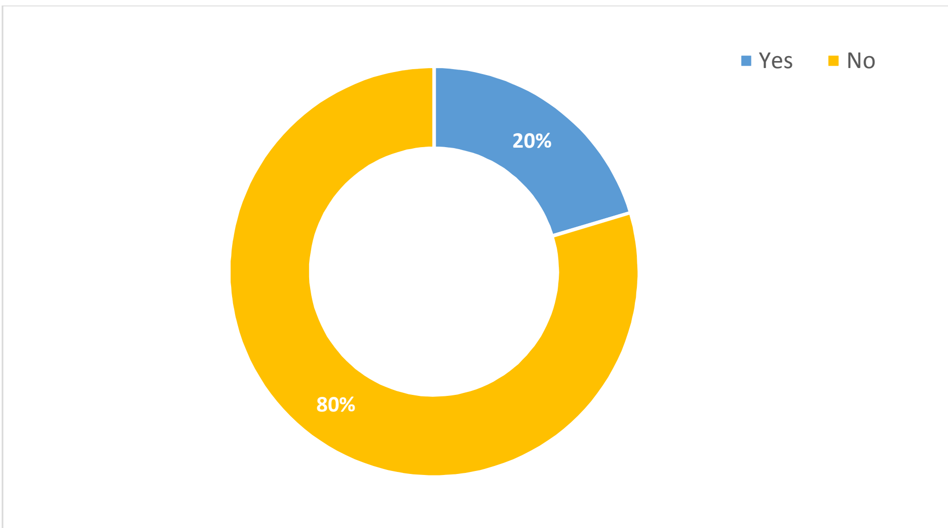
- Over the next five years, the 55-64s are most likely to consider saving for retirement (30%). The next most pressing goals among this age group is 'how to draw an income on my investments in retirement' (20%). Taking out investments is the next most popular option (10%). Overall the figures for engagement by this age group are low indicating that many people in the over 55 age group fail to properly engage in their at retirement financial planning needs. For example, over 300,000 people need to make retirement income/annuity purchase decisions each year but are the majority are not seeking the help they need to make this decision.
- Our findings illustrate that this group do recognise that they have different age- or life-stage related goals, but as we see below this has not resulted in a growing use of financial advice at retirement.

Further details emerge on how people are likely to approach pension freedoms.

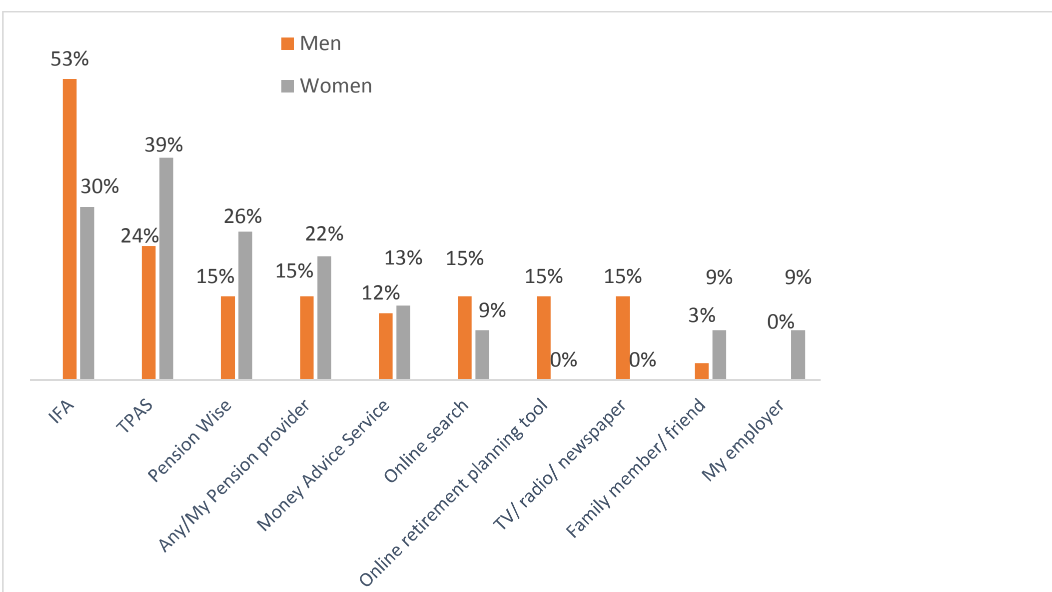
- Two-thirds (66%) of pre-retirees who have sought professional advice in the past do not currently use an adviser. In other words, the onset of the new pension freedoms have not yet prompted them to seek advice.

- Over half (53%) of those aged 55 or over who currently use an adviser have not spoken to their adviser about pension freedoms.
- Overall, only small numbers of the over 55s do currently seek advice and guidance.
- 53% of those men who sought advice went to an independent adviser compared to 30% of women. Women are more likely to seek out free guidance such as TPAS or Pension Wise – this suggests a gap in the market for affordable regulated advice which 'free advice' services are currently helping to fill.
- Overall, the major pension reforms are not prompting people in the key over 55 market to seek out information, guidance or advice even though many of them now have a clear advice need.

Results from Investor Pulse on the over 55s who have actively sought advice or guidance since April 2015



Results from Investor Pulse on the advice and guidance used by over 55s separated by gender



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

Consumer segmentations are a tried and tested research technique and work on the principle that "not all consumers are the same". Typically a segmentation study goes far beyond simply segmenting people by demographics or socio-economic group and will divide up a large population into meaningful sub-groups taking into account consumers behaviours, attitudes and needs.

Subsequently the model will enable firms or regulators to:

- address each groups' savings and investment needs more effectively, for example through developing new products, by identifying the different behaviours, attitudes and needs
- monitor the size of each segment over time to see if they increase/ contract in size
- communicate more effectively with each group by understanding their current saving and investment habits as well as media preferences

BlackRock has the ability to run its own segmentation model within its existing Investor Pulse data and would welcome the opportunity of working with HMT/FCA to see if our Investor Pulse data can provide additional insights to the existing HMT/FCA segmentation model (this would require sharing of the algorithms to determine which segments consumers fall into).

Reviewing the 10 segments listed in the document we recognise the existence of many in our data and agree it is a useful way of looking at consumers' advice needs. It is clear from our own studies that it is incorrect to look at the UK population simply in terms of their investable assets or by demographics. People's attitudes tend to develop from a fairly young age and often stay the same throughout their life regardless of affluence even as they progress from segment to segment.

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

We do not have any particular comments on the FCA segmentation work, but we have undertaken several segmentations in our Investor Pulse survey reflecting the factors which are likely to drive wealth accumulation and the use of advice. Income and wealth levels are key drivers of advice usage overall. People on higher incomes and those with greater wealth are more likely to have an adviser relationship and they use different types of advice. However, 83% of Britons are not currently using any advice.

Typically, those who are currently using a financial adviser are earning personal incomes over 50% higher than those who do not use a financial advisor.

Those using financial advisers enjoy even greater disparities in personal wealth. The value of their savings and investments is five times greater than those who are not currently seeking advice.

It is worth highlighting that even those who do not currently use a professional financial adviser, but who have used one in the past (i.e. those who have adopted a more transactional rather than relationship-based approach to seeking advice) still enjoy large benefits. Whereas they earn 41% more than those who have never sought advice, they hold four times as much in savings and investments.

Chart: advice use in the UK by income and wealth. Do you currently use the services of a professional financial adviser? A financial adviser could include an adviser at your bank, insurance company, a broker or an independent adviser?				
	Use financial advice	Don't currently use financial advice but have done in the past	Never used financial advice	Combined non-advised
Proportion of overall sample	17%	30%	53%	83%
Median average personal income (£)	27,754	22,534	15,978	18,064
Median average personal savings and investments (£)	53,333	24,063	6,831	10,144

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

We note from Investor Pulse that as household wealth and income increases, so does the use of professional financial advice

- 35% of those with investable assets >£100,000 claim to use an adviser, compared to only 7% with investable assets <£10,000
- 31% of those with a household income of £50,000+ use an adviser compared to 19% of those earning an income of £30,000-£40,000k or £40,000-£50,000.

NET: Investable assets	**Base**	**Yes, use now**	**No, although I have in the past**	**No, never used**
Up to £10,000	1754	7%	25%	69%
£10,001 to £20,000	418	16%	29%	55%
£20,001 to £50,000	663	21%	36%	43%
£50,001 to £100,000	424	27%	37%	37%
£100,000 upwards	741	35%	34%	31%

Household income (before tax)	**Base**	**Yes, use now**	**No, although I have in the past**	**No, never used**
Up to £20,000 p/a	1244	10%	23%	67%
£20,001 - £30,000 p/a	827	13%	30%	57%
£30,001 - £40,000 p/a	650	19%	34%	47%
£40,001 - £50,000 p/a	477	19%	33%	48%
£50,001+ p/a	802	31%	36%	33%

Do you currently use the services of a professional financial advisor?			
	UK	**TOTAL Mass Affluent***	**TOTAL Mass Retail**
Base	400 0	750	3250
Yes, use now	17%	35%	13%
No, although I have in the past	30%	34%	29%
No, never used	53%	31%	58%
Net: No	83%	65%	87%

* Mass Affluents defined as; personal income >£100k, or Household income >£150k, or investable assets >£100k

What type of professional financial advisor do you currently use?			
	Total	**Mass Affluent**	**Mass Retail**
Base:	694	265	429
High Street bank adviser	29%	23%	34%
Private bank/ wealth manager/ asset manager	19%	19%	18%
Insurance company	4%	3%	5%
Independent- works for themself/ a firm of IFAs	43%	53%	37%
Other	5%	2%	7%

Income and wealth also have an impact on where people turn to for advice and information. Wealthier clients are more likely to use an Independent Financial Adviser (IFA). Among the mass affluent advised – whom we define using a household wealth threshold of £100,000 in liquid assets – over half (53%) use an independent adviser. Less than a quarter of these people (23%) use bank advice.

In contrast, 34% of those in the mass retail segment use a bank adviser and just 37% use an independent adviser. Given that in the post-RDR world high street banks have largely retreated from providing retail investment advice in the mass retail market, we would question what type of advice is actually being sourced. Personal bankers may provide advice on basic advised sales (for example, the bank's own stocks and shares ISAs or mortgage products) but they are unlikely to offer wider investment advice. This means that in reality, even where people in the mass retail market are seeking advice, it is more likely to cover a narrower range of advice options which results in a narrower range of savings and investments.

Chart: advice use varies by type of advice depending on personal wealth levels

What type of professional financial adviser do you currently use? If you use more than one please think of your main adviser.			
	All advised UK	Mass affluent	Mass retail
High street bank adviser	29%	23%	34%
Independent adviser	43%	53%	37%

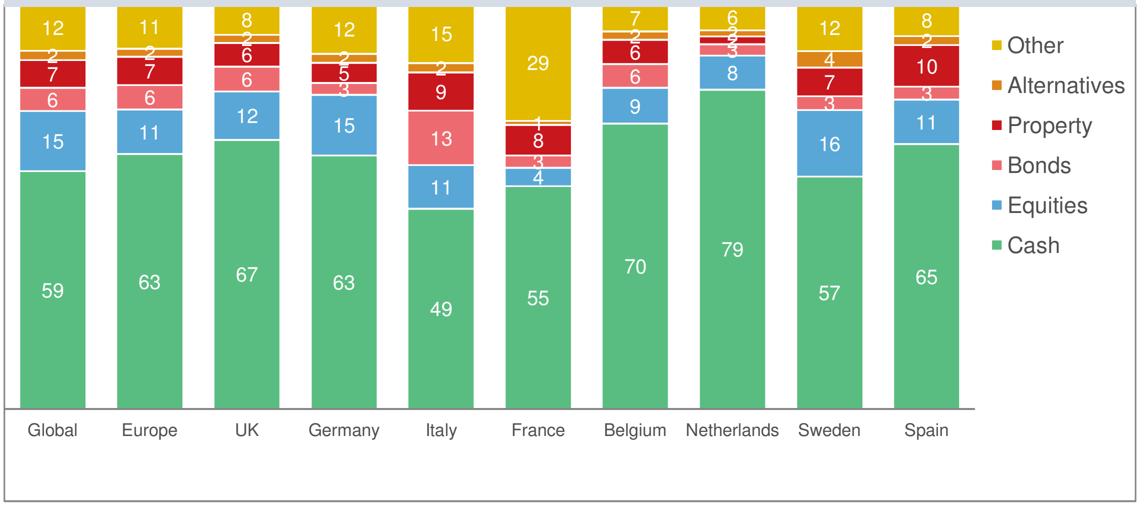
This may help to explain what is driving many UK households to adopt a highly cash-centric position. UK households are among the most cash-orientated in the global survey. In total, 67% of UK savings and investments are held in the form of cash savings. This compares to 55% in

France (where insurance-linked investments are more prevalent) and 49% in Italy (where bond investing is much more widespread). The current UK distribution market (and its' failure to provide cost-effective investment advice to the mass market) is therefore a potentially major contributor to the UK household's concentration in cash products rather than investing in a more balanced way in bonds and equities.

Chart: The UK's reliance on high street bank advice – particularly among the mass retail market – may be helping to drive the sale of cash products rather than investments

Asset allocation as a percentage of overall portfolio, by country.

Thinking of the total value of your savings and investment products, approximately what proportion is currently held in each?



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

Looking at the reasons why people no longer use advisers the top reason is that consumers only see it as a one-off transaction, especially among those lower down the affluence scale. In looking at what potentially drives consumer advice gaps, we should not assume that it is only those on low incomes who don't seek out advice. People on all income levels have advice needs which go unmet. Affluence itself may be a big factor in explaining how or indeed whether people choose to use advice.

For those on more modest incomes it is often a matter of cost and household economics. These people dip in and out of the advice market rather than benefit from more holistic relationship-based advice. Advice need is likely to be driven by a specific product need (i.e. buying a home might encourage someone to take mortgage advice). 42% said that they only use advice for a 'one-off specific purpose'. Dipping in and out limits costs associated with advice with expense being a barrier to future use; one in four (26% net) say the expense is a reason for not using an adviser any more.

The more affluent have different barriers. Fear of commissions or previous bad advice might be barriers, but this is likely to be a factor among the more savvy affluent investors who are likely to have a better idea about how the advice market works. A lot of the more affluent group who do not take advice do so out of belief that they can do a better job themselves. The notion of a more self-directed investor (who can manage the decision-making process without any advice need) is a growing (consumer-led/demand-side) barrier to the take up of advice, and one which is being assisted by the development of Internet sources of information. There is also some indication that the relative ease of access to products in ISA wrappers can help make the decision making more simple and easy to understand, therefore reducing the perceived advice needs among some savers and investors.

Why are you no longer using the services of a professional financial adviser?			
	Total	Mass Affluent	Mass Retail
Base:	1202	253	949
I only used an adviser for a one-off specific purpose	42%	35%	43%
I received bad advice/ service	12%	15%	11%
Too expensive – they charge me for every meeting	15%	16%	14%
Too expensive – take a fee based on value of my investments	17%	20%	16%
They only sell products from their own company	8%	10%	8%
Only sell products which give them the highest commission	11%	16%	10%
I can do things better myself	22%	35%	19%
There is too much paperwork	4%	6%	4%
They don't understand my needs well enough	6%	8%	6%
They only offer off-the-shelf packages	3%	4%	3%
I have moved to an online advice and investment provider	4%	4%	4%
Other reason	13%	11%	14%
NET: Too expensive	26%	31%	25%

In a previous study (2013)[7] we asked what would encourage people to use an adviser in the first place. Retirement was the main driver but the absolute number was small (15%). More than twice as many (34%) say nothing would make them likely to go and see an adviser. Looking across the global data it is clear that while life events and life stages often drive financial planning and advice needs, most people don't make the connection. This is true within the UK. For example, people aged 35-44 are at a life stage which drives a complex set of advice needs. Even though they are most likely to have dependent children, mortgages and other debts, they are among the least likely to seek advice.

[7] Investor Pulse 2013

Which, if any, of the following reasons would make you likely to go and see a professional financial adviser? Investor Pulse study 2013			
	Total Sample	Mass Affluent	Mass Retail
Base: Europe/Canada only - Currently not use a professional financial adviser	1719	209	1510
	100%	100%	100%
Developing my retirement plan	15%	14%	15%
Minimising risk when investing	14%	19%	13%
Protecting my savings and investments against inflation	14%	22%	13%
Finding the best mortgage when buying a new property	13%	9%	14%
Seeking out the best returns in the market place	13%	17%	12%
Securing a regular income stream from my investments	11%	15%	10%
Developing a comprehensive financial plan for all my assets	10%	13%	10%
Reducing my tax bill	8%	12%	8%
Life protection/ insurance	8%	6%	9%
Protecting my investments from unforeseen global/ domestic economic events	8%	11%	7%
Saving enough money for my children's upbringing and education	7%	5%	7%
Don't know	15%	11%	15%
Nothing would make me likely to go and see a professional financial adviser	34%	32%	34%

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

No further comment

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?**

Non-advised consumers made up 83% of the UK sample. The UK has one of the lowest levels of advice use in the 20 country global survey. As part of the survey, those people are asked what factors prevent them from seeking advice. More often than not, it is simply the cost of advice.

In the 2015 we asked why people had stopped taking financial advice. Overall, we found that 42% of these people simply have a transactional approach to using advice saying that they only use an adviser for a one-off specific purpose. This implies that for a sizeable number of non-advised, they may well return to take advice as and when the need arises. The profile of this group of people is important to understand because this is potentially the market for basic or restricted advice models.

In total, one quarter (26%) of those who previously used advice had stopped taking advice because it had become too expensive. The number of formerly advised clients citing cost as the reason for no longer taking financial advice is higher in the UK than it is in other European markets. It is difficult to pin-point this precisely to the market impact of the RDR. However, consumer responses in the UK are in line with other EU markets which have recently undertaken regulatory reforms to their advice markets. For example, the responses are similar to those in Germany, which has put in place its Beratungsprotokol and the Netherlands, which has put in place its own RDR reforms.

- All three countries have a higher proportion of mass retail investors who regard themselves as previous users of financial advice. In other European markets (Spain, Italy, France, Belgium, Sweden) mass retail savers are more likely to have a current adviser relationship. In other words, among the middle and lower wealth groups, a larger number of number have dropped out of the advice market in those countries – including the UK – where the regulation of advice has been changed in recent years.

All three countries saw a higher incidence of mass retail investors complaining about the cost of advice as being the reason why they no longer use an adviser

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

Millennials (in our survey, individuals aged between 25 and 34) are accessing information in different ways to their parents' generation. They take less professional advice and rely more on informal channels. That is likely to be – in some part – a function of their age group. As they grow older and more affluent, they probably will become more like their parents.

Technology is going to disturb that pattern and we can already see signs of that in terms of the usage of online information sources. The millennial group are more likely to be using all online sources to a greater extent than older Britons. And whereas virtually nobody in the pre- and at-retirement groups make use of social media or blogs for the purpose of planning their savings and investments, the number of people who do so grows with each new generation. 'Peer-group' information will play an increasingly important role in informing people who otherwise struggle to access paid-for advice.

Chart – use of online information sources by age and gender

	UK	Mass Affluent	Mass Retail	Male	Female	25-34	35-44	45-54	55-64	65-74
	(n=3241)	(n=737)	(n=2504)	(n=1656)	(n=1585)	(n=683)	(n=660)	(n=705)	(n=633)	(n=560)
Independent money advice websites	38	48	35	39	37	34	37	44	43	32
Bank website	34	33	35	34	35	42	39	34	30	25
Search engine financial sites (e.g. Google Finance, Yahoo Finance)	25	30	23	28	21	28	27	27	22	19
News sites\ newspaper websites	19	28	16	23	13	19	19	18	20	16
Investment management firm website	10	20	8	14	6	14	10	10	9	8
Specialist independent investment\ finance sites (e.g. Morningstar)	10	17	8	13	7	15	11	9	8	8
Sites where I can buy or sell investments (e.g. brokers)	10	17	7	14	5	12	10	11	8	5
Insurance company website	7	9	6	9	5	12	8	7	4	3
Social media\ blogs	6	5	7	8	5	14	9	4	2	1
Other online source	5	7	5	7	4	4	4	6	6	7

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

No comment

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

No comment

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

To answer the question this question properly you have to first define more precisely what is meant by advice. If we are dealing with fully regulated advice (operating with suitability requirements) then the answer is a relatively small minority who are broadly defined by their income and wealth levels. As is already highlighted above there is a positive relationship between income levels and the take up of advice.

Many of the UK's major distribution channels for retail investment products do not currently provide full advice to those below the mass affluent wealth bracket. For the top slice of the market, broadly defined in Investor Pulse survey as around one-in-five people, the economics of the financial advice market are not considered a barrier to consumer access.

This image is not repeated in the rest of the mainstream retail investment market. Here, few people seek advice and cost is a major factor.

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

No comment

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

We suggest that an advice gap is defined as an advice need which is going unmet. In most cases, people will acknowledge that they need advice but do not take it. In some cases, people might not even self-identify that they have an advice need but they still have a gap. The gap is likely to driven by household economics (can't afford it), poor financial capability (don't know where to go for advice or what type of advice to seek out) or fear and distrust (they don't think the adviser will act in their interests through lack of basic trust, fear of product-push rather than needs-based approach, hidden commissions etc).

People are also unaware of the level of savings needed to obtain their preferred pension income in retirement. On average we found that people wanted an income in retirement of around £23,000 and believed that they would need a pension pot of £204,000 to achieve this income. In reality they would need a pension pot of nearly double this amount of £407,000 to achieve this level of income.[8]

When comparing the results of our 2014 Investor Pulse against our 2015 Investor Pulse we note some movement here in the use of advice among people with £10,000-£20,000 and those in the £20,000-£50,000 in a year on year basis but until we have another year's data we are unable to draw conclusions as to whether this is a trend or a statistical blip, perhaps driven by pension liberalisation. In any case the base in both cases shows very low use of financial advisers.

[8] For further details see Investor Pulse pages 22-23 at https://www.blackrock.com/uk/individual/literature/brochure/global-investor-pulse-uk.pd.
Income calculated using BlackRock's CoRI tool, based on a 65-year-old seeking an index-linked income for the rest of their life. State pension start date dependent on date of birth.

UK - Estimate of the total value of household's wealth and assets. Do use an adviser?								
	Yes, use now		No, although I have in the past		No, never used		Net: No	
	2014	2015	2014	2015	2014	2015	2014	2015
Up to £10,000	6%	7%	26%	25%	68%	69%	94%	93%
£10,001 to £20,000	10%	16%	33%	29%	57%	55%	90%	84%
£20,001 to £50,000	18%	21%	37%	36%	44%	43%	82%	79%
£50,001 to £100,000	27%	27%	37%	37%	36%	37%	73%	73%
£100,000 upwards	35%	35%	31%	34%	34%	31%	65%	65%

We also see evidence that large numbers of people are prepared to make important financial decisions without taking financial advice. This includes the most popular decisions such as saving for children's education or saving for retirement.

Thinking about long-term financial decisions, which of the following are you likely to consider in the next five years? Of the decisions that you are likely to consider, which would you be happy to do by yourself? (Without an adviser)		
Financial decision-making	Base (% of UK respondents considering this in the next five years)	Happy to make the following decision by myself (without advice)
Save for a child's education	12%	66%
Saving for retirement	29%	55%
Leave an inheritance	9%	47%
Take out an investment	10%	45%
Starting a business	8%	44%
Create an investment portfolio	7%	37%
Create a long-term financial plan	14%	34%
Release equity from my home	6%	33%
Draw income from investments	12%	27%
Tax planning advice	7%	22%

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

The advice gap relates to any individual who has a need for financial advice which is going un-serviced. The failure to service an advice need isn't simply a reflection of the supply-side nature of the advice market. In other words, the fact that an adviser might regard certain parts of the market to be uneconomic to service, isn't the only reason why people will go without advice.

The question asks whether the lack of demand *reflects* an advice gap. The short answer to this question is yes it does, in part, but it also *drives* the advice gap too. This can either be because the individual does not recognise that they even have a need, which highlights the related issue of financial capability levels. Or, where the individual recognises the need but doesn't act on that need because of a variety of factors (largely economic, but also may include lack of desire to take advice, lack of trust in financial services companies or advisers).

We only give the question above a qualified yes. Demand does reflect the advice gap, but only in part. The lack of demand for advice could also reflect another growing trend: the trend towards a more self-directed approach to planning long-term finances. There is a group of consumers who feel confident and comfortable making their own financial decisions and do not feel the need to outsource the decision to a professional intermediary. Even among those who do take advice, they use financial advice in different ways and rely on their adviser to make recommendations to a very different extent.

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

Among those who are considering taking out investment products over the next five years, nearly half (45%) would be prepared to take a self-directed approach. This self-directed approach is strongest among men and people in retirement age (65-74). Women and the squeezed middle age group (35-44) are least happy making investment decisions without advice. However, they are among the least likely to currently enjoy access to financial advice suggesting a vicious circle in which a lack of advice contributes to a lack of investing.

Considering making an investment: Of the decisions that you are likely to consider, which would you be...					
(n=411)	All Britons	Men	Women	Aged 35-44	Aged 65-74
"Happy to do it by myself"	45%	50%	35%	31%	57%
"Happy to do it by myself or with a professional adviser"	39%	39%	39%	53%	27%
"Only happy to do using a professional financial adviser"	14%	10%	20%	15%	13%

By definition, the biggest advice gaps will be found among those people who combine two factors; (1) people who have defined needs for financial advice and (2) people who fail to act on those needs by not taking advice. Unlike the usage of advice, which often reflects wealth and income levels, those people who have advice needs (and advice gaps) can't be easily defined by reference to their wealth or income level. For example, we can see above that women and people aged 35-44 years are likely to have particular problems in accessing financial advice even where they do have the need.

Our findings have identified a number of groups where advice gaps are likely:

- Working families aged 35-44 display many characteristics which will drive advice needs. They are the most likely to find themselves in full-time paid employment and have among the highest earnings. They are the age group which is most likely to have financially dependent children and mortgages. The value of their outstanding debts is also greater than other age groups. This combination of higher incomes, higher debts and dependent children means that they have the greatest concentration of income protection needs. Yet, people in our survey generally do not highlight income protection or insurance generally as a household risk or priority. The findings on this age group also reveal that the pressures of family life and mortgages places a squeeze on achieving their longer-term financial goals such as saving for retirement. Even though they are faced with the complex life stage choices, they are among the least likely age groups who seek advice. Just 16% of this age group currently uses an adviser.
- Post-55 'at retirement' group. Specific issues are raised in question 5 above when looking at the impact of pension liberation. Yet, just 17% of these people currently use advice and as we highlight above most of those who do seek advice have not yet discussed pension freedoms with their adviser.

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

Please see data above.

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

While our research has identified certain groups with particular advice gaps, it would perhaps be short-sighted to focus on one specific advice need at a time or to focus on advice which identifies a specific product solution. If, for example, we simply focus on the advice needs of people taking an income in retirement in light of the pension freedoms, and not the other complex issues that people in other groups are currently faced with, then we will simply have to focus on those issues in two or three years' time. It is in the interests of neither the industry nor its consumers to see the advice market being reviewed every 2-3 years. The reality is that consumer advice needs are diverse and the products servicing those needs are fluid in what is currently a rapidly changing market. We need an approach which is as future proofed as possible, and anticipates how consumer advice needs are changing and what factors are driving those needs.

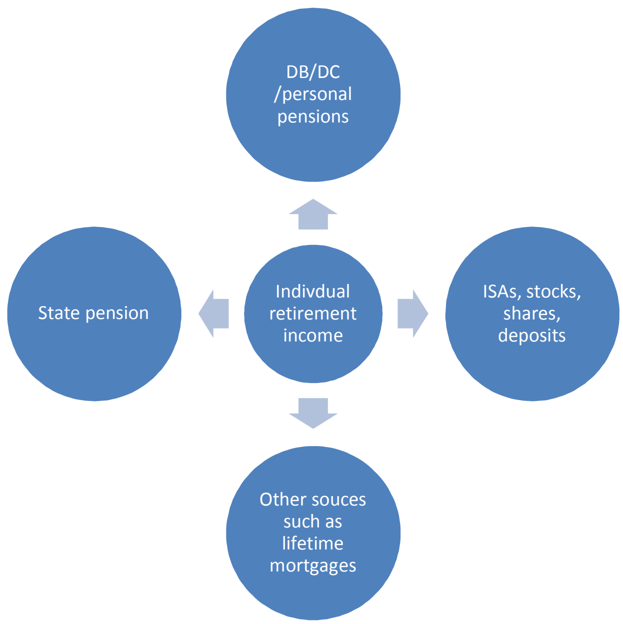
22. **Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?**

Overall we agree but note that the question above relates to 'saving into a pension' is treated as if is the same as saving for retirement. The government's own policy is stressing a variety of routes towards preparing for retirement including the pension, through the policy of automatic enrolment. But also other non-pension product solutions, notably the Individual Savings Account (ISA). As the annual contribution limits into ISAs continues to increase, and the contributions limits into pensions continue to fall, the distinctions between the two wrappers will become increasingly blurred. This process is already happening. It is therefore important that we do not focus too narrowly on the issue of 'pensions advice' if large numbers of British people are amassing retirement savings into another wrapper such as the ISA.

Our Investor Pulse findings illustrate how the trend in asset accumulation is changing in the UK. Before the introduction of automatic enrolment, UK pension plans had been in long-term decline. As DB pensions closed, DC pensions failed to pick up the slack or properly service the needs of the next generation of workers. As a result, we had seen a rapid growth in assets held with the ISA wrapper. Our findings show that much of this wealth – while it is typically sitting in the form of cash savings, rather than stocks and shares – is actually intended to help people fund their retirement. For example, our findings show that 58% of respondents currently hold an ISA product. Over two-thirds of people (41% of the total sample) hold all of their ISA savings in cash even though one-third (36%) are holding this money for the purpose of funding retirement. Holding so much cash to fund a 20 or 30 year retirement period seems like a poor asset allocation decision, particularly if people are driven by a desire to generate retirement income (cash is currently a poor source of income). Better advice is needed in this market to help people make more informed decisions.

On the back of the introduction of automatic enrolment, which has seen 5 million additional workers saving into a workplace DC pension since 2013, we have also seen a sharp increase in the number of people who claim to be saving for retirement. In our 2013 survey just 47% of UK respondents said that they were saving for retirement. By 2015, this figure had increased to 60%. There were two notable factors about this change. Firstly, the rate of increase in retirement savers is higher than any other country in our global survey, suggesting that automatic enrolment is having the desired impact on creating a rapid step-change in UK savings behaviours. Secondly, the rate of increase is fastest among the mass retail (modest earners) suggesting that automatic enrolment is proving to be particularly effective in its target market. This should be welcomed as a successful outcome of a long-standing government policy. But it highlights just how rapidly advice needs are changing: an extra 5 million people need support on determining whether to boost their contributions, working out what the benefits will be worth by the time they come to retire, and what that will mean.

We also note the need to ensure that financial planning for retirement takes into account all potential sources of income. The schematic below shows the four key sources of income:



Currently these various sources of income are generally treated differently in terms of advice. Moving to a fully investor-centred advice model would allow individuals to access a holistic view of their asset and potential income. We recognise that some of these areas call for very specialist advice and are designed to have very specific consumer protections in mind, such as the regime for lifetime mortgages which has proved to be robust. There does however need to be a way of combining all this information in a way which allows an individual to ask key questions such as, ‘How much money can I expect to live on in retirement?’ and ‘What do I need to do to save more in retirement?’.

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)?**

We agree.

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?**

No comment

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?**

No comment

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

No comment

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

In the US the Department of Labor ("DOL") recently consulted on a similar issue when it proposed to extend a fiduciary standard of care across the sale of retirement products. There are many similar concepts in regard to the imposition of a standard of care and we draw HMT/FCA's attention to our response in this regard.[9]

The US Pension Protect Act of 2006 ("PPA")[10] is a good example of a fundamental change that achieved the objectives of facilitating and encouraging the establishment and contribution to pension plans and Individual Retirement Accounts as well as focusing on outcome-oriented investing. Through the PPA, Congress and the DoL enacted legislation and implemented regulations designed to make it simple to increase savings and improve investment content of those savings.[11] The PPA provided for automatic enrolment, automatic escalation and "qualified default investment alternatives" ("QDIA"), which were intended to collectively improve retirement outcomes. In particular, by adopting asset allocation products as QDIAs, the PPA addressed the problem that the average investor, with little knowledge of finance and investments, had overwhelming allocations to company stock and conservative fixed income investments and did not change allocations over time.[12] The DoL recognised that participants need help in allocating their savings across asset classes to achieve a better outcome and, by establishing asset allocation products as a safe harbour, it provided that help. The PPA has been successful because it made it simpler and easier to save for retirement and supported investment options – QDIAs – that were considered appropriate to achieve retirement goals.[13]

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

We welcome steps taken in recent years to ensure that UK citizens can meet the challenge of increasing longevity with confidence. In particular raising the retirement age, introducing auto-enrolment and the establishment of NEST have all contributed to improving the UK pensions' system sustainability in the long term. In particular we welcome the effect that auto-enrolment has had on reducing the decline in pensions savings.

Significant as they are, these steps are not enough. There is still too much risk that individuals are not saving sufficiently if they remain enrolled at the default contribution rates or indeed that they will opt out of savings entirely. To achieve an individual's long-term goals of retirement income we need people to save more and save earlier. We therefore recommend that the government set a minimum rate of savings that is likely to provide a sustainable retirement income and supplement auto-enrolment with a number of other measures to encourage a higher savings rate.

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[9] http://www.blackrock.com/corporate/en-fi/literature/publication/dol-definition-of-fiduciary-conflict-of-interest-proposed-rule-072115.pdf

[10] Pension Protection Act, Pub. L. No. 109-280, 120 Stat. 780 (2006).

[11] Notice of Proposed Rulemaking - Default Investment Alternatives under Participant Directed Individual Account Plans, 71 Fed. Reg. 56806, 56807 (Sept. 27, 2006).

[12] 71 Fed. Reg. at 56806-07; See also William J. Wiatrowski, "401(k) Plans Move Away from Employer Stock as Investment Vehicle," Bureau of Labor Statistics, Monthly Labor Review (November 2008), available at http://www.bls.gov/opub/mlr/2008/11/art1full.pdf.

[13] Pension Protection Act, Pub. L. No. 109-280, § 624(a), 120 Stat. at 980. See e.g., U.S. Bureau of Labor Statistics, Automatic enrollment, employer match rates, and employee compensation in 401(k) plans, Monthly Labor Review, at 3 (May 2015), available at http://www.bls.gov/opub/mlr/2015/article/pdf/automatic-enrollment-employer-match-rates-and-employee-compensation-in-401k-plans.pdf.

We acknowledge that this is not a move that can happen overnight. We believe there is much opportunity for using auto-escalation techniques such as the 'Save More Tomorrow'. We recommend building on the insights from the behavioural finance experts in this areas such as those from The Behavioural Insights Team.[14]

As with auto-enrolment, we would encourage the Government to find a politically neutral option acceptable to all parties, in order to be consistent over the long term, rather than changing with each change of government. Workers coming into the workforce in their '20s may find it challenging to meet a very high contribution rate initially, due to challenges such as housing costs and repayment of student loans. Auto-escalation techniques could be used to ensure that the amount and contribution and rate of increase could be aligned to a number of factors such as age, time to retirement and affordability so that they could gradually reach the right level of savings. By way of benchmarking an appropriate savings rate, to generate an income replacement rate equivalent to that under direct benefit schemes, an individual would need to contribute sums in excess of least 20% of their salary.

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**

No comment

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

Effective support and guidance is the lynchpin of new pensions' freedoms. To encourage mass-market investment these giving guidance or designing default investment products should meet clearly defined standards. We support calls for guidance standards that fully integrate the principles of treating customers fairly, 'kitemarked' by an independent body. This could result in a set of standardised questions and answers as to the savings time horizons for savings and risk aversion in the form of an intuitive decision tree that direct customers towards a limited range of products which meet minimum standards for default products. Provided these standards have been met those providing standardised guidance or manufacturing the underlying products solutions would not be subject to further liability.

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

Such standards would need the involvement of civil society actors such as consumer organisations to avoid concerns regarding mis-selling. Impartial standards would have the important benefit of providing consistent levels of guidance to savers.

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

No comment

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

No comment

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

No comment

14 The Behavioural Insights Team, EAST: Four simple ways to apply behavioural insights, 2014

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

No comment

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 that it is important to understand that automated advice is one of a number of selection tools which are made available to financial intermediaries such as financial advisers or discretionary portfolio managers to assist their clients. These tools can also be repurposed for direct to consumer offerings. By taking advantage of models and investment tools, financial intermediaries are better able to work with their clients to develop portfolios that improve their client's ability to achieve their investment goals in a cost effective manner.

Model portfolios are collections of possible investment portfolios, comprising a wide range of strategies (e.g., growth, low volatility, inflation protection, income), product types (e.g., exchange traded funds, unit trusts) and risk profiles. The models are rebalanced or updated by the model provider on a periodic basis, but the model provider does not generally purchase and sell the securities contained in the model on behalf of any investor. The models are developed based on what an asset manager believes would be an appropriate or attractive strategy for some sub-set of investors, but without targeting any particular investor. Thus, the model provider is not "recommending" any model to an investor. It is making the model portfolios available as a product and/or service to a financial intermediary, who, in turn, may evaluate and recommend the models for specific clients.

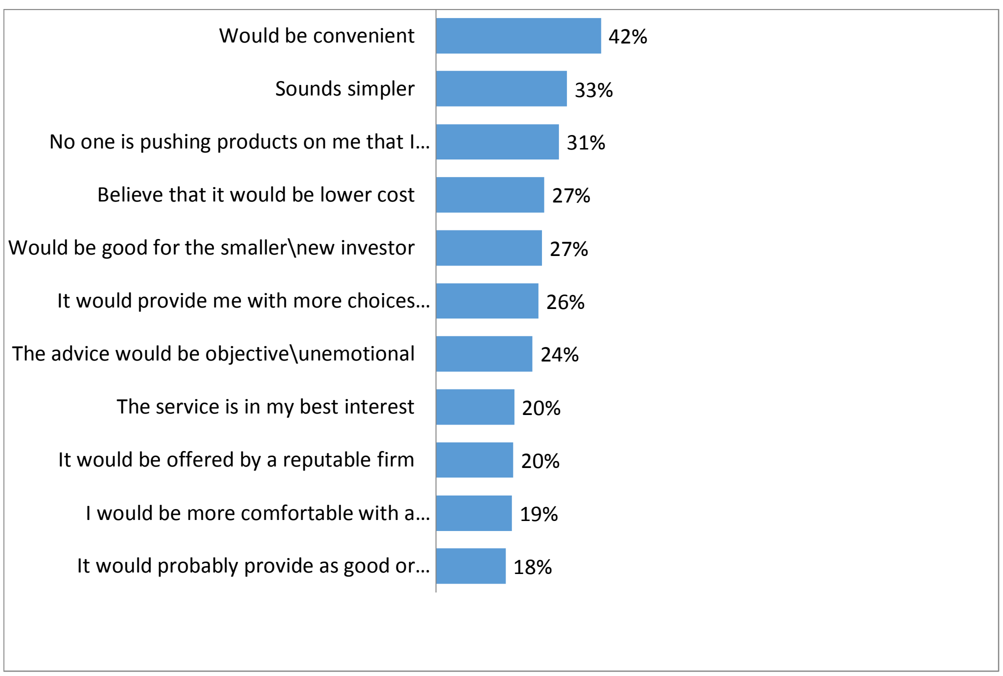
In addition, as technology improves, asset managers are increasingly offering financial intermediaries sophisticated investment tools to assist them in taking advantage of the asset manager's models. The financial intermediary obtains information regarding a client's investment objective, risk profile, time horizon, total savings, etc. and uses that information with the tool to generate a potential portfolio for a client, using the model that best fits the client's information. The tools and technology are accompanied by detailed financial information on the investment funds or other securities included in the model, the strategy and risks. The financial intermediary generally shares with their client a streamlined version of the "output" generated by use of the tool, including information regarding the proposed model portfolio and actual portfolio, once an investment is made. The "output" will generally include investment funds (e.g., exchange traded funds or unit trusts) managed by the model/tool provider and is likely to identify the asset manager that provides the model and/or tool.

Model portfolios and investment tools are viewed as a portfolio management or investment service provided by an asset manager to a financial intermediary. As model providers, asset managers do not have a contract with a client and are unlikely to know the identity of the end client. A financial intermediary, and not the asset manager, is responsible for determining whether a client would benefit from an investment program based on models, determining the appropriate model provider (which may be BlackRock or another asset manager), selecting a particular model and determining whether to follow the model in its entirety or to make modifications based on the intermediary's judgment or the client's preference. The financial intermediary, and not the asset manager, will have responsibility for execution of securities purchase and sale instructions, including rebalancing. We believe that the model and any "output" from a tool cannot and should not be characterized as a personal recommendation by the asset manager, even where the financial intermediary identifies the asset manager and presents the client with a particular asset manager's model portfolio.

While the debate about whether automated advice, particularly robo-advice, actually constitutes investment advice is a valid one, the model is nonetheless highly attractive at the consumer level, which is becoming more accustomed to undertaking all types of lifestyle planning through online channels. The UK Investor Pulse survey did not look at the issue of automated advice in the UK market context. The business model is not as firmly established as in the US and consumer awareness is likely to be very low and restricted to regular investors. In the US, robo-advice is better understood and widely used. We asked some specific questions and the findings show untapped potential, particularly among younger people.

Chart[15] – US consumer interest in robo-advice is generally high and peaks among younger people

Chart - reasons for interest in robo-advice[16]



[15] Investor Pulse 2015: BASE: US (n=4,213) Mass Affluent (n=1,000) Mass Retail (n=3,213)

[16] Investor Pulse 2015 – US question - Why would you be interested in this type of service? BASE: US (n=1,727) Mass Affluent (n=471)

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

If the provision of models and tools is characterised as the provisions of full service investment advice this could significantly increase compliance burdens on model and tool providers or render it impossible to offer these services, as the model/tool providers do not have information regarding the end client. Models and tools are intended to improve the efficiency and reduce the cost of investing. Indeed, one of the benefits of models and tools is that they allow a financial intermediary to select a model portfolio or investment strategy that satisfies the client's needs without creating a more expensive bespoke solution.

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

No comment

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

See our executive summary above

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?**

No comment

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

We recommend that the outcome of the review is to facilitate the provision of advice on retirement savings across all sources of potential income. We recommend focussing on assisting savers and investors in making core decisions about their investing needs, especially if designed around recent technological developments. Effective delivery requires clear and engaging digital communications particular in the form of online advice portals, supporting interpersonal services (predominantly telephone-based support with some online direct communication). We recommend taking the following considerations into account:

- The development of tools by both government and industry about income expectations both from government and industry on how much income the state pension is expected to provide and what income various sizes of pension pot are expected to deliver. The general public would benefit greatly from generic advice that includes how much saving for a typical goal might be appropriate. It is essential to deliver online tools covering topics such as longevity, living costs and investment in this process.

- The ability to pool information about different accounts in a single place, through the introduction of a digital passport or identity.[17] An idea worth exploring here is the 'digital passport'. This would be a single point of contact with a range of different financial service providers, making it much easier for people to manage their assets in one place, with all anti-money laundering and know-your-client procedures completed once, up front. An initiative like this would reduce complexity: people would no longer need their identity to be certified by their bank, producing two or three copies of utility bills every time they open a new savings vehicle. It would also mean that individuals are less likely to lose track of their savings – after all, they're all in one place. In today's society we move homes and jobs much more frequently than previous generations. This means an individual is likely to have multiple savings vehicles and even pension pots. When an individual moves home or job, there is every likelihood that they may forget to update one or two accounts. In the course of a working life this is likely to lead to multiple lost accounts. Having a central, secure data repository controlled by the individual should remove this risk and – who knows – perhaps reunite

[17] TSIP, Saving our Financial Future, 2015

people with the estimated £77bn of unclaimed assets currently residing with financial services companies.[18]

- Face-to-face financial advice (as opposed to mere guidance) will have a place in those situations where personal financial affairs and taxation implications are more complex, and for those that specifically wish to access and pay for such support. In the savings accumulation phase we see a place for workplace access to other forms of support ('face to faces'), e.g. onsite presentations to larger groups of employees, webinars via employer portals etc. as part of an overall provider to employer support programmes. However, employer engagement with post-retirees will not be a feature in most cases and hence achieving direct engagement between provider and individual will be key to providing guidance during the post-retirement phase.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Call for Input to the Financial Advice Market Review and will continue to work with the HM Treasury and the FCA on any specific issues.

[18] TSIP research as above.

FAMR - The Financial Advice Market Review

Brewin Dolphin response to HMT and FCA

FAMRSecretariat@FCA.org.uk

22nd December 2015

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Response from Brewin Dolphin Wealth Management to HM Treasury and the FCA

Executive Summary

- There is unquestionably an advice gap
- Aim to provide cost efficient and suitable financial services for those caught in the advice gap
- Reduce the twin dangers of unsuitable advice and regulatory uncertainty
- Consumers invest in portfolios and products that meet their needs within defined thresholds
- Greater innovation and competition will deliver better outcomes

As a significant firm in the financial advice and wealth management arena with a 253 year history, our challenge is to be able to provide cost effective and robust compliant advice to clients with smaller portfolios and pensions in the current regulatory environment, whilst maintaining the required systems and controls to protect clients and the firm.

The current Suitability framework, while sensible, can become subjective and sets a broad test that can leave advisers feeling vulnerable to challenge from the Financial Ombudsman Service ("FOS") and a range of views from the 'big six' consulting firms . As a result, the material provided for clients and the process of giving advice has become complex and somewhat lengthy particularly for relatively simple needs and products. This has rendered full advisory services too expensive for many customers.

We hope this consultation, and others such as those on Pension Tax Relief and Public Guidance, may lead to a simpler regime for saving and investing which will be more easily accessible by all types of investors.

H M Treasury announced this call for input to the FAMR by saying: *"...this is to explore what more can be done to make sure consumers can access high quality advice so they can make informed decisions with their hard earned money…*"

Accordingly, we have considered the objective to narrow the advice gap and create an environment where financial services will work better for consumers and reduce the costs for smaller investors. The proposal is to create simplified services operating within specified parameters set by regulation which, as long as they remained within these confines, would be considered suitable.

This would be a simpler and more secure framework for regulated entities to operate within, whilst ensuring fair outcomes for clients. Below we present our considered view of how to create this safer and simpler framework for both providers and consumers.

Regulatory Background

Changes to the way firms are remunerated for advice and the introduction of caps on charges for products, e.g. the Stakeholder regime, whilst laudable in their aims, have disincentivised firms from providing advice at certain levels. Consequently many consumers are not able to access guidance and/or advice for some

Brewin Dolphin qualities and resources to fill the advice gap:

Brewin Dolphin has **27** offices throughout the UK and Ireland - staffed with **450** financial planning and investment managers typically with **level 6** professional qualifications. We have more than **100,000 clients** from a wide demographic, with **£32 billion** of their wealth. Brewin Dolphin is a FTSE 250 firm with an annual income of nearly **£300m**.

Brewin Dolphin has the experience and expertise to provide services to fill the advice gap for smaller investors:

- Our proven research capability and investment performance record, is conducive for long term financial planning and investment
- We understand private investors and their needs to accumulate funds throughout their working life and as importantly, how to drawdown their savings in retirement
- We have qualified professional advisers in offices all around the UK.

fairly simple needs, which would ultimately benefit their long term financial health.

Savers are now investing predominantly in, if anything, Cash ISAs (80/20 cash/equity)[1] which in the current low interest environment will not secure or enhance their financial future.

Suitability and its documentation is not an exact science; however the actions of the FOS in setting precedents has perhaps inadvertently shifted policy across the industry, so we are surprised that the FOS is not referred to in the FAMR and believe it needs to be part of any review. The length and complexity of client material is not always helpful in enhancing clients' understanding, particularly those with relatively simple needs or circumstances. In summary we do not believe the suitability rules themselves are so much the issue, it is their application to all clients regardless of the complexity of the client's situation, the product or their financial needs. That 'suitability' must be proven beyond any reasonable doubt while being subjective in itself, has disincentivised firms from providing advice to lower value clients.

For example a £4,000 investment in a Junior ISA charges an annual fee of 1% (£40) and a £400,000 portfolio charges an annual fee of 1% (£4,000) - yet the burden of proof of the suitability of the advice and the investments is the same for both cases. This has stifled innovation and business development especially within the larger firms and led to the raising of their minimum thresholds for investment portfolios or the implementation of higher charges for customers with small sums to invest and smaller pension pots.

Brewin Dolphin High Level Proposals to Address the Advice Gap

1. Execution-Only / Information-Only basis for savings and investments

Access to a suite of 'suitable' portfolios of low risk assets (invested in 'simple products' outside the MiFID complex product regime, including any non-complex managed products).

These portfolios would be considered 'suitable' for clients due to the nature of the assets held in the portfolio, which would be specified by regulation together with the "self-assessment", that the client has undertaken for themselves about their attitude to risk, time horizon etc. The client will do this by completing a simple on-line (so called 'robotic' application service) or paper questionnaire, which would then determine which portfolio is appropriate depending on their appetite for risk.

We hope that this may encourage clients to invest some of their investable cash in risk based assets.

A range of portfolios or products will be available at a low cost and will not contain complex instruments (as defined by the rules). The service provider will then trade the assets on a discretionary basis including rebalancing the portfolios in line with the investors' chosen risk categories.[2] We believe that this will allow firms to make better use of their research facilities and ultimately provide the client with a better outcome. If it becomes evident that professional advice is considered necessary during the application process, or that the client requires assistance or help, the client will be informed and full advice will be offered.

See proposed Investment Mandate at Appendix 1

Minimum proposed investment £10,000

[1] Individual Savings Account (ISA) Statistics, April 2015 HM Revenue and Customs

[2] Currently the suitability rules would prevent us trading the client's assets on a discretionary basis (including re-balancing of the client's portfolio) because each decision to trade would have to be suitable and require us to have sufficient and updated information on the client. This prevents us from using our research capacity to its fullest extent and reacting appropriately in certain market conditions, which impacts the client.

2. Execution-Only with one off Guidance for savings and investments

As (1) above with a professional help/guidance session with a qualified adviser, either by phone, on-line or face to face, for a small fixed fee e.g. £100 + vat for each personal guidance session. We make this proposal, as often clients don't necessarily need personal advice or recommendations, while they do need someone to explain their options and give 'generic' advice which can avoid unsuitable outcomes, and help put them in an informed and 'comfortable' position to make their own decision.

Investments made on this basis will be considered suitable, providing the portfolio's assets remain within the confines pre-set by the FCA for its particular risk category. Due to the nature of the service we would not expect that this guidance will create any ongoing suitability obligations, however the availability of a regular 'health' check as an additional option the client could access if they have any concerns or questions, could be made available for a one off fee.

Minimum proposed investment £10,000

3. Pensions Guidance

Accumulation or decumulation guidance (but not advice) for ~£200 + vat fee: on either the various set up options available to a saver wishing to build a pension; or, if approaching retirement age, guidance through pension documentation to draw out the key issues that must be considered e.g. whether GAR (Guaranteed Annuity Rate) or GMP (Guaranteed Minimum Pension) are options; health considerations, debt obligations; minimum income requirements etc., so that options can be outlined in the simplest terms and to put a client into an informed decision making position before drawing on their pension.

The future for withdrawal from pensions should soon be simpler, with only cash or annuity or drawdown options – or a combination of these being available. See Simple Pension Review Mandate at Appendix 2 on page 11.

Where the client's scenario is more complicated and the full pension review service would be of value, a detailed report and ongoing advice service will be offered, typically this will cost a minimum of £2000.

4. Necessary changes to remove barriers to enable the services at 1- 3 above:

4.1 Review the framework for suitability. Ensure it is proportionate, implemented and monitored consistently across each service. Frame each portfolio or product in a specific new industry standard for each client risk category. Specify the framework for a suite of lower risk investment options. Establish a robust and repeatable process for those clients who complete an online or paper application, from which they can make judgements as to whether to invest, with or without one off guidance.

4.2 Review the subjectivity of client on-boarding to make it proportionate and enable firms to reduce the complexity and length of their documentation, for the reasons described above. Often firms are trying to cover several scenarios and potential legal exposure in their documentation. This can lead to the material becoming quite complex for clients. Portfolios and products remaining within the proposed new industry standards 'safe harbour' and only when provided to clients completing a new specified application process, should not be generally subject to further challenges from FOS regarding suitability

4.3 Cross subsidy is raised in the paper and while this was abolished by the RDR, it does exist in most aspects of life and commerce and should be reviewed in principle, if lower value financial business can be serviced.

4.4 A review of FOS – it will be appropriate to include the FOS in any review of Financial Advice if the industry is to deliver such an enhanced regime at a lower cost. While we believe wholeheartedly in the need for strong and robust independent scrutiny of advice, it is not clear to us how any changes to encourage the closure of the advice gap, could be effective without reviewing the role of FOS and its relationship with the FCA to ensure a consistent application of standards.

4.5 Portfolios of assets should have the equivalent status under suitability to a 'product', so long as they adhere to the new prescribed investment mandate. Allow clients to hold funds within an individual portfolio as opposed to within a fund structure, which can be opaque and have layers of charging. Personal portfolios are less expensive to administer than the cost of wrappers, they are more transparent to the client and have a distinct CGT advantage for investors over the long term. The discretion to re-balance portfolios within the stipulated confines is good practice and utilises research expertise to react to market conditions and ensure the best outcome for investors, as well as utilising clients' own CGT annual allowances throughout the life of the portfolio, ensuring they do not face a CGT liability at encashment. Such portfolios of assets should not be disadvantaged by regulation over wrapped products and the additional costs of say UCITS, should not be a barrier to competition.

FAMR seeks solutions to three fundamental questions

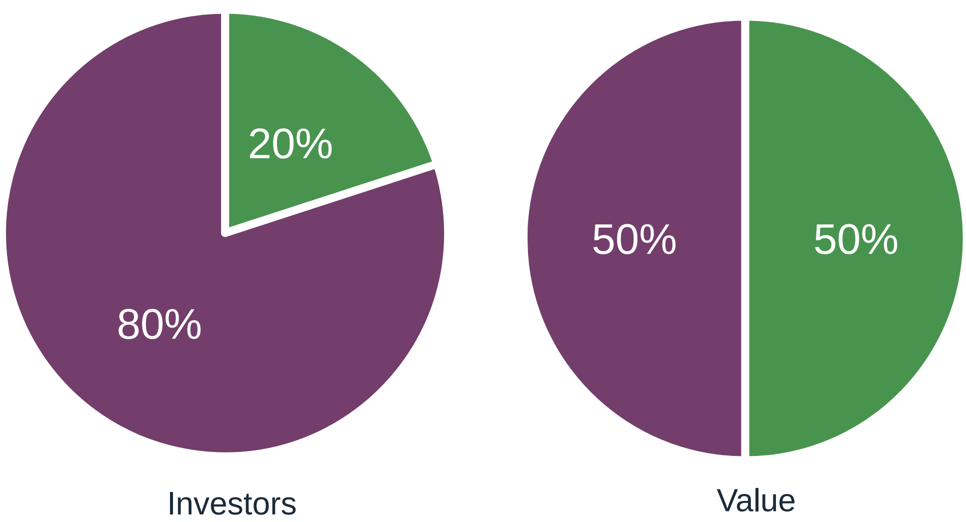
A. What do consumers need and want from advice?

Most consumers want 'help', but beyond this they are not always sure what they need. Money, or the lack of it, can be frightening and the jargon and language associated with investing may be impenetrable to many. Documentation is lengthy and complex; it is sometimes either misunderstood or can be blindly accepted by consumers.

Consumers do want access to advice but they want that advice to come from someone they believe they can trust and will achieve a return on their investment, and consumers want this without exposing themselves to unnecessary risks. We are sceptical about the suggestion of lesser qualified advisers, believing that whether it is advice or guidance, it should be provided by someone with sufficient knowledge who can be trusted. We are concerned that there are views that the quality and qualifications of Financial Advisers should be reduced; we believe this would be to the detriment of the industry as a whole.

Subscriptions to ISAs for many years have typically been 80% into cash ISAs and only 20% into stocks and shares ISAs. At the end of 2013-14 the market value of adult ISA holdings stood at £470 billion. This value is currently split almost equally between cash ISAs and stocks and shares ISAs, demonstrating the value of holding risk assets within your savings,[3] and the need for consumers to be aware of their options and guided to what is appropriate for them. The 80% majority in cash ISAs will barely be receiving sufficient interest to merit tax concessions, while the 20% holding stocks and shares own half of the total ISA pool.

Table 1: 2013 / 14 – Total ISAs £470 billion – **Cash** / **Stocks & Shares**



2013 / 14 – Total ISAs value was £470,000,000,000 for 23 million savers – with half the value owned by only 20% of the savers – 4.6m savers hold £235 billion in stocks and shares and 18.4m savers hold £235 billion in cash

Technology and innovation presents an exciting opportunity for the distribution of good quality financial services in the 21st century. By 2020 it is anticipated that 75% of banking will be undertaken on smart phones and this could be the same for savings and investments, if we can restructure the regulation of its provision.

We believe a different and innovative approach to the FCA's 'simplified advice' and product intervention plans could help to achieve a greater level of confidence and certainty for the vast majority of consumers and clear direction for providers.

B. Where are the advice gaps?

These ISA statistics alone clearly show a significant advice gap to the obvious detriment of many savers. As described above there is a need for financial advice for many with small sums as they save for retirement or reach pension age, but which the industry no longer provides for the reasons explained below.

The disconnection between savings and risk assets is part of the low growth story. As the Capital Markets Union principles highlight, there is a need for equity investment to help achieve growth and a return on equity to reward investors who put up their savings as risk capital. The present direction of return on capital is downward while the costs of regulation continue to rise.

Retail Regulation: RDR and Suitability

Two of the RDR's three pillars are widely accepted as industry improvements, being the qualification and professionalism of advisers and the removal of commission payments; they have nonetheless resulted in a reduction in the number of available advisers. The training of a fully qualified financial adviser to level 6 takes a graduate between 3-4 years. However the third pillar, the Independent and Restricted definitions of firms are widely misunderstood. Brewin Dolphin is a firm that gives advice; does not manufacture its own products and is independently owned, and yet, it is classified under RDR as 'Restricted'.

Smaller firms may not incur the same levels of scrutiny, leaving an un-level playing field and consternation among larger firms as they inevitably pick up the FSCS compensation bill for the firms that fail. The annual FSCS levy is now considered just another business expense yet this liability is unknown and unquantifiable.

These uncertainties, coupled with costs and unknown liabilities, have led to the raising of investment thresholds and increased costs of service. It is below these thresholds that qualified professional advice, regarding the understanding of risk and the recommendation of suitable assets for building savings or withdrawing from pension arrangements, is no longer available to many consumers. The liability for giving pension advice at retirement under the current regime requires over ten hours professional work in most cases.

C. What options are there to close the gaps?

The regulatory standard of 'best practice' is creating higher burdens for suitability for which the costs cannot be sustained if we remain in a low growth economic environment. Regulation must be proportionate.

To help close this 'gap', regulators could specify the minimum Know Your Customer 'KYC' information necessary to categorise smaller customers, in order to help and guide them for either their accumulation or 'decumulation' needs, and make suitability more prescriptive and less subjective, by specifying confines for each product or portfolio that will be 'suitable' for each client category.

Agree industry standards for a suite of lower risk discretionary portfolios and products to satisfy the client categories so defined, and to suggest at what point diversion to full professional advice is necessary. Ensure the simplified processes and portfolios are considered suitable by the FOS, providing they remain within the 'safe harbour' of the confines set by regulation.

Leave room for competition on price, but ensure FULL charges are wholly transparent and presented in a simple prescribed format.

Ensure no opportunities for conflicts of interest / inducements at the advice level.

Create a simplified regulatory environment that allows firms to automate some of their key fact finding processes with simpler KYC processes and reporting without losing touch with consumers, while all the time improving clients' personal experience and confidence in their financial plans.

Be open to constructive cooperation, between government, regulators and industry and to different skill sets within industry e.g. technology and investment expertise. Today apparently more people trust Google with their money than they do their bank.

We do feel that improved financial education and reforms of Public Guidance should dovetail with the solutions derived from FAMR. See a summary of our specific response to the Public Financial Guidance paper at Appendix 3.

Appendices

1. **Simple Investment mandate**
2. **Simple Pension review mandate**
3. **Public Financial Guidance – BD summary response**

1. Simple Investment Mandate

Example for discussion – part of Brewin Dolphin submission to FCA Project Innovate consultation, which included a brochure and a risk profile description.

Please manage the investment as set out in this Account Opening Form on my behalf in accordance with the Supplementary Terms and Conditions which I have read and understood. This mandate authorises you to:

- provide investment management expertise to establish and maintain a portfolio that matches my selected appetite for risk
- diversify my investment across a range of funds and different asset classes within agreed confines
- take care of the day to day monitoring of the portfolio, including which assets are held and in what proportion, and adjust these holdings according to my desired level of risk as indicated by my portfolio choice
- invest the money that I place in the service in funds with exposure to assets, including equities, which can fall in value as well as rise
- pay me income from the portfolio as stipulated by me from time to time
- **This mandate is provided on the understanding that:**
    - My objective is to achieve exposure to risk and a potential higher return from stock market investments
    - **By investing in the service I am taking risk and I accept the value of my portfolio will fluctuate and that I could get back less than the amount I invest**
    - I am / we are prepared to leave my investment in the service for a minimum of 5 years
    - I / we understand that any income I take from the portfolio will fluctuate in line with changes in the value of my portfolio and should not be relied upon to maintain my standard of living, provide for dependants or pay regular household bills
    - I / we understand that it is sensible to also have an emergency fund of three, preferably six, months' expenses in a savings or other low risk account before investing in the service
    - I /we have considered my level of short-term debt and whether or not I should pay any short-term debt off before proceeding to invest in the service
    - I / we accept that the portfolios do not use any ethical criteria when selecting investments and can invest in all types of companies
    - I /we will advise you if my circumstances change so that investing in the service is no longer right for me

Signature

1st Account Holder________________________________

2nd Account Holder ________________________________

Name(s) (Print) ________________________________ ________________________________

2. Simple Pension Review Mandate

Pension income is a complicated area of advice where it is necessary to gather and consider a large amount of information on the client and all the pensions they may have (it is very difficult to do this with a limited fact find).

When reviewing possible solutions Advisers must consider (in addition to the basic fact find information) the following:

- The clients other assets (and any tax liabilities that may be due)
- What they qualify for under the state pension
- If they have other sources of income in retirement
- What risk they want to take or can afford to take
- Whether they have a plan with a guaranteed annuity rate
- The balance between a guaranteed income and the risk of investment
- Till when they plan to work and how much they expect to earn
- What their health situation is and if they may qualify for an enhance annuity (this could mean the client achieves the income they want with less risk – however this health questionnaire alone is a great many pages long)

Gathering all this information and the danger of missing any part can be extremely costly for advisers and for clients

Typically most clients simply cannot achieve the income they want in retirement. There is then a balance to be struck between the desired income and running out of funds or providing too little and leaving clients with not enough to live on.

As a result Brewin Dolphin finds it difficult to serve clients with less than £150k in their pension pot(s). .

We therefore suggest a pension review service for a low fixed fee is considered, to guide clients through a check list as above, to explain how to gather the necessary information themselves and to put them into an informed position in which they can make their own decision, or, decide to take a full advisory service.

3. Public Financial Guidance: summary of Brewin Dolphin's response to HMT parallel consultation

We believe that in order to facilitate the changes proposed under FAMR, any outcomes from this review by HMT into how the Government should structure the public provision of free to client, impartial financial guidance should be complementary to any outcomes from FAMR.

The financial services industry contributes ~£70m levy that supports MAS and Pension Wise and we believe the service should be reconstructed to help savers and investors get the help they need and for the industry to provide the solutions the FAMR seeks to deliver.

MAS should be reformed as a user owned and user governed entity in a partnership between industry, the regulator and government, with a governing board drawn from all three partners and with consumer representation. The service should facilitate a free 'digital financial passport' with the minimum necessary Know Your Customer 'KYC' and completed Anti Money Laundering checks 'AML', for anyone completing its 'Financial Passport' information request online.

It is probable that some regulatory change would be necessary to make this useful to firms and reduce their costs, i.e. by removing the need for firms to re-verify passport data.

Using the Government Gateway technology and combined with sophisticated robotic filtering processes, the new service would guide pre prepared clients with their financial passports to appropriate industry sectors and lists of regulated participants: from debt advisory services to pension advisers. This will save individual providers each building this entry level filter and so reducing their costs, and also upgrade the MAS from just an information website as it is today, into a personal and valued signposting and guidance service. Such a development will have the long term scope to provide each citizen with many other ongoing services, support and 'nudges' throughout the lifetime of the saver.

Financial Education

We would also urge a centrally managed and industry funded set of financial education tools using social media, video and games, to ensure that most school leavers know the difference between for example, simple and compound interest and debt and equity, to better equip them to understand their own financial futures – the opportunities and the pitfalls.

While Financial Education is now part of the National Curriculum – by many accounts it barely amounts to a couple of questions in maths, with no teacher training to support it. The financial literacy of school leavers is poor. Many firms in the City see this as an area of importance and where they can help – but the sporadic nature of this philanthropy for the odd school here and there is not sufficient. We believe this is another area where the industry could benefit from Government coordination to provide material to reach all and not just the few.

We strongly believe that improved financial education and reforms of Public Guidance should dovetail with the solutions derived from FAMR.

For further information please contact
Charlotte Black

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22nd December 2015

BT Pension Scheme

BT Pension Scheme
Management Limited
Lloyds Chambers
1 Portsoken Street
London E1 8HZ

22 December 2015

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

Financial Advice Market Review – Call for input

Dear Sirs,

We are pleased to take this opportunity to respond to the Financial Conduct Authority's Financial Advice Market Review (FAMR).

By way of background, the BT Pension Scheme ("BTPS" or the "Scheme") is one of the UK's largest corporate defined benefit (DB) pension scheme with assets of some £43 billion (as of 30 June 2015), paying over £2 billion in pension payments per year. The Scheme closed to new members in 2001 and remains responsible for securing the long-term financial well-being of over 300,000 current and future pensioners.

As a pension scheme we have no direct involvement with financial advice and therefore do not feel we are appropriately placed to comment on the majority of the issues raised in the FAMR. However, we do wish to feed back on one issue around UK pension scheme members who are residing overseas and are required to take independent financial advice if they wish to transfer out the Defined Benefit (DB) pension to a Defined Contribution (DC) arrangement.

Overseas pensions transfers

Current UK legislation requires that individuals who wish to transfer their DB pension benefits to a DC scheme are required to take independent financial advice from a UK approved pensions transfer specialist (if the value of the member's benefits is greater than £30,000). This advice can be difficult to obtain for members residing overseas where there may not be a supply of UK qualified advisors available. Furthermore, some countries, such as the United States, require that before residents in their country take a transfer, advice must be received by someone holding a suitable qualification in that country. This could lead to members either needing to pay for two lots of advice or even finding themselves in a position where they are simply not able to comply with both UK and their local legislative requirements.

One solution to this issue could be for the UK legislation to apply some sort of accreditation for advice received overseas in countries where it is felt the quality of advice is suitably adequate to provide the layer of protection the UK advice requirement is intended to achieve. We would like the FCA to consider this in respect of members of UK pension schemes looking to transfer their DB pensions.

Please do not hesitate to contact us if you require any further information.

Once again BTPS is grateful for the opportunity to respond to this consultation and inform the FCA's thinking.

Yours faithfully,

Catherine Redmond
Head of administration, BT Pension Scheme Management

Financial Advice Market Review:

A response to the HMT/FCA call for input

22 December 2015

Building Societies Association

Introduction

Whilst the high street banks have retreated from offering advice on regulated investments to the mass market of consumers, building societies have mostly continued to serve this market, even though the economics of doing so, for many societies, have become marginal with several reporting their advice business to be operating at - or close to - a loss. Societies see this as a service to their members and they are able to offer this as, unlike plc banks, their mutual business model means they are not required to maximise profits. However, the sustainability of these services is questionable: the low margin nature of the business has already driven some product providers to stop distributing their products via building societies to the mass market and there are indications that unless there are significant changes, others may follow. The regulatory framework for “vertically integrated firms”, which applies to product providers on which many building societies rely, would appear to be largely at the root of this.

Building societies offer their members access to retail investment advice via several different business models: most societies are appointed representatives of either a single third party product provider or advice network. Others retain an advice arm within their corporate group.

We consider that societies’ track record of loyalty to the less wealthy sections of society - as evidenced by the sector’s continuing commitment to offering financial advice on the high street and other channels - instils the sector’s contribution to the current review with considerable authority.

Most investment advice provided by building societies, typically 95% or more, is to their existing saving and borrowing members. Whilst the number of building society members has steadily increased in recent years, the number of members receiving investment advice has declined markedly since the implementation of the Retail Distribution Review. Societies attribute this in part to reduced demand as consumers, particularly those with lower levels of investible wealth, have proved much less willing to pay for advice than previously, even though the cost to consumers of advice has generally fallen with the introduction of the RDR.

But it is also attributable to heavier regulation of conduct of business which has led to increased regulatory risk. Building societies, which are typically risk-averse and instinctively highly compliant, have reacted to this by restricting the scope for front line staff to “nudge” customers towards seeking advice. Also, societies' remuneration structures now provide little or no incentive for staff to nudge customers. Without such nudges, most consumers will not choose to seek advice.

Change is needed to reverse this decline in the availability of advice and we are fully supportive of the aims of the Financial Advice Market Review to address this. Whilst the RDR has been beneficial in some respects, such as increasing the professionalism of advisers, it has evidently contributed significantly to the reduction in the availability of advice. It is important that lessons are learned from the experience of RDR. Recent public policy developments, most notably the introduction of pensions freedom, make this an absolute imperative.

The building society sector is uniquely positioned to play its part in increasing the availability of financial advice. Societies enjoy higher levels of trust than banks; they are valued by consumers for their high levels of customer service and their commitment to their branch networks means they will continue to have high street presence, which is known to be valued particularly by those in the more vulnerable and more mature demographic groups which are a key focus of the FAMR.

In seeking solutions to the current advice gap it is essential that FCA addresses the impact which regulation has had in limiting the availability of advice. It must be prepared to accept approaches to advice which give good – if not optimal - outcomes for, say, 90 to 95% of consumers, rather than designing approaches which aim to provide an optimal outcome for a minority of consumers and leave others without the advice they need. Moreover, it is essential the FOS endorses fully such approaches as, absent FOS endorsement, firms will not be able to mitigate sufficiently the compliance risk of any simplified or limited approach to advice.

In the remainder of this response we address many of the questions posed in the consultation paper.

Response to questions posed in the call for input

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?

Some consumers will certainly have particular needs in terms of provision of financial advice due to vulnerabilities such as those related to age, health problems, mental health problems, lack of financial knowledge or confidence, lack of confidence in using technology, low literacy and numeracy capabilities and/or problems with using the English language.

An individual's particular vulnerability or combination of vulnerabilities will be unique to that person.

Providers of advice for these consumers must be able to identify that they need additional help and to deliver it in a way which meets the individual's circumstances in terms of their particular vulnerabilities.

Providers also have to consider the delicate balance between maintaining the consumer's privacy in their financial affairs against the benefits of involving friends or family in helping them reach decisions and to support attorneys and other appointed third party representatives who seek financial guidance and take financial decisions on behalf of a vulnerable person.

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

Much greater clarity is needed over the regulation of advice and how this is applied. For example, there has been uncertainty about the status of simplified advice and this has not lifted with the introduction of the RDR. Several attempts at simplified advice models have floundered owing to a lack of clarity about the regulatory framework for simplified advice and concerns about the attitude of the FOS.

Also, confusion surrounds the difference between guidance and advice and this is not helped by the title of the main provider of government-endorsed guidance ie the Money *Advice* Service. It would clearly help clarify the scope of MAS if it was to be relabelled as a guidance service – this would be consistent with the recommendations of the Thoreson review, which led to the formation of MAS.

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

Consumers generally underestimate their needs for advice and this is evident in the survey of consumers' own assessment of their advice needs described in the *call for input*. They often need to be prompted into taking advice as, unprompted, will not appreciate they need it.

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

The extent to which consumers are relying on price comparison websites is a concern, given the limitations and biases inherent in these and the lack of clarity about the status of the information provided on such sites. Price comparison websites are seen by consumers as a source of independent information when most are not. We would welcome much closer regulatory oversight of such sites to ensure consumers are not misled.

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

Whilst consumers are more likely to seek advice for more complex financial needs than for simple ones, those at or approaching retirement are likely to have the greatest need for advice, and it is worrying that a high proportion are not seeking advice when they need it. In our members' experience, consumers who seek advice express a very high level of satisfaction with the advice they have received. Typically, satisfaction levels among building society customers in receipt of advice are in the high 90%s.

Apart from some minor exceptions, the mortgage market has been almost fully advised since 2014. However, in the BSA's recent *Lending in to Retirement* report we found that a singular focus on mortgage advice is not always the best thing for people at or approaching retirement. Older people may have a more complex web of income streams and assets than those in other age groups, so that narrowly-focused mortgage advice may not achieve the best customer outcome.

One example concerns the new pension freedoms. A customer over the age of 55 with a defined contribution pension pot may approach a building society looking to take out a mortgage. That mortgage will be underwritten against their pension income after retirement age. Therefore, taking out that mortgage may limit the customer's options in future in regard to taking a lump sum or income drawdown from their pension pot instead. Deciding which option to take is a complex decision which the customer cannot be best advised on by a mortgage adviser acting in isolation.

There may be other examples where a customer needs to decide whether taking money from a pension or drawing equity from their home using a lifetime mortgage would be the best option.

It has become common to say that what is needed is 'holistic advice'. However, there are several practical issues. Only very few financial advisors are broadly trained in mortgages, pensions and equity release and the advice that they provide is likely to be expensive. It may also be the case that even given the option, customers would not value such advice. They may have researched their options themselves and decided the route they wish to take, even if a better option could be found through a more thorough advice process.

Instead it seems that, in the first instance, the focus should be on guidance – which tends to be cheaper to provide and is up to the customer to decide how to access it. Other organisations have, for example, suggested that property wealth should be considered within ‘Pension Wise’ guidance so that customers are at least aware that accessing housing equity could be a better option than accessing their pension.

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

Our members feel that the FCA’s segmentation model is potentially very useful. Some have had experience of seeking more information about the model, but have found the regulator unwilling to divulge this. We would like the FCA to take steps to make its model much more accessible to firms.

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

There is a need to consider the full spectrum of life-stages, recognising that needs differ. In segmenting the market, it will be at least as instructive to consider individuals’ net asset levels as to consider their age.

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

For consumers with higher net wealth, clearly advice is more affordable, but the advice needs of those with lower levels of net wealth are not commensurately lower than their wealthier counterparts. Indeed, the need for good advice is arguably more for someone with a £40,000 savings pot than for someone with a pot of £400,000, in that the latter is more able to afford the consequences of bad investment decisions.

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

There is a widespread lack of appreciation of the benefits of advice. Our members perceive that in part this is because under more restrictive conduct rules, firms do not feel able to nudge their customers towards taking advice. Conversations between front-line staff and customers which, in the past, may have led to advice being commissioned are now more constrained.

But also, the authorities could do more to publicise the benefits of advice – there is a tendency for them to focus on the benefits of independent advice, which is largely unaffordable to those on middle incomes, to the detriment of restricted advice, which is both more affordable and capable of meeting most of a consumer's needs.

There may be scope for the government to incentivise consumers to take advice – eg by offering a voucher to spend towards the cost of advice – the most appropriate time for this would likely be at or near retirement, but potentially it could be extended to other key life-stages.

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

The reduced supply is largely a function of lower demand and the cost of providing advice.

Building societies have mostly continued to offer access to advice to their members, even though the economics of doing so, for many societies, have become marginal at best.

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

As noted above, the introduction of the RDR, particularly the rules relating to vertically integrated firms, have served to reduce the supply of advice, as business models which generated an economic return were prohibited or became untenable due to lower margins. This effect has been accentuated by subsequent changes to conduct regulation and the widespread use of balanced scorecard approaches to remuneration, both of which have led to fewer customers being nudged in to taking advice

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

New technologies clearly have a key role to play in the delivery of advice. Building societies have been in the vanguard of trialing some of these – for example, in the use of video advisers. The benefit of new technologies is that they can facilitate lower-cost delivery of advice than face-to-face channels. They are unlikely to be a complete solution, however, and should be seen as components of a multi-channel approach to advice delivery.

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?

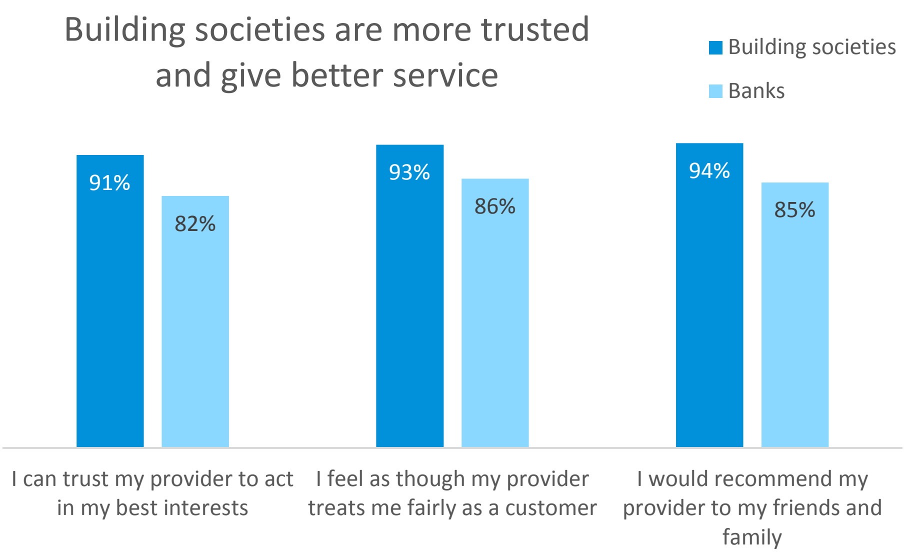
As noted above, where building societies have been able to continue to offer their entire membership access to investment advice this has been largely by virtue of their mutual structure and the absence of external shareholder pressure to maximise profits across all business areas. Typically, the provision of investment advice is seen as a service to members, which generates very small, zero or negative margins. The low margins are understood to extend also to product providers and it is questionable whether all providers will be able to sustain a presence in this market.

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

Under the current regulatory regime, the high net worth segment is the only one to which it is profitable to provide even restricted advice on a face-to-face basis. Some individuals in other segments are willing to pay an economic fee for face-to-face advice, but the generality are not. Accordingly, other solutions are needed, involving modified regulatory requirements or the deployment of lower cost advice channels, or most likely a combination of the two.

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

Reputation and trust are not seen as barriers to building societies, which are well-trusted by their members. The BSA conducts regular surveys of customers comparing levels of trust of building societies and banks and societies consistently out-perform banks on these measures.



Source: Canadean Consumer. Six waves from June 2014 to September 2015. In each wave 2,000 UK adults are surveyed online. Figures are weighted and are representative of all UK adults.

Nor is finding customers a problem for building societies, which have 20 million members. The main problem is in prompting members to take advice when they need it and, as noted above, there are barriers of both supply and demand which are limiting the numbers of people receiving advice when they need it.

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

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

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

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

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

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

Yes, these are the most important areas; pension saving and taking income into retirement, in particular, have assumed increased importance with the introduction of the new pensions freedoms which will massively increase the need for professional advice.

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

Yes. Those on higher incomes or with more valuable investible assets are much more likely to be able to afford to pay for advice and there is evidence that those with higher net worth are currently able to access the advice they need, so should not be the focus of the FAMR. As noted earlier, building societies have continued to serve those on lower incomes with investment advice needs and it is important that the FAMR does not neglect this important group. We would reiterate that the advice needs of those with lower levels of wealth are at least as great as their wealthier counterparts.

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

Regulation needs to be framed such that it is not necessary to personalise advice to the degree that is required under existing regulatory arrangements. Greater use of decision trees and algorithms that lead to consumer outcomes which are not unsuitable in, say, 90 to 95% of cases should be acceptable to the regulator; and to FOS.

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

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

Previous initiatives, such as CAT standards and stakeholder products had laudable aims but failed because they capped at an uneconomic level the price at which providers could offer the products. There is no price-capping under the Simple Financial Products initiative (SFP). This remains a work in progress, but its current scope is too limited – focusing on products where there is not actually a problem in consumer take up, ie cash savings; or where products are already largely commoditised and can be purchased without the need for advice, ie term life insurance. Whilst the BSA remains supportive of SFP, if the initiative is to make a real difference, it needs to embrace retail investment products, where there is a genuine need for simplification and could be accompanied by a substantial easing of existing advice requirements.

Conclusion

Building societies' record of having continued to offer an advice option to their members, irrespective of the latter's financial resources, when other market participants have largely withdrawn from this market, demonstrates the sector's commitment to serve the mass market of consumers.

But the sustainability of these services is questionable, given societies' reliance on a dwindling band of product providers. This is worrying at a time of increasing consumer need for advice, which has accelerated with the introduction of pension freedoms.

Regulatory reforms are needed to allow lower-cost, simplified models to be developed which accommodate the deployment of new technologies and it is essential that government, regulators and the ombudsmen move together on this.

We consider that building societies are uniquely positioned to be a key part of the solution to the problems which the FAMR is designed to address and we look forward to working closely with HMT, FCA and others in taking this work forward as quickly as possible.

BSA, 22 December 2015

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The Building Societies Association (BSA) is the voice of the UK's building societies.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the government and parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £330 billion, and account for approximately 20% of both the UK mortgage and savings markets

RESPONSE TO FINANCIAL ADVICE MARKET REVIEW

22 DECEMBER 2015

Capgemini Consulting

Executive Summary

The UK is a fantastic market and has the opportunity to become world leading. However, there are a number of barriers to the supply of advice, and also barriers to consumers who want advice. The sector is reaching a crucial inflection point in the next 2-3 years - and what happens now will dictate whether the sector and consumers, prosper. There are great opportunities, but no single solution will improve access to advice.

What is needed is an environment which delivers improved access to advice and delivery of consumer outcomes, whilst encouraging financial advisers and product providers to invest capital and build sustainable consumer-focused businesses.

We make 6 key recommendations in this document which we believe would support the achievement of the above. But implementation will require the cooperation of government, regulatory bodies and the industry itself.

1. The cost of advice needs to reduce through the use of new technology to shorten the advice process for advisors. This is not about 'robo-advice'. It's about advisers using robotics, and other technology solutions, to reduce the time taken for key elements of the advice process to be completed. This will facilitate a faster and more efficient interaction between consumer and trained financial adviser at a lower cost - and hence at a lower charge.

2. Complexity within the market environment needs to reduce. The sheer volume of historic and current pension and tax rules is a key reason why advice is complex and carries risk. Reducing this complexity would help improve access to advice at an affordable price. A one-off 'clean up' is not enough, however. Governments also need to provide a stable, long term, savings environment, free of constant tinkering. At a practical level, the introduction of a pensions dashboard is also required.

3. Transparency in how fees and performance are calculated and presented. It is crucial for consumers to be able to compare the impact of fees. But consumers also need to understand the impact of fund performance on their overall value. Our focus should not be on the lowest cost provision, but on the overall value and how this is communicated to consumers. This would help simplify the sector, aid financial advisers, reduce the cost of advice, and help consumers understand which organisations deliver value - ultimately building trust.

4. Apprenticeships, new advisers will be needed during the next few years to help avoid a future advice gap for which we recommend the introduction of apprenticeships.

5. Improving industry culture, bringing new thoughts into the sector is crucial to support the development of a customer centric and innovative culture - in particular further aligning adviser remuneration with the delivery of consumer outcomes.

6. Government support for innovation investment. The sector needs to invest. Other key sectors have previously received support for research and development investment. The financial advice sector now needs the same support.

It could be argued that there is no advice gap today. We certainly don't see a consumer outcry for better or cheaper access to a financial adviser. However, without combined activity by government, the industry, and technology innovators, we believe there will be an ever-widening gap between the advice consumers need, and what they actually receive.

Our 6 recommendations will help address that gap.

<u>Overview of access and barriers to advice</u>

Market Demand

Background

It has often been commented that there is an advice gap; however we don't see queues of consumers outside banks or financial institutions demanding access to an adviser. Until consumers demonstrate clearly there is unlikely to be a demand driven advice gap in the next 2-3 years. Most markets are decided by consumer demand and there should be no reason financial services should be treated differently. Should consumers be accessing advice when they don't today is a key challenge, but similar to the recommendation that everyone eat 5 fruit/vegetables a day or drink 2 litres of water day. Consumers will use their free choice and judgement whether they need to take the advice or not. There are many reasons why consumers choose not to seek advice for example:

<u>Apathy</u> – Many consumers simply do not care enough about their financial provision.

<u>Confusion and choice</u> – Consumers do not understand the products; for example pension and tax rules being very complex or do nothing given the range of choice and associated complexity they face.

<u>Trust</u>- Significant mistrust of the sector due to mis-selling scandals and the drip feed of incompetent or criminal behaviour brought to their attention by the media. These are a small number of cases but have a negative impact on perception when publicised widely.

<u>Price v Value</u> – Consumers traditionally who are happy with their advisor are happy with their fees. For those who are not happy with the service or value from the adviser they rightly question the fee levels charged compared to the service or financial performance delivered. 3rd party experiences equally play a role in consumers having negative associations or dissuaded from advice due to the perception of the cost of advice rather than the value it can provide.

<u>Internet/Media-</u> Industry has created a drip feed of negative cases which the media have readily and rightly but with the growth and speed of online media usage this heightens consumers' awareness and mistrust of the sector. Industry bodies and the regulator work hard to improve professionalism but only by eradicating these poor industry behaviours will trust improve.

Consumers use their free choice in markets and Financial Services should be no different but there are barriers to consumers and to the sector prospering. Unchecked these will potentially lead to consumers making misinformed decisions or crucially not taking adequate steps to protect and plan for their future.

The barriers we potentially see to advice:

<u>Price v Value</u>- Consumers in any sector look for value in different ways, ultimately they will happily pay if they believe their personal value drivers are being met. For example a consumer who wants good quality retirement planning advice may believe they benefit from sound advice and therefore the £1000-£3000+ cost of the advisers time today. Many consumers however are uncertain they will see that value delivered in the future based on the advice today or simply do not want or believe in paying for these levels of fees.

<u>Complexity v Choice</u> – The volume of complexity in the industry between regulation, pension, tax rules and product provider rules have created a fundamental problem to the sector. This impacts consumers trying to understand and the advice industry trying to explain to consumers. Consumers do not care or understand the complexity involved and if uncertain will often do nothing. The challenge will be with increased competition whether this actually helps or confuses consumers further with a wider range of slightly different but online solutions.

Communication/Transparency – RDR was aimed at helping improve transparency in the sector, overall there clearly has been an improvement with new fee tariffs. However has this practically improved consumer understanding of fees is uncertain. The presentation of how the fees and related fund performance are presented to consumers is still a barrier for many. It is very difficult for any consumer to look at industry documentation and easily compare like for like charges and crucially the how past performance has been calculated for an investment. Therefore transparency has improved but not sufficiently yet to enable consumers to make a rationale informed decision when faced with organisations displaying investment performance in a multitude of basis, so complex that even professionals within the sector struggle to understand.

Education V Awareness- Consumer financial education and awareness has improved due to the internet for those consumers proposed to saving. However for those not, increased education is needed whilst the complexity in the sector has to be radically reduced to support advisers reducing costs and maximising their client time.

False expectations & Robo –advice- Robo-advice models to help consumers have been highlighted but these solutions only generally solve one problem, which is helping clients understand their attitude to risk with an easy online journey. For those clients who know they need to invest in say an Equity ISA it's a potentially suitable solution, however for many they do not understand what they should do given the range of product wrappers available. Robo-advice can be a solution in the future but for the next 2-3 years it's unlikely to help consumers if they already have some type of existing solution or other options are available to them.

Market Supply

Background

Retail Distribution Review (RDR) has led to a significant change in the advice market, numbers of advisers reducing to improved qualifications. It has made advisory firms become more aware of the importance of the customer and the commercial sustainability of their business which is good news. Previously it could be argued that consumers had lost trust in the financial services sector post the financial crisis and in particular in the financial advice market. Many organisations were very concerned how consumers would react to understanding the cost of the advice prior to RDR. During the last few years we have seen advice businesses leave or consolidate which has reduced adviser numbers to around 25000, depending on varying sources. Fee based charges gradually reducing but in the bulk similar to pre-RDR commission levels for initial advice.

Cost and complexity of advice and potential advice gap

The market has become more competitive with a focus to provide advisory services to consumers willing to pay for their services. This means advisers seeking to advise clients with larger amounts of wealth. This means if an adviser wants to cover typical advisory costs of around £700-800 based on the ABI 2010 study they will typically charge between 1-3% for initial advice depending on the investment size, with many including high street banks only willing to provide advice to consumers with £50,000+ of investable assets. Given the nature of fees and associated risks the advice market has moved towards the £100,000 of investable assets as key entry point for many clients.

For consumers under those levels will struggle to gain access to advice, however Money Advice Service and Pension Wise plus information online can help consumers. Clearly it is a significant opportunity if a cheaper advice solution can delivered to provide peace of mind to consumers in this segment when making financial decisions. In terms of an advice gap there should be a concern given the market challenges of being more efficient, increasing cost of risk and ongoing complexity adviser numbers may reduce further. The reduction over the last few years will create a problem given the demographics of the adviser community where depending on the reports the average age is around mid- late 50s. In light of the growing pressures on this community there is a real threat in 3-7 years that an advice gap is created as they head towards retirement but critically that this be accelerated as they feel the challenges outweigh the benefits of working in this sector.

Culture

The overall consumer FS market previously lost its prioritisation on the customer due to years of regulatory and government policy tweaking. This coupled with sector over engineering on one side and the adviser market evolving into habits not aligned to delivering to the customer but believing it was. Culture within the sector has improved as professional qualifications have been raised together with the focus on a sustainable financial business model. This market is still evolving whether it's a small advice business to large multi-national trying to develop its capability, prioritisation or focus needed to meet consumer outcomes and provide advice is something which the sector still needs to improve.

Future for supply

Advisers aim to give the best advice and many aren't living particularly wealthy lives but are in effect running or working in small – medium sized businesses. The opportunity to help them and consumers is critical to for the whole market to avoid advisers slowly leaving the market with an advice gap then emerging. Consideration should be given to support the sector as it evolves and leverages new technology and processes to improve access and quality of advice. To evolve further requires younger people to see the sector as a worthy profession and for new advisory businesses to evolve or start up with new processes and technology to reduce the cost of the advice. This enables consumers who are willing to pay a reduced fee to access simpler focused advice whilst encouraging younger people to develop their careers. For this to be achieved requires radically improved regulatory, commercial and governmental alignment to build sustainable businesses, simply operating on the basis of that last 10-20 years for all parties is not sustainable or desirable.

6 Key recommendations to helping consumers and building a sustainable industry in the future

1 Cost of advice needs to reduce

To improve the access and engagement of financial advice requires the advice process to be digitalised with new technology. We believe this is possible based on current technology and we have created an online advice model concept which means consumers would input their information with their authority, some of this would be automatically scanned from the clients external sources. This would reduce the advisors time and cost with a client and allow focus on solutions to meet the outcomes. Evolving the delivery model and encouraging consumers to provide information online to financial service product providers and advisers supports the overall value chain including consumers. This can be used on multiple product areas from mortgages through to savings and pensions.

2 Complexity within the market environment must reduce

Product Environment; e.g. Pension Policy – The cost of advice and risk involved is potentially highest for those consumers seeking pension advice and those advisers providing it. It is crucial that protection is given to consumers but to tackle access to advice this will only be achieved ultimately if solutions available within the market are consistent and relatively simple. Providers and advisers can differentiate on their service delivery, personal skills, digital execution, investment performance and financial competitiveness to demonstrate value. The multiple changes in pension and taxation policy over many years have helped to create a significant legacy problem and overly complex current environment for all parties. Regulators, advisers, product providers and crucially consumers are trying to navigate the very complex environment which requires combined action from all parties:

Clear and sustainable savings policy

To improve access to advice there needs to be a clear and simple approach to saving for the short, medium and long term. Simply placing advice online using technology will improve but not solve the crucial problems in the sector alone, for example on pensions there needs to be alignment between the past , current and the future pension solutions. Taxation of pensions needs to be simplified and a clear solution for all (similar to US 401k or Workplace ISA) needs to be considered which improves consumer on-going understanding, provides limited access and supports auto-enrolment policy. Engagement needs to improve both at the start and throughout long term saving. This would equally make it easier for advisers to advice, improve transparency and consumer engagement/protection.

Pensions Dashboard

The FCA published a Retirement Income market study in Dec 2014, highlighting the need for a pension's dashboard to help consumers understand the location and value of their legacy savings. This would help both consumers but also reduce process time for advisers to track and find client fund valuations, ultimately helping to reduce the cost of advice if the process took less time. This requires Government direct practical support and crucially direction in the short term to make a meaningful difference to the sector in the next 5-10 years. It cannot be left to the industry alone given the vast range of companies within the industry with varying business models and priorities otherwise it simply not happen.

There is no way to future proof the sector however if there is a simple but effective policy moving forward this would help provide a clear sustainable road for retirement planning but would solve one of the two problems. The second is then how to align the legacy policy of the past with the rules of the current and the future and registration and making it very easy for consumers, advisers and providers to align their solutions and systems based on 2-3 key criteria would enable a faster transition than current levels of complexity allow for and which places significant strain across the costs, fees and ultimately customer experience.

Regulation alignment

Clarity is required between regulation and the Ombudsman service as to how regulation should be interpreted and how this is applied. Having both organisations operating as independent organisations does not help the sector become sustainable or help improve access to advice. There needs to be penalties applied for inappropriate behaviour however there needs to be a transparent and aligned consistency so that organisations across the value chain are willing to invest and build new solutions for consumers rather than fear an inconsistency of regulatory interpretation. One simple example is the preferred policy of consumers eating 5 fruit/vegetable a day, is similar to the fact they should have full holistic advice but in reality only want to focus on 1 financial need rather than their overall financial position. Acceptance needs to be given that consumers rightly or wrongly don't want advice on lots of things just what is important to them at the time. Therefore a regime where large numbers of customers want one need addressed should be seen as acceptable. Increasing the use of focused advice ultimately helps to reduce the process and cost of advice. Whereas today there is often concern that it perceived that high numbers of customers requesting focused advice somewhat implies advisers are not effectively providing suitable solutions.

3 Transparency and the challenge to compare fee v fund performance value

To help consumers and advisers there needs to be consistency around how fund performance and pricing is clearly displayed to consumers. Until the same basis is used communicate fees and past performance net of fees consumers will struggle to engage, build trust and see value. They may know one firm is charging X but it is then very hard to compare to fees and performance with another as the information is presented in a complex and varying basis. The current approach adds time and effort to the advisory process for advisers to analyse themselves then to effectively communicate to consumers for them to understand.

4 Apprenticeships and consumer focused culture

Improving access to advice even with new technology and new models will for many consumers still require having access to a person. The nature of how that adviser engages and for how long in the process is the point which will evolve with new technology. The sector will need people wanting to help and support consumers with their financial needs and focus is needed to improving the image of financial advice to demonstrate the value of it as a career. Therefore apprenticeships are rapidly needed within the industry together with government support to bring a technology focused culture into the sector and train the advisers of tomorrow today to ensure an advice gap is not created in the next 10 years.

5 Culture

An ongoing drive to improve sector culture is required and should also be aligned for all parties in the value chain whether an asset manager, investment platform, life company or bank/advisory business. For example remuneration and key performance indicators being aligned to consistent delivery of acceptable customer focused outcomes and how this aligns to daily activities.

6 Government support for innovation investment

The entire sector is evolving following years of reacting to regular regulatory and taxation policy changes and is now trying to actively align to the new future market. This evolution will take time given the volume, scale, culture and traditional priorities. A key element to accelerate the evolution would be the alignment of significant resources towards innovation/research & development. The automotive and pharmaceutical sectors are good examples of the need to focus efforts and budgets. Over the years there have been times of encouragement for industries to help them evolve and generate world leading innovation. An example is that Ireland has recently reduced their Corporation tax rates to 6.25% for those businesses investing in research and development compared their significantly higher rate for those that don’t. Even if this was simply to incentivise increased innovation spend for a fixed period of 3 years to support the industry evolving this would help improve the focus towards the solutions and rapidly help to improve access to advice and ultimately build the foundations for a sustainable and world leading consumer financial services sector.

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The Lord Leigh of Hurley

HOUSE OF LORDS

22 December 2015

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BY EMAIL TO: FAMRSecretariat@fca.org.uk

Dear Sirs

I am responding to the call for input on the Financial Advice Market Review.

I note that the call for input seeks to look at how financial advice can work better for consumers, and that this call for input is being run in conjunction with HM Treasury.

My remarks focus on the Review's aims to consider the regulatory or other barriers firms may face in giving advice, and how to overcome them.

For the record, I have communicated with the FCA, HM Treasury, and the FOS with concerns I have on aspects of the current system, and have had meetings with all three on this subject.

My concern has been prompted by a specific case which has been brought to my attention. This relates to a FOS ruling in respect of the use of a SIPP for "non-standard" asset investment. There seems to have been a very heavy-handed approach by the FCA to SIPP providers who assist with "non-standard" investments. There does not seem to be any public explanation for this approach.

Some time ago a FOS Ombudsman arrived at a decision which essentially left the SIPP provider liable for advice which had not been given by the SIPP adviser and was completely outside of its scope.

40 Portland Place, London W1B 1NB

This has highlighted the following failings in the system, which need to be addressed urgently:

1. There does not seem to be an appropriate ability to appeal against strange or rogue decisions by the FOS which do not accord with market practice. One decision can bring a market to a halt and threaten the viability of otherwise viable firms. FOS does not seem able to help SIPP providers or other financial firms in comparable circumstances. A mechanism needs to be put in place which will allow challenges to FOS decisions where an independent panel sees that these are rogue.

2. The appointment of FOS Ombudsmen seems opaque and not open to any public scrutiny. It is not clear that these Ombudsmen are appropriately qualified or experienced. For the market to have confidence in the FOS system, this needs to change.

3. FOS seems to have the power to investigate firms to an extent which does not seem justified and is without proper checks and balances.

4. It is not clear what the proper controls are on FOS generally. The Enterprise Bill which is going through Parliament contains new restrictions and objectives relating to the FCA's performance in respect of the wider UK economy. There are no such requirements on FOS which seems to operate without any accountability.

5. It would be helpful if the FCA were to set out clearly its objectives in respect of particular sectors of the financial services industry. Specifically, it would seem that the FCA is not comfortable with "non-standard" investments within SIPPs and is taking a number of steps to close this part of the industry. It might be more helpful if the FCA were to be very clear and set out whether or not they are seeking to close down this sector, or that they are seeking to ensure it survives on a robust basis.

For the avoidance of doubt I set on record that the case I refer to is Berkeley Burke Group. Neither I, nor my company, have a paid or financial relationship with Berkeley Burke currently or historically. My other interests are identified in the House of Lords Register of Interests.

Yours faithfully

Leigh of Hurley

Lord Leigh of Hurley

From: Chris Daems <chris@cervellofp.co.uk>
Sent: 30 November 2015 16:34
To: FAMRSecretariat
Subject: Cervello Financial Planning

Hello,

My name is Chris Daems and I run both a directly authorised financial planning practice and a software business.

I wanted to submit my input into the financial advice market review for consideration and have detailed both the questions asked and my answers below. If you need further clarification please don't hesitate to get in touch....

I have chosen to answer questions where I believe my input and perspective adds value. Therefore not all questions have been answered....

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

Many consider 'financial advice' to be face to face, bespoke financial advice. However the reality is that many of us seek 'advice' in a range of different ways.

If you consider 'advice' means 'guidance or recommendations offered with regard to prudent action' it could be argued that 'financial advice' is widely provided in a range of different formats including in the press, through organisations such as the money advice service and informally as we speak to our friends, families and peers both offline and online.

Whilst the more informal ways we seek advice on our financial affairs as well as the advice provided by other sources could potentially be difficult to regulate I believe we need to consider where the majority of individuals seek information and take action based on the information provided.

Therefore when we consider financial advice we need to consider the fact that for many, and especially for individuals who may not consider engaging a professional financial planner, 'financial advice' could potentially come from these alternative sources.

It could be argued that the influence on these alternative sources of 'financial advice' have greater societal influence than the regulated financial advisers active in the market today especially when you consider the reach of, for example, Martin Lewis's website or the daily readership of the national press.

Therefore if we are considering 'financial advice' we need to consider whether we include any resource which consumers may access which recommends and results in individuals taking action on their financial affairs.....especially due to the recent pension reforms.

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

Consumer demand for face to face bespoke financial advice in certain aspects of our society are as strong as ever. Typically individuals with significant assets are in a position where the market for both supply and demand of professional bespoke financial advice remains healthy.

I also believe that pension reform, where flexibility has made some of the decisions individuals need to take when approaching retirement more complex, has boosted the demand for professional face to face advice as individuals seek more guidance when making these important decisions.

However in other elements of society there is little demand for professional face to face advice.

Some of the reasons for this has been described in the 'financial advice market review' call for input document however it's also worth considering the fact that the financial challenges for individuals who are typically younger and are yet to accumulate significant assets are different to those who are already wealthy with less financial commitments as well as the fact that the way these individuals may be more likely to seek advice from other resources (some of which I've mentioned above).

Therefore whilst professional bespoke face to face financial advice for those with relatively high levels of wealth and are typically older remains strong those who have different financial advice needs seek alternative sources for their 'advice'.

This doesn't mean there isn't a demand for advice but just that consumers seek advice and guidance in different ways.

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

For me the greatest indication that consumers not seeking face to face advice but find help from other sources is the success of www.moneysavingexpert.com

With monthly users of around 15 million a month (source here: http://www.moneysavingexpert.com/site/about-the-site) this shows that many individuals are engaged with their financial affairs and actively seek advice, support and guidance across a range of financial issues. It's important to point out that the '15 million users' could equate to a far lower number due to repeat multiple visits from specific users however the point remains this site has a powerful impact

It could be argued that the fact that www.moneysavingexpert.com is focused on short term savings instead of achieving longer term financial goals however the fact that a site designed to support individuals and families to make better, more informed financial decisions shows that the assumption that individuals don't typically seek advice, guidance and support to make financial decisions to be false.

There are numerous other examples of advice being garnered elsewhere and a quick look at the websites of journalistic publications and the comments below these articles show that people are engaged with their financial affairs, and interestingly often disparaging and critical of the need of professional bespoke face to face financial advice.

Q6. Is the FCA Consumer Spotlight sementation model useful for exploring consumer advice needs?

The segments are really useful for exploring consumer advice needs. One slight change I'd make would be to attempt to narrow the age ranges involved in some of the segments (although I appreciate why this might be difficult) as typically the financial needs and demands of an individual aged 35 are usually different to someone age 60 (using Affluent and Ambitious as an example).

Therefore it might be beneficial to drill down on some of the segments to explore some of the realistic challenges individuals face at different times of their lives.

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

It seems to me that whilst the "Busy Achievers", "Affluent and ambitious" and "Retired with resources" categories are currently adequately served within the current advice framework. The advice gap I believe mainly consists of individuals in the following areas:-

* Hard Pressed
* Striving and Supporting
* Stretched but resourceful
* Retired on a budget

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

Consumer wealth and income absolutely has an impact on the demand for advice. Typically clients of financial advisers have higher than average levels of income and significantly higher than average levels of wealth.

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

The analysis in the FAMR review call for input (page 13) contains many of the reasons individuals do not seek advice. I believe it's particularly important to focus on the cost of advice, lack of trust in financial advice and engagement.

I also believe that in addition to the points raised I believe that individuals do not seek advice due to the fact that many of us put off decisions we perceive to be complex.

Financial services, with the odd exception, tends to feel the need to communicate with consumers in a way which confuses consumers. This is in part due to the desire to fully disclose all the information required for consumers to make an informed choice however I have seen a number of examples where this approach is counter productive.

To mitigate this barrier we need to consider the work we can do to make the communications we make to consumers far simpler, more straightforward. We also need to consider whether guidance from the regulator should focus on clarity and simplicity. Whilst providing consumers with all the information they need to make an informed choice is fundamentally important there should be a framework which all financial advice providers and financial product manufacturers with a template which simplifies this communication and delivers the information consumers require in a format they understand.

Currently different product providers and financial advice professionals have different opinions on what they consider appropriate communication and I believe that a clear regulatory framework ensuring that communications are as straightforward together with clear guidelines on what should be (and more importantly what shouldn't be) included as part of these communications.

I believe there is also another component not mentioned in the FAMR review call for input...

Habit.

Whilst many of the 'served' consumers review their financial circumstances regularly, many of the consumers currently under served by financial advice only engage with their financial adviser if and when a transaction needs to be completed (even if they engage with a financial planner at all)

We need to consider the influence habit has on our lives and whilst there was much which was dysfunctional and needed to be improved in the old 'industrial branch' method of delivering advice the reality is that many of our society currently underserved by the current financial advice market saved more and had often better financial outcomes due to the fact that they had someone who visited them regularly (often weekly) to collect premiums and provide support as required.

Whilst I wouldn't suggest bringing back the old 'industrial branch' method of providing advice, due to it's lack of commercially sustainability in the modern age and lack of transparency, we are also in a position where technology allows us to have a regular and scalable relationship with consumers and access to support as and when required.

If we can provide consumers with a method where they habitually consider their financial decisions, save where appropriate but can also get access to advice and support at an affordable price on a regular basis there will be far greater engagement in advice.

I also believe that automatic enrolment will play a fundamental part in financial engagement in the UK. With millions of individuals already being 'nudged' into a pension scheme already and millions more being 'nudged' into a scheme over the next few years we'll be in a position where, over the longer term as individuals pension pots build up over time, more engagement is likely to happen due to individuals having to make more decisions due to building up assets through the workplace.

The fact that engagement has the potential to increase in the workplace due to automatic enrolment also creates an opportunity. Financial 'advice', efficiently delivered using technology, to employers large and small (where all employees will be building pots of money in their pensions) has the potential to close the advice gap.

One of the key reasons I believe that consumers do not get advice as often and regularly as might be helpful and useful is access. Large advice distribution channels from large financial institutions, like many of the banks, whilst having many faults did deliver financial advice to more people due to it's size and scale.

However with every single employee now being 'nudged' to save in a workplace pension since 2012 and over the next few years it may be worth considering looking at the workplace as a new method of delivering financial advice more efficiently than ever before.

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

Please see the answer to this question above.

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

I believe that the shift from sales based to professional advice is due to a number of factors. However one of the major catalysts was the retail distribution review and the changes implemented from this review.

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

I believe that harnessing technology in order to deliver advice in the future is vital.

Technology has the power to deliver efficiencies, communicate with clients in a more scalable way and provide consumers access to tools and information designed to help them make better financial decisions.

Whilst there is a relatively sophisticated technology market in tools designed to support the existing advice process the market for direct to consumer platforms whilst it's made significant progress in the past few years is still in it's relative infancy.

However if you consider the progress made in other professions, particularly in the accountancy space, technology has enabled 'advice' to be delivered at lower costs and at a significantly larger scale.

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

Simple put, to deliver advice to currently under served markets, the current economics of supplying advice needs to change.

This can be done in a number of different ways....

Firstly exploring scalable solutions (using technology) which delivers advice in a system driven, automated way will lower the costs per consumer of delivering advice as this has the potential of reducing one of the major costs of delivering advice, the cost of employment.

A system driven and automated approach also enables records to be kept more efficiently and therefore makes it easier to regulate. As long as the systems used keep records efficiently and effectively it can be argued that efficient record keeping and storing of the 'reasons why' recommendations can be stored efficiently could deliver decent efficiencies.

This doesn't take away from the fact that the 'human touch' is important but simply highlights that the use of technology on direct to consumer platforms can deliver both commercial efficiencies and a more efficient record for regulatory purposes.

We also need to consider the way that financial advice is marketed and look at how other models have used technology to deliver high levels of distribution.

If you consider how services like 'dropbox' and 'hotmail' spread to millions of consumers, using a number of techniques including social authority and a scalable incentive to distribute use to family, friends and colleagues it's worth considering the fact that these models have delivered a number of useful products and services to their respective marketplaces by having robust technology driven referral methods.

It's also again worth considering the potentially increasing opportunity the workplace is as a hub to deliver advice due to the increasing engagement with workplace pensions due to automatic enrolment. There is genuine opportunity in delivering advice in a scalable way using technology through new distribution channels like the workplace.

In addition to this it's worth considering other factors which contribute to making financial advice more expensive to consumers including regulatory costs.

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?

There are a number of ways that advice could be delivered economically. Many industries and profession deliver their services through a monthly retainer model and although there are financial advisers and planners who do this this model backed up with technology would enable this retainer to be reduced to an economically viable level to more of those in the 'advice gap'.

This model works in a number of industries and professions including accountancy, bookkeeping, access to fitness via gym membership and increasingly legal and HR support to businesses.

However what seems to define success in the business models which work in other sectors is an intensive focus on how to continue to deliver at scale by ensuring the model is as efficient as possible as well as using techniques which have enabled other businesses in a range of sectors to deliver services and products at a larger scale.

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

Supplying 'advice' using traditional methods is prohibitively expensive for many consumer segments for a number of reasons. However instead of focusing on which consumer segments it's currently economic to deliver advice to surely it's worth considering the actions we need to take to deliver alternative models which provides an advice proposition to currently under served segments?

These actions need to be delivered both by the market but also by ensuring that the regulatory framework supports innovative business models designed to support the marketplace in an efficient way.

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?

No.

The focus of the work you undertake should be more focused on helping individuals developing a creating financial goals and then achieving these goals.

The issue with focusing on the 'products' designed to achieve these goals is that there is a danger that the recommendations this review makes will be focused on changing the 'product' framework as opposed to helping innovation within the marketplace on developing tools which are designed to help individuals achieve their financial goals.

Undoubtedly an individuals financial goals will then lead to a need to invest their money, save into a pension and develop an income in retirement however the danger we have in focusing on these outcomes by looking at the investment, pension or income generating retirement 'product' is that we fail to understand that what motivates individuals is their own personal drivers.....and in particular what they want to achieve with the money they save.

By having a part of the FAMR review focus on how we develop more engagement with their financial goals in a commercially sustainable way as opposed to focusing on what we do to change the nature of 'investments' and 'pensions' we have the potential to reduce the advice gap over the longer term in a meaningful and sustainable way.

There is an argument against this approach which is worth considering.

It could be argued that there isn't a scalable current commercially sustainable business model which doesn't focus on 'product' as opposed to 'planning' and the development of good financial habits.

However I'd suggest that looking at other industries may provide a decent counter argument.

If you consider that businesses like 'Fitbit' enable individuals to make positive changes to their health by providing the ability to track their progress towards their goals, accountancy tools like 'Xero' and 'Sage' allow access to real time information which enables individuals to efficiently manage the day to day progress in their business as well as track profitability goals as well as a wide range of commercially sustainable products and services in a wide range of sectors which are designed to set goals, set reminders, provides incentives for positive behavior.

Therefore if this approach can work in sectors as diverse as fitness and accountancy could a similar approach be worth considering when it comes to improving individuals engagement in seeking good 'advice'.

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?

The approach to focus initially on consumers with some money but without significant wealth makes sense.

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

There has been a lot of great work conducted in previous initiatives including the work conducted via the Money Advice Service and The Pensions Advisory Service which has resulted in individuals having greater access to good quality information and higher levels of financial support than ever before.

However it's important to consider that greater access to high quality information and telephone guidance has shown to have it's limits in increasing consumer engagement. This may be due to a number of reasons however when we consider the 'advice' gap I think it's important to consider the work of many behavioral economists when looking at building a framework which improves consumer engagement.

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

Behavioral biases which limit consumer engagement need to be carefully considered. However as opposed to taking steps which address the detimental behavioral biases which limit consumer engagement it may be worth thinking about how we increase consumer engagement by thinking about how we use different human biases to encourage great engagement.

I've read a number of books on this subject (including the brilliant 'Thinking fast and slow') but the two ones which stand out as most useful are Dr Robert Cialdini's 'influence' and Dr Richard Thalers 'Nudge'.

Both these publications contain a wide range of useful research on how behavioural economics can be used to encourage positive behaviour.

Whilst I'm sure steps can be taken to address engagement limiting behavioural biases we need to consider how behavioural science can teach us and then take steps based on these teaching which encourage greater engagement.

Kind Regards,

Chris Daems Dip PFS,

Director, Cervello Financial Planning.

Web : www.cervellofp.co.uk

The greatest compliment you can give us is to recommend someone you know to use our services. If you feel someone can benefit from working with please contact

From:	David Thomas <DThomas@ChadneyBulgin.co.uk>
Sent:	01 December 2015 13:42
To:	FAMRSecretariat
Subject:	Chadney Bulgin LLP

Dear Sirs

In responding to the call for input, I have only commented on questions where I feel I have specific input:

Q2: Consumers have no perception or understanding of the plethora of terminology for both guidance and advice. Furthermore, they generally do not understand what advice looks like or what it can encompass. Selling of product is a long way down most advisers agenda, indeed, if a product was required as a result of advice, it could be that a client could purchase that elsewhere from the adviser himself.
Simplicity must be key to enable consumers to at least have an idea of what is available. Further education is required here.

Q3 Consumer demand is driven by the various factors defined. Affordability is one key driver, and a good example here for clients not able to afford advice is protection. Protection is still commission driven enabling consumers to be able to buy it, who would otherwise not be able to afford fees. With a level playing field of commission, low value products could be sold. This is very different to much advice now given, which, following RDR, is targeted at so called high net worth clients, who both understand and value face to face advice.

These scenarios are totally different and each should be catered for. The latter will not focus on products.

Q9 I agree with your reasons, but price is not understood in relation to benefit. An adviser's fee for saving a client perhaps tens of thousands of pounds in Inheritance tax would pale into insignificance. Again, education is needed for consumers to MUCH better understand the value of advice, perhaps using case studies.

Q10 The supply of advice is reducing as costs have escalated. A significant issue is the level of regulatory fees, and in particular FSCS levies. This year, rather than become the straw that broke the camel's back, they were the haystack that flattened it. Increases in the 100s of percent has stopped adviser businesses expanding, and have precluded new businesses opening. The overall level, and lack of ability to plan is reducing supply, increasing price, and therefore detrimental to consumers seeking advice.

This situation needs to change quickly if we are not to see the advice gap widen further rather than reduce.

Q15 A firm can create different propositions for different demands. This could range from a self serve through to full financial planning, with different pricing structures, and aligned to different regulatory requirements. Many more segments could be served.

Q16 See Q10 above. Different models would also assist.
Further issue here is better prevention of poor advice. FCA have a bigger part to play here. Recent issues such as Arch Cru, SIPPS, should never have been recommended without proper approval from a regulator. Pre product approval would remove huge issues for firms, and therefore enable them to better serve consumers without so much uncertainty.

Q23 £50,000 income / £75,000 wealth.

Q24 Total simplification for consumers. Regulation to be aligned to advice model so as not to over regulate in simple scenarios. Could also involve some commission model here - see Q3 above.

Q30 Consumers should take some responsibility for their purchases (Caveat Emptor).

Q33 Absence of longstop gives firms further uncertainty, again stifling advice and stopping other new entrants.

Q34 Endowments and other long term savings product sales have all but disappeared, suggesting longstop is no longer a critical requirement. Further, if a firm fails and falls under FSCS, then a 15 year limitation is applied anyway! Given the statistics quoted, consumers would not be materially affected, indeed some of these few complaints are generated by claims management companies "phishing". New firms, and existing firm expansion would not be discouraged, leading to greater advice supply for consumers.

The compensation fund mentioned is simply another FSCS type levy, and would again lead to uncertainty.

In addition, the drive by Professional bodies to increase qualifications (with Chartered as the gold standard) should further be encouraged, together with continuing better engagement between regulator and Professional bodies, as we are already seeing, sharing good practice.

Poor advice is becoming the exception, and with better information gathering by the regulator, and thematic visits (and crucially product sign off as mentioned above), poor practices will further be reduced.

Q41 Keep all advice regulated, but at different levels of regulation for different models.

David Thomas BA FCIB FPFS
Joint Managing Partner

BZ 6259 8062 8GB SIGNED FOR

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Our Ref: X3191/KGC/VF
Date: 25 November 2015

Dear Sirs

Ref: Financial Advice Market Review / Call for Input

Following the release of the above document in October 2015, I am pleased to provide our response to the majority of questions and points raised. We have only answered points where we feel we can add value to your collation of data and responses.

Chapters Financial Limited has been working on the process of delivering high quality financial advice online over the last decade and we launched our award winning online financial advice website, SaidSo.co.uk, in January 2015. You will note that we have used our experience in this area to answer some of the points raised.

Our responses are as follows:

Q1:

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

We are not aware of, or been notified of any difficulties.

We are an advocate of online financial advice and are aware that this option may reduce and address any difficulties or needs of people with protected characteristics.

Q2:

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

We believe there are three potential examples of new models. These are:

- Face-to-face
- Remote (telephone or ROMO advice)
- Algorithm (ROBO advice)

I do not believe that consumers are overly concerned by the independent or restricted labels.

As an additional thought, these segments could be cost-rated (like the colour coded energy ratings) from high (face-to-face) through remote advice (ROMO) to low cost/reduced service ROBO advice.

Q3:

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

Our main business, Chapters Financial, has continued to grow over the last decade and demand for advice remains strong. However, other than Auto-Enrolment advice, the age focus for demand is age 55+, with limited interest below the age of 45-50. The advice requirement currently (and prior to the new pension freedoms) is in de-cumulation advice, rather than accumulation advice.

Q4:

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

We have provided the statistics and analytics of the interest in our online model, SaidSo.co.uk to your FCA colleague, Michael Lawrence. We believe demand is high and we can update you on request.

Auto-Enrolment will help in building retirement savings and interest in their future financial wellbeing for many, although this in itself brings significant risk because many will believe that they have 'ticked' the pension savings box, not realising that they are not saving enough for their future needs (even when taking into account the uplifts due in 2017 and 2018.)

Above this, I think it is clear that the majority of the UK public have disengaged with savings and protection and this is the point of this important review.

Simplified clarity from the FCA on the use of Social Media to engage further with the UK public would help.

Q5:

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

We have prepared some SaidSo guides, based on age (11 guides in all), which we believe detail well the needs for which consumers will seek advice. We can provide these guides on request and will feature them on our main website soon.

Q6:

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

Yes, we believe it to be good. However, these are clearly based on considered research. My concern is starting with the end in mind. These categories should be consumer friendly at the outset, because the outcome of the spotlight should be engagement with each segment. As an example, a Retiree with resources could be called 'Well off older folk' (Woofie for short). A bit glib, we appreciate, but it works.

Special individual requirements, such as divorce financial planning, also need to be addressed.

Q7:

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

Through our online service, SaidSo.co.uk, we have also looked at various consumer segments and we would be happy to provide these to you on request. Ours are based on age (20-60 / 11 in all), but other sectors that should be considered are product-based focus events such as:-

- Pension
- Investments
- Savings
- Protection

Q8:

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

In our experience, higher wealth and income does favour the need and desire for financial advice. Usually starting with savings, moving on to investments/pensions and inheritance tax planning. We also note that those with wealth tend to attract wealth, passing down from older generations.

Many lower earners have and will engage in limited financial advice processes for the first time through pension auto enrolment and this initiative has to be applauded. It would be good to see this engagement furthered in 2017 & 2018 as higher employer and employee contributions are required to confirm the real benefit of long term saving.

Q9:

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

We believe there are two important aspects here. The first is education of the benefits and the second is cost. Delivery costs have increased due to regulatory requirements (FSCS, PI, compliance, etc) and this has seen the price exceed understanding of the benefits.

I would also hope that other organisations, such as The Chartered Insurance Institute and Personal Finance Society could do more to promote their members' work to the public.

Q10:

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

We believe that the number of advisers actually delivering retail advice to consumers (rather than the number registered with the FCA) has fallen significantly in the lead up to and post RDR. The High Street banking institutions also withdrawing from the market has had a significant impact on the consumer middle-market in the take up of savings, pensions and protection.

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?

Our company successfully moved to a fee based advice model in May 2007. We saw business income climb thereafter and were pleased we achieved this change just prior to the recession. We do not believe that the commission model during these years would have been financially viable. Indeed, we also needed the transparency of the fee model to manage our business income.

Most generations, but particularly younger generations, value transparency in service and delivery terms. They want to be proud of the decisions they make, having considered them carefully, rather than being sold to. The internet provides choice and intelligence to allow them to do their own research before committing.

Q12:

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

We are obviously an advocate of financial technology with our SaidSo.co.uk online advice model, which is a mixture of technology and human intelligence in the delivery of retail financial advice.

Social media is also vital here. A relatively new communication tool, and still very much in its infancy, with Twitter only around a decade old. Our profession has not embraced this change in a mainstream manner and this in itself creates a real risk of disengagement with those below age 40. More regulatory encouragement is required to spread the word of the real value that advice can provide to end consumers in all segments.

Q13:

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

After 30 years of working in the profession, I have never known such optimism about UK retail financial services. I have also never known such financial pressures on providers to be able to meet the cost of innovation whilst meeting ongoing regulatory costs.

The FCA needs to help engaged firms with a reduction in regulatory costs on the understanding that these savings will be reinvested into financial technology (Fintech) and deployment to engage further with the UK public. Almost an advice Research & Development (R&D) programme to engage fully with the digital-by-default generation (under age 40-42 approx.).

Q14:

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

We do not believe that a return to commission payments would be a solution. We believe that the public have taken some time to adjust to the RDR change, but are beginning to engage slowly with the new transparent regime.

Low Fixed fee options are a solution to allow clients to pick and choose (like a menu system) the services (or combination of services) they buy and use.

Q15:

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

We believe that the face-to-face model is currently viable to those over the age of 45-50+ who have already built assets and want advice on how to use these for the balance of their years. However, this rather caters for the baby-boomer model and may have a limited (decade) shelf life.

There will, in addition, always be a group of individuals (usually termed Higher Net Worth individuals) who will continue to maintain a face-to-face relationship and be happy to accept the corresponding costs.

Below this age/demographic range, we believe the only real long term option for mainstream advice is online.

Q16:

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

Cost is the major issue at this time. Distribution channels have been improved with the use of the internet. However, the cost to create an online business solution is significant, as we have found with SaidSo.co.uk

As an addition, regulatory risk, cost and most importantly concern of the ways the way the regulator views companies' innovation has created barriers to entry. With profitability being limited at lower segments, value of effort diminishes.

We welcome the SandBox initiative, and appreciate that the details of this are yet to be finalised for April 2016. We hope this opportunity goes far enough to encourage many (both from our industry and new entrants) in the delivery of great financial solutions for those currently in the advice gap.

Q17:

What do you understand to be an advice gap?

A financial need (identified or otherwise) that requires addressing, however remains unaddressed due to cost of implementation, direction of where to go, or lack of education on what is needed.

Q18:

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

My concern here is that any lack of demand will be regretted by those who were not educated in the real benefits that could have been provided by an early advice intervention. The consequences in later life could be significant, having to work through retirement to make ends meet.

This may be a 'fear' motivator, however, this is at the core of the issue. If they understood the potential downsides in later life, there is unlikely to be a lack of demand.

We have noted through SaidSo on the topic of the real value of advice:

Advice...show me the value!

No one likes to be sold to, but most like to be advised. Being wise after an event is usually pointless and some would argue an exact science, detailing what you should have done had you known the outcome.

So what is advice – and, in this context, financial advice?

Definition of advice: guidance or recommendations offered with regard to prudent action.

For those that want to know, the definition of selling is: persuade someone of the merits of.

I suppose you could argue that we are selling you the merits of the real value of SaidSo.co.uk online financial advice...and you would be right...even if we have SaidSo!

So, what does advice mean in the context of financial advice? And most importantly what does it mean to you?

It could be:

- *Saving money.*
- *Reaching and fulfilling a target or ambition in the future.*
- *Having enough money to survive.*
- *Save tax.*
- *Managing expectations as to what your future world could look like.*
- *Being assured you know where you are with your wealth and cash.*
- *Protecting your loved ones if you are present or not.*
- *Having enough money to have some fun!*
- *Having more money than you would have had if you had been left to your own actions.*
- *Education to know what to do and in what order.*
- *Not dying at your desk because you had to work to the bitter end to make ends meet.*

- *Getting someone who knows what they're doing to make it happen for you.*

...and of course a combination of some or all of the above.

If you value any of the points above then, in reality, you value financial advice. And we are not talking about buying products, although that might be part of your eventual solution, we're talking about you planning to run your life the way you want it.

It's almost a statement of your personal freedom. And what price would you put on that?

If you think that financial advice is not for you, even at the low, transparent and fixed costs that SaidSo.co.uk charges...think about your future personal freedom...and think again.

Q19:

Where do you consider there to be advice gaps?

In most aspects of personal finance, including Savings, Pensions, Investments, Debt, Protection and money management.

We have added our responses to your matrix in this question below:

	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	✓				✓	✓	✓	

Q20:

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

Only through the type and calibre of enquiry, we have received through our business over the last few years, which favour greater initial wealth to start the advice process.

Q 21:

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

All are important, but I think the most important point is real direction/signposting for consumers of where to go to achieve their objectives simply and in a cost effective manner.

It is interesting that general insurance (car/house/etc) is now successfully available through aggregator websites and I believe that, in part, financial advice should be distributed in the same way.

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. Family protection should be next thereafter.

Q23:

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

I would recommend that you focus on lower sums than this (circa £50,000).

Q24:

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

See answer 13.

Q26:

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

Yes. That the outcome of the RDR, which was meant to be a consumer focussed champion, lost its way in final delivery, to the detriment of the end user, hence this review. Consumers are moving to and have embraced a digital by default world and UK financial services needs to catch up.

Q27:

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

The Australian Financial Services market is developed, diverse and dynamic. There are always lots to be learnt from them.

The US ROBO advice models are interesting, both in terms of their proposition, their success and, possibly most importantly, their limitations and problems.

Q28:

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

We believe that SaidSo.co.uk has gone some way to address this question. The use of Remove advice (ROMO advice) is one real and viable solution. The questioning process controls client engagement but is still engaging.

Q36:

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

We have been working on this objective over the last decade, culminating in the launch of SaidSo.co.uk in January 2015. We would be further show you around the system if required.

Q37:

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

To give additional authorisation to approved sites/ systems from BOTH large and small providers to create real business competition which in itself would create interest from the UK public.

Q38:

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

We believe these to be:

Trust in the brand

- Price
- Process / Time taken to gain advice

Q39:

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

- ROBO Advice / Automated Advice
- ROMO Advice (remote advice service, streamlined by technology, but still signed off by a qualified financial adviser.)
- Lower Cost face-to-face advice from industry professionals

Q41:

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

Bi-Annual authorisation of approved online advice sites, possibly using a vetting process from already established standards services, such as BS8577 Company Certification from Standards International.

Summary

I hope these notes and responses to this initiative.

If you have any questions then please let me know.

Kind regards

Yours sincerely

Keith G Churchouse FPFS
Director of Chapters Financial and Co-Founder of SaidSo.co.uk
Chartered Financial Planner
Chartered Wealth Manager
ISO 22222 Certified

Chartered Banker

HM Treasury & FCA – FINANCIAL ADVICE MARKET REVIEW

Chartered Banker Institute: Response to October 2015 Call for Input

Background

1. The Chartered Banker Institute ("the Institute") is the oldest professional banking institute in the world. The Institute was founded in 1875, operates in all UK nations, and has a significant and growing international presence. The Institute has driven an agenda of ethical professionalism throughout its existence: promoting professional standards for bankers, providing professional qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals.

2. The Institute received Royal Charters of incorporation in 1976 and 1991. In 2000, approval was received from the Privy Council to award the "Chartered Banker" professional designation to individuals meeting the Institute's highest standards and qualification requirements for ethical, professional and technical competence. The Chartered Banker Institute is the only body able to award this title.

3. Post qualification, all Chartered Bankers and the great majority of the Institute's members must satisfy the Institute's Continuing Professional Development (CPD) requirements, including mandatory annual ethics refresher training, to continue to use the "Chartered Banker" designation.

4. In addition to the flagship Chartered Banker qualification, the Institute offers a wide range of professional banking qualifications and also "regulated advice" qualifications, specifically for those undertaking mortgage and financial advice. The Institute is also an FCA Accredited Body and is empowered to issue annual Statements of Professional Standing to individuals that have met qualification requirements, undertake continuing professional development and comply with the Institute's Code of Professional Conduct.

5. The Institute currently has over 25,000 members, with significant growth in the past 5 years. In addition, over the same time period, a further 25,000 individuals have participated in a training programme delivered by an employer, university, college or other training provider, accredited by the Institute against our professional and qualifications standards, and providing a pathway to achieving a professional qualification awarded by the Institute.

   See www.charteredbanker.com for more information on the Institute and its activities.

6. In 2008, the Institute began work leading to the launch of the Chartered Banker Professional Standards Board (CB:PSB) in October 2011, chaired by Lady Susan Rice. The CB:PSB is a unique initiative, led by 8 leading UK banks[1] and the Chartered Banker Institute, to enhance and sustain professional and ethical standards in banking in the UK. The CB:PSB develops and, through its member banks, implements professional standards (standards of conduct and expertise) for individual bankers which will contribute to the restoration of public trust and confidence and promote a culture of professionalism in the banking industry.

7. In October 2011, the CB:PSB published the Chartered Banker Code of Professional Conduct, to which all member banks subscribe, and which encompasses approximately 75% of the UK banking workforce. In July 2012, the CB:PSB launched its first standard, the Foundation Standard for Professional Bankers (the Foundation Standard). Over 185,000 bankers, including 118,000 in the UK, achieved the Foundation Standard in 2014. CB:PSB member firms have committed that all UK customer-facing staff will have met the Foundation Standard by December 2015. The CB:PSB launched its second standard, the Leadership Standard, in early 2015 and this is currently being implemented by CB:PSB member firms.

8. The CB:PSB works closely with regulators, and also with the emerging Banking Standards Board (BSB). The BSB's mission is the development, promotion and encouragement of professional high professional standards in the banking industry, with a focus on institutions. The CB:PSB focuses on professional standards for individuals.

   See www.cbpsb.org for more information on the CB:PSB and its professional standards.

RESPONSES TO SPECIFIC AREAS

1. We have commented only on those parts of HMT's and FCA's FAMR: Call for Input which fall within the Institute's expertise and on which we are expected by our members to comment. In general, as a professional body, we believe that professional advice – whether basic, simplified or fully independent financial advice - should be provided by suitably qualified individuals committed to high standards of customer-focused, ethical professionalism. This does not mean, however, that all individuals qualified to provide advice should, necessarily hold a qualification at the same educational level.

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

Currently, basic advice and regulated advice are provided and simplified advice would seem to sit between the two of these. We don't believe customers necessarily care how the different types of advice are described, as long as they receive high quality professional financial advice, focused on their needs and best interests, and

[1] Barclays, Clydesdale, HSBC, Lloyds Banking Group, Santander, RBS, Tesco Bank and Virgin Money.

can have confidence and trust in the individuals, institutions and industry offering this. A distinction between fully independent (i.e. whole-market) and tied advice remains helpful, however. In our view, all financial advice below the fully independent level should be given by suitably qualified professionals, and should be termed professional financial advice.

It is difficult to determine if the majority of consumers currently understand the difference between generic financial advice and specific advice provided by regulated advisers, and we would welcome more research into this. We feel, however, that whilst increasing individuals' financial capability is a worthy goal, we should not inadvertently weaken demand for individually-tailored professional financial advice by substituting higher-level, generic advice.

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

Research from Citizens Advice recognises three potential types of advice gap.

- 5.4 million people want financial advice but are unwilling to pay the prevailing market rate;
- 14.5 million people want advice but cannot afford to pay for it;
- 10 million people who are unaware advice exists, or where to get it.

We believe that many of the 5.4 million people who currently are unwilling to pay for independent advice might be more willing to pay for simplified advice provided by banks, building societies, credit unions and others, providing the costs of this were lower than the current costs of advice, and/or costs were not incurred upfront, and if the benefits of receiving such advice are clearly communicated. Similarly, the 14.5 million who want advice but currently cannot afford to pay for it could be well-served if advice were provided without upfront costs, with such advice funded by the sale of appropriate products. Any commission or other fees would have to be made simple, transparent and very clearly explained. Finally, the 10 million people who are unaware advice exists or where to get it will nevertheless be users of financial services products and will have a need for savings, insurance, pensions and investment advice. Both policy makers and the banking sectors have complementary roles to play in encouraging greater engagement between consumers and the finance sector.

This highlights the fact there is no single solution to ensuring affordable help for all. The industry's role should be to offer high quality, professional financial advice, focused on customers' needs, priorities and best interests, to all segments – if customers and potential customers can have confidence and trust that they will be truly better off, then they may be more convinced that obtaining advice – whether basic, simplified or other – is a worthwhile investment in terms of time and cost.

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

The Citizens Advice research cited above shows where the demand is but the reasons why 5.4 million people are unwilling to pay the current level of fees are because of (a) high upfront fees of £250 upwards, (b) uncertainty and lack of confidence given the long-term, and potentially risky nature of financial products and services, and (c) a general lack of trust in the financial services industry.

It appears to us that consumers would be willing to receive advice from sources other than the current regulated advice community, as the NMG Consulting Report shows. It states that individuals buying a mortgage reported consulting professional financial advisers (39%), speaking to bank/building society branch staff (31%), consulting price comparison websites (26%), reading material on product provider websites (19%), and speaking to providers over the phone (19%), as well as several other sources. This is where banks, building societies, credit unions and other providers may all have something to offer consumers when they are looking to make major life decisions, such as mortgage lending, pensions, opening savings accounts, Etc.

Similarly, we believe that developing a much wider cadre of high quality professional advisors, suitably qualified and providing advice, focused on customers' needs and best interests will help to build customers' confidence and trust and may convince a much wider range of individuals to obtain advice – whether basic, simplified or other.

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

Page 10 - under 'more complex' – we propose the inclusion of:

- long term care; and
- savings for your own or your child's education.

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

This is because as mentioned above, from a demand perspective, consumers believe advice at present is too expensive and don't see the value of it. The advice is also often complex and the nature of the products and services are often intangible and longer-term, meaning that any benefits won't be seen for many years, but significant costs are incurred upfront. Additionally, many financial products such as life and health insurance, and retirement planning, require consumers to recognise and make decisions regarding potentially frightening and complex issues. All of these factors makes the adviser's role a challenging one, requiring considerable technical and professional knowledge, tact and diplomacy, and an ethical, customer-focused approach – and make the provision of independent advice expensive (although not when compared to other forms of professional advice and consultancy, e.g. accountancy, law, tax, private medical care, etc.). From a supply perspective, financial advice presents challenges to banks, building societies and credit unions in ensuring there is sufficient return on investment to cover the cost of training and supervision of individuals in such a challenging, but societally valuable, role. This is especially difficult for smaller institutions

There is also the problem of a lack of supply of advice for consumers. For example, advice is not widely available in bank, building society and credit union branches, or even over the phone.

In addition to this, there is a lack of trust held by consumers in the advice they are given. To overcome this problem, customers need to be confident that there are consistently high standards of customer-focused, ethical professionalism being displayed by advisers and that advisers have developed, demonstrated and continue to maintain an appropriate level of professional competence.

In our view, the same, consistently high standards of customer-focused, ethical professionalism must apply whether advice is basic, simplified or fully independent – there must be no compromises made in the standard of professionalism required, or this will undermine consumer confidence and trust. We do not believe, however, that individuals providing simplified advice would necessarily require to be qualified to the same level (QCF Level 4) as is currently the case for regulated financial advice, particularly when technology can be utilised to support the advice process. The use of filtered decision trees across key areas of consumer concern – retirement planning, financial protection, savings and investments, with access to a suitably qualified and experienced adviser to help understand the “what ifs” offers potential for a consumer-oriented, cost effective service that is sustainable in business terms for a wide range of providers. Indeed, as the use of price comparison websites illustrates to a large extent, technology of this nature can be consumer-led which serves the dual purpose of increasing consumer understanding and also allowing basic fact-checking and priority identification to be undertaken prior to seeking advice.

The Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.

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

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

Our response to these two questions is linked, in that the Retail Distribution Review (RDR) made it uneconomic for banks, building societies and others to offer full-blown independent financial advice and as a result, no high street banks or building societies currently offer such advice, beyond catering to the needs of relatively small numbers of high net-worth clients. We have commented on this in more detail above.

Q14. Do you have any comments on the different ways that firms do or could cover the cost of giving advice (through revenue generation or other means)? Do you have any evidence on the nature and levels of costs and revenues associated with different advice models? We would argue that from a customers’ point of view, that the current level of fees charged by financial advisers provide a barrier to customers seeking advice, especially for the 5.4 million people cited above who want advice but are unwilling to pay the prevailing market rate. We believe that in terms of providing simplified advice, a transparent, commission-based remuneration model, is preferable – provided this is combined with high standards of customer-focused, ethical professionalism to ensure that any advice is always in the customer’s best interests, and not swayed by adviser remuneration.

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

We believe this is very much associated with the problem of a lack of human resources. There are a large number of bank, building society and (increasingly) credit union staff holding professional banking qualifications, but without specific financial advice qualifications they are not currently permitted to provide financial advice. The requirements of current investment advice qualifications go largely beyond meeting the needs of the majority of bank and building society consumers, whose priorities are mostly oriented towards finding the most appropriate and affordable balance between financial protection, retirement planning, savings and investments, and are more focused on the needs of a smaller group of higher-net worth individuals. If they wished to offer investment advice, banks, building societies and credit unions are, required to employ highly qualified financial advisers and unfortunately, there are a limited number of financial advisers making it simply uneconomic for firms to develop and retain them. The cost of qualifying and remunerating highly qualified independent advisers makes it uneconomic for banks, building societies and credit unions to employ them to provide advice to a mass market.

In our view, professionally qualified bankers, and building society/credit union staff would like to give advice to customers, were this possible, banks would like to provide such advice, and customers need advice. We have, unfortunately, inherited a system where we have made it too difficult and too expensive for customers to receive the advice they need. Provided we can develop and sustain high standards of customer-focused, ethical professionalism in the sector there is no reason, it seems to us, why banks, building societies, credit unions and others should not be able to offer simplified advice. This would be in everyone’s best interests.

As noted above, the Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.

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

We agree with this focus to an extent – this is the segment highlighted above in the Citizens Advice Research. This concerns people who could afford financial advice but currently aren’t convinced about the need for it or don’t necessarily trust the advice they might receive. We accept that this is probably the easiest group of consumers to concentrate initial work, on but financial institutions, regulators and policymakers also need to develop the provision of advice for other groups too, given longer life spans, pension changes, increased demand for long-term care etc.

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

Yes, we believe a good starting point would be to reconsider the regulatory requirements and qualification requirements for organisations that wish to offer basic or simplified financial advice. The level of qualifications required should be proportionate to the role that advisers are performing and to the risks involved to consumers. Currently qualification standards to support customers making the largest financial commitment many will ever make are set at QCF level 3 for

Mortgage Advice, and we would suggest this should be extended to cover basic financial and simplified financial advice.

As noted above, high standards of customer-focused, ethical professionalism must apply to all advice professionals, and there must be no compromises made in the standard of professionalism required. We believe, therefore, that it would be helpful if advisers providing simplified advice were to be subject to the FCA's new Certification Regime.

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

The Chartered Banker Institute's work in raising the standards of individuals working in the banking industry is helping to restore trust and confidence in those working in the banking industry, whilst at the same time ensuring that those working in the industry have a sense of 'professional pride' in the roles they perform.

Whilst there is no statutory requirement for individuals to hold a Chartered qualification, perhaps not surprisingly the recent financial crisis has strengthened public and employer support for professional qualifications in the banking sector. In independent research conducted by YouGov in 2009/10:

- 88% of UK adults agreed or strongly agreed that all bankers should take professional exams.
- 57% of business decision-makers agreed that they would rather be a customer of a bank where their relationship manager was a professionally qualified Chartered Banker, and
- 41% of adults said they would trust a Chartered Banker more than any other qualified individual to give financial advice.

In addition to this, the Institute launched the Chartered Banker: Professional Standards Board in October 2011. The CB:PSB is a unique initiative, led by leading UK banks and the Chartered Banker Institute, to enhance and sustain professional and ethical standards in banking in the UK. The CB:PSB's member firms encompass approximately 75% of the UK banking workforce. The CB:PSB aims to develop and implement professional standards (standards of conduct and expertise) for individual bankers which will contribute to the restoration of public trust and confidence and promote a culture of professionalism in the banking industry. Membership of the CB: PSB is open to any bank or building society operating in the UK, including foreign banks.

In July 2012, the CB:PSB launched its first standard, the Foundation Standard for Professional Bankers (the Foundation Standard). Over 185,000 bankers, including 118,000 in the UK, achieved the Foundation Standard in 2014. CB:PSB member firms have committed that all UK customer-facing staff will have met the Foundation Standard by December 2015. The CB:PSB launched its second standard, the Leadership Standard, in early 2015 and this is currently being implemented by CB: PSB member firms.

We believe that there are three important lessons that can be learnt from the successes of our work:

1) Regulators should more actively encourage and support industry initiatives to enhance and sustain a culture of professionalism (such as those cited above).
2) It is not just about qualifications – professional standards have an important role to play as well.
3) Regulators and the financial services industry need to listen and respond to what customers consistently say they want – they want suitably qualified professionals serving their needs.

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

Rather than an alternative approach, we believe that ensuring that high standards of customer-focused, ethical professionalism apply to all advice professionals, will help regulators achieve the desired outcomes in terms of consumer protection.

All professional financial advisers should be members of a relevant professional body, develop, demonstrate and maintain appropriate standards of professional competence, be subject to a code of conduct and undergo an annual appraisal of standards that could ultimately lead to them being struck off if they don't adhere to the required standards.

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

As we have set out above, our recommendations are that professional qualifications should be appropriate (i.e. with relevant subject area coverage and at a suitable educational level), with advisers required to develop, demonstrate and maintain appropriate standards of professional competence,, complete relevant, annual CPD, and be subject to a code of conduct overseen by a professional body. As mentioned in our response to Q26, research shows that consumer trust would improve if they were being advised by a suitably qualified professional.

As noted above, the Chartered Banker Institute has developed, together with industry representatives, a proposed set of professional pathways and qualifications (see Appendix 1), which, if implemented, would help to secure consumer confidence and trust in individuals providing simplified advice, maintaining professional standards across the whole advice sector whilst being cost-effective for banks, building societies and credit unions.

Chartered Institute for Securities & Investment's Response to The Treasury/FCA Financial Advice Markets Review's 'Call for Inputs'

General Comments

The Chartered Institute for Securities and Investment ('CISI') is the leading body for individual practitioners working in the retail and wholesale investment sector and is an FCA Accredited Body for issuing Statements of Professional Standing to individual advisers under the Retail Distribution Review. We welcome the Treasury and the FCA's initiative in Financial Advice Market Review ('FAMR"), particularly in considering what needs to be done to enable consumers with smaller resources and income to have access to the high quality advice that they need, and in removing the barriers which restrict advisers from providing it.

Our Response to the Call for Inputs is in two parts – first the CISI's response to the few questions that relate to it directly as an Accredited Body (this Response) and secondly the answers of a select number of active committees of individual members of the CISI who are advisors (see **Appendix 1**).

Here are our main comments –

The first goes to the heart of addressing the mass market 'advice gap'. The cost of good quality advice must be reduced to a level that consumers with smaller assets can afford. There are two ways of achieving this – first to encourage advisers to use technology to help (not replace) them (such as artificial intelligence), and secondly to encourage advisers to provide advice through reducing the suitability requirements for advice on smaller amounts into less risky investments, reducing the cost to advisers so they can lower their charges.

The second is the need for those individuals providing advice to consumers to be suitably competent (including qualified) for the appropriate product or service. This means selecting the right level of knowledge and qualification to take account of the product or service's complexity and riskiness. We applaud the innovative regulatory approach of the FAMR in opening up discussion on having different levels of suitability requirements and propose that the same approach should apply to qualification levels.

A second comment is the need for simplifying the different types of advice described in the FCA's paper FG 15/1. Whilst we sympathize with the legal constraints under the FSMA on the FCA, it has both confused advisers and discouraged innovation. Competence and qualifications requirements will need to be adapted according to any new classification.

A fourth point is on the new channels of delivering the advice to consumers. These include so-called machine delivered or 'robo-advice' - and not by individuals. We agree that it is irrelevant what method is used to deliver the advice – there should be the same focus (and consistent criteria) on the nature and quality of the advice given; this also has consequences for competence and qualifications.

We would be happy to participate in discussions and round tables in developing these, and other ideas under the FAMR, further.

Answers To Specific Questions

22. Do you agree that 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 these are the main areas of the advice gap.

The ones you have chosen cover a range of complexity and riskiness for consumers. For example, advice on 'taking an income in retirement' now has a long list of options from withdrawing a substantial amount of capital from a pension pot and possibly investing it in a myriad of assets, to living on income from the pension pot alone. Conversely, advice on 'investing' may be much simpler and less risky, so both duties of suitability and level of qualifications should be set at the appropriate level. (Currently the RDR qualifications are at level 3 – equivalent to the first year at university). This level may be right for advice on investment into Retail Investment Products (largely funds) but too low for advice on complex products and services such as financial planning where level 5 or even level 7 (first degree level) may protect consumers better.

We would note that varying the qualifications level should improve the quality of advice without creating a cost barrier to the customer.

The members' comments in Appendix 1 contain a number of additional points.

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

No, we do not agree. We can understand the logic – that those with less are unlikely to be able to afford advice and therefore need to obtain it from the Money Advice Service or Pension Wise; and those with more assets can afford to pay an adviser and who will welcome them; however this approach does not take into account the nub of the 'advice gap'. This is caused by advisers' charges – they are simply too high for consumers with smaller assets. So the focus of the initial work should be on how to reduce these so all can afford them. There are two main ways in which this can be done.

The first is to strongly encourage advisers to use the technology now available to assist them in providing their services – to take out much of the routine tasks in research, product selection, order execution and settlement and trade and transaction reporting – leaving the adviser free to do what he or she is best at – understanding what the client wants and advising him. There are a host of business services and business models that currently exist for these purposes.

This is the enhancement of the advisor's role – not his or her replacement – as in pure pre-programmed delivery of advice.

The second is to reduce the regulatory risk and compliance costs of the adviser. This primarily springs from the duty of suitability. The latest thematic visit report reinforces the message that there is no proportionality in the duty resulting in excessive compliance costs and high PII premiums for advice to clients with smaller assets (see **Appendix 2** on PII costs and answer to Question 35 in the members' comments in Appendix 1) and in the FSCS levy (see Appendix 2 also) – which is now being studied; but this is strange – the duty should be based upon the complexity and riskiness of the product or service. Would a client with more assets be entitled to a higher duty of suitability from his or her adviser? The illogical conclusion is that smaller clients receive no advice at all – because it is made too expensive. As a precedent, there is a clear contrast with the regulation of gambling – or lack of it. See **Appendix 3** which describes the CISI research on this. It raises the question as to why less risky forms of investment should be as heavily regulated as they currently are.

The same analysis would apply to qualification levels. These should also be based upon the complexity and riskiness of the product or advice. Level 3 (first year undergraduate level) is really too low for an adviser to understand and be an expert on the complex and risky products on which he or she advises.

Therefore we would recommend that there should be no financial amounts taken into account for the initial work as proposed in the question.

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

Yes, we think there are. The FCA's Guidance on Advice lists no less than seven different types ranging from regulated advice (personal recommendations) to unregulated generic advice. While we appreciate that the FCA's flexibility is limited by the Regulated Activities Order (which is sometimes super-equivalent to MiFID)*, it does seem that dividing different services into further increasingly small and technical definitions not only prevents consumers receiving advice, but also frightens off providers (sometimes innovators) which are unsure where the boundaries are, and are concerned by the risks of getting it wrong (or the policy changing). Logically there should only be two categories – services which are regulated, and those which are not. The FCA should be clearer in guiding service providers as to which category their particular service comes into.

There is also a more significant argument for updating EU and UK legislation away from the 'personal recommendation of a specific investment' definition to a more detailed one from ESMA or the FCA which addresses modern services eg model portfolios and establishing the principle that it is the nature of the service delivered that is relevant rather than the method of delivery eg pre-programmed delivery. ESMA's proposal in its final report on MiFID II to examine this point at MiFID II Level 3 is a good one and should lead to revising CESR's Guidance on the subject.

From this there will be changes to competence requirements under the RDR qualifications and CPD and under ESMA's level 2 standards on adviser's qualifications and CPD under MiFID II.

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

Yes. We think that the key is the competence and knowledge of advisers. The RDR took this approach through requiring all retail advisers on Retail Investment Products to be assessed for their fitness and competence including having appropriate qualifications and CPD. There is a balance to be drawn between making entry easier for advisers and protecting consumers - we would strongly support the continuation of the RDR approach so that consumers are protected from acting on advice (of whatever type, be it focused, simple or full advice) from individuals who are not trained or competent to give it. Which is more damaging – no advice or bad advice? We would suggest that bad advice inflicts more damage – look at the risks of unregulated investments and poor financial planning. This goes to the very core of investor protection in the regulated environment – the FCA's statutory objective.

See also answer to this question in members' comments in Appendix 1 on longstop.

The Chartered Institute for Securities & Investment

21 December 2015

Appendix 1

Please see attached document with members' views.

Appendix 2

Professional Indemnity Insurance Costs

"Due to the frequency of negligence allegations made against Financial Advisers and some large instances of fraud since 2011, Professional Indemnity Insurance for the sector [retail advice] *has become both increasingly difficult and expensive to secure.*

Whilst there are some firms that continue to benefit from broadly stable insurance rates, the breadth of cover available may have constricted significantly over the past three years, posing a potentially greater threat than a rising PI premium" – Howden Insurance Brokers (who claim to be the leading broker arranging this cover for retail advisers).

The FSCS Levy

In April this year the FSCS announced its levy for 2015/2016 – £319m compared with £276m in the previous year. Of this, £100m applies to life and pension advisers.

Example of a specific firm (cited by FT Adviser) –

"*Despite this conservatism* [of business model] *it has just had to hand over a cheque for £10,418 to the FSCS. Last year, the bill was £5,279. FSCS costs alone now consume 5 per cent of Blackdown Financial's turnover."*

Appendix 3

http://www.cisi.org/bookmark/genericform.aspx?form=29848780&URL=1072739

CISI
CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

Financial Advice Market Review – Call for input

Summary of Questions and Answers from CISI members on FAMR

No	Question	Response
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?	Yes consumers do have particular needs. The Regulator must be careful not to put too great a burden on the Financial Services Industry, due to over regulation. This covers too wide a range of "vulnerabilities", the understanding of which would be beyond training for financial qualifications. If an advisor is to meet these needs the regulator MUST spell out which vulnerabilities are to be understood and how advice should be moulded to meet needs. Such 'vulnerabilities' must be declared by the customer, supported by a professional assessment, at which point only advice on 'no risk' products should be given.
Q2:	Do you have any thoughts on how different forms of financial advice could be categorised and described?	The key to advising clients is to assess, record and acknowledge their understanding of risk, and then to gain a clear and unequivocal statement of their risk appetite, and thus be able to advise only within the stated risk profile and appetite, and thus to be judged as having met the requirement of such a risk profiling. Financial advice should then be categorised in detail alongside the risk assessment of different products (as opposed to the "*High, Medium, Low*" assessment used most often now) and tested and

Q6: (cont)		Thought needs to be given to consumer engagement with the industry, understanding of financial products and risk appetite. This is far too general, as apart from income levels, it does not match any investment or risk appetite assessment currently in use. It would be far better for the FCA and the Advisers to work together to formulate a more relevant segmentation model. This must be based on risk and risk appetites, with input about capital available for risk-taking.
Q7:	Do you have any observations on the segments and whether any should be the subject of particular focus in the Review?	The broad categorisation of clients is inconsistent with the complexities of the investor. Not all "*retail*" clients need massive protection, not all, "*professional*" investors are really sophisticated. These are simplistic and unhelpful categorisations leading to a narrow offering being available to those who may most benefit from a wider investment universe.
Q8:	Do you have any comments or evidence on the impact that consumer wealth and income has on demand for advice?	Advice is required across the wealth spectrum, but generally higher wealth equals higher demand. However, a client with a lower level of wealth and/or income may be more demanding than a wealthy client, and vice versa. Wealth accumulation advice is 'needed' by most, whether they earn £20k p.a. or £200k.
Q9:	Do you have any comments or evidence on why consumers do not seek advice?	• We must assume that consumers do not understand how little they know – they are bombarded with media assessments of investment, and how "*money can be made*", without very much dialogue about how much risk is attached. • Prevalence of online information and self-service options. • There is a reluctance of some people to discuss their wealth with others. • Evidence suggests that there is a growing sense of loss of trust from the consumers around Financial Services in general. • There is also a feeling that mass advice is provided on an 'industrial' basis rather than a specific and individual needs-based basis.

Q12:	Do you have any comments or evidence about the role of new and emerging technology in delivering advice?	'Artificial intelligence' or 'Robo advice' could potentially be used to fill the advice gap at the bottom end of the market. However, this type of service is still in its early stages and is largely untested and unproven. Technology is best used to speed up and facilitate execution. It should not be seen as a replacement to one-to-one advice. The current trend for 'artificial intelligence' or 'robo-advice' is perhaps a result of a mis-reading and/or misunderstanding of the market. Technology can only go so far as computers do not 'do' emotion and will offer solutions based on the ideas of the designer and the programmer. These may or may not be suitable for the investor and they may or may not constitute good advice as they could be programmed with bias towards a certain product or suite of products. Technology is only as good as the people who specify, code and test the programme, none of whom are professional advisers. The content of automated systems and other innovative methods of delivery should be created by suitably qualified and experienced people. Electronic trading platforms enable customers to be involved in trading with very little by way of background checks and risk assessments – these by definition bypass advisers. Customers who cannot agree (or should not agree) to taking high risk should not be offered such services. Computers do not understand body language and cannot interact with a human being as another human being could or would. Computers act only on the basis of the programme they are running and this cannot possibly take account of the wide range of needs of individual investors – furthermore, computers require full and honest disclosure in order to operate their programmes correctly. As most advisers can confirm, complete honesty and full disclosure, are often not volunteered by investors, and it requires a skilled adviser to elicit full information. The recent Finametrica survey of 500.000 clients who have taken the psychometric test has confirmed these risks – 21.2% - over 100,000 – of these customers incorrectly estimated their true risk tolerance by a significant margin. Its suitability director said "*Most tools lack robust validation to ensure customers are accurately and scientifically assessing their risk tolerance; they are essentially risk 'guesstimate' tools….I urge any provider*

Q13:	Do you have any comments on how we look at the economics of supplying advice?	No answer.
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?	The only way is agreement between the two parties in advance. There was no evidence available relating to the levels of costs and revenues associated with different advice models.
Q15:	Which consumer segments are economic to serve given the cost of supplying advice?	No one can expect advice which is any good with a cost of less than £1,500. So those with earnings above £100,000 or assets above £500,000 remain attractive to most advisers. Below that it has to be systems aided advice (see answer to Question 13). If the Regulatory environment continues where the cost of advice is ever-rising, then many segments of the clientele will find themselves 'priced out' of being able to gain advice. This is counter to what should be the real aim of the Regulator i.e. ensure a broad financial industry able to deliver good advice throughout the client spectrum.
Q16:	Do you have any comments on the barriers faced by firms providing advice?	• The significant increase in the cost of providing advice post RDR is mainly due to a large increase in the paperwork/ admin required. • Regulation is increasingly complex with more and more examinations and cost of maintaining compliance is high (many irrelevant to customer needs); some older experienced Advisors have been put out of business in the last 4 years due to this.

Q19: (cont)		costs of advice. In addition, there will mostly be gaps for youngsters on low earnings and ordinary people with ordinary incomes and without lots of assets, especially those who are at the lower end of the wealth spectrum and who can't justify advice fees. Women. Some financial services and advice are more accessible to men and are not aimed at the female consumer. Customers who would have used banks tied advice because they 'trust' their banks.
Q20:	Do you have any evidence to support the existence of these gaps?	The increase in fees and the reduction in firms advising the clients. Women are not well catered for within financial services generally. Marketing and the advice process are aimed at a male customer segment. Industry women's events have been talking about this for a number of years e.g. Platforum's women events.
Q21:	Which advice gaps are most important for the Review to address?	It was generally felt that it is most important for the review to address the advice gaps relating to the smaller client segment or those with small assets to their name.
Q22:	Do you agree we should focus our initial work on advice in relation to investing, saving into a pension and taking an income in retirement?	▪ Pension planning at an early age to take an income in retirement. ▪ Others felt it was more important to save not only for the long-term pension but other savings and investment plans as well. ▪ While these are important areas, the mass market (where regulation may have led to disenfranchisement of some sectors from advice) needs access to advice about protection and basic savings as much as it needs advice on mortgages, wealth accumulation and investment.

Q26:	What can be learned from previous initiatives to improve consumer engagement with financial services?	The introduction of MiFID I in 2007 created new categories of customers, as well as appropriate and suitability assessments. However, this was introduced in such a formulaic way that the quality of advice given showed very little improvement. When introducing new legislation to protect customers, the application of that legislation needs a much longer timescale to enable a much deeper assessment and better quality of changed practices. That openness works, prescriptive regulation does not. The process starts with education in schools where pupils need to learn about the importance of planning. For adults, the messages have to be about professionalism, the high level of qualifications held by practitioners, the code of ethics and the penalties for breaches, the independence of advisers from a product or products. Use language that people outside the industry can understand. Relate it to peoples' lives and consumers will engage more with the industry.
Q27:	Are there any approaches to the regulation of advice in other jurisdictions from which we could learn?	The USA does not produce thousands of detailed rules, and consumers seem to have better access than we do.
Q28:	What steps can be taken to address behavioural biases that limit consumer engagement without face- to-face advice?	Improved media involvement in the explanation of and presentation of investment opportunities, and simplification of access by customers' will create a better industry, Public Relations and trust, wider financial education, higher industry standards. Behavioural biases will continue to exist no matter what steps are taken, face-to-face or not. Advisers can only advise, they cannot impel and discretionary managers (including fund managers) are not immune from behavioural bias.

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?	Something certainly prevents new entrants, but I suspect it is the regulatory structure rather than no backstop. There is a barrier to entry for those who would advise on their own account as liability for advice persists throughout life. There is a barrier to exit as liabilities cannot easily be passed on. (This is not the case in the legal profession where liabilities are transferred to the new firm in the event of a takeover).
Q34:	Do you have any comments about the benefits to consumers of the availability of redress for long-term advice?	The current system of redress is more than adequate. Clearly a few individuals may benefit, but the loss to the public at large is huge. It is important that access to redress is simplified. Many Court cases take months, or even years to come to Court. It is important that the FOS is more closely involved, and also that it is able to enforce judgments.
Q35:	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 current system of redress is more than adequate and should be maintained. There should be plenty of Publicity and openness which should be recognized as at Common Law. Any approach must give thorough consideration to the issue of longstop and provide an effective resolution. The indefinite liability that exists currently benefits neither advisers nor consumers and creates barriers to entry and exit. With increasing innovation, including automated solutions, being sought and encouraged, all efforts to remove barriers must be made. No less protection should be available for automated solutions than for face to face advice. However, if the absence of longstop continues, there is a significant risk to the amount of innovation that will be seen. Firms should be encouraged to innovate and provide a wide range of high quality solutions to the advice gap.

Q35: (cont)		<u>Enhanced Professional Indemnity Insurance (PII):</u> As mentioned above, PII needs to be addressed. Strengthening PII for firms would be a positive move, but this must not lead to further increases in premiums. Unaffordable cover is in neither Adviser nor consumer interests. <u>A compensation fund:</u> Advisers already make a significant contribution to the FSCS and pay increasingly high levies. The introduction of another compensation fund would make this situation worse and undoubtedly mean that it may not be viable for smaller firms to remain in the market. This would be a mistake. If this solution is to be adopted, we would encourage part of the existing FSCS fund to be used for this purpose, instead of the creation of another compensation fund. Not necessarily as an alternative solution, but certainly as part of any solution, members believe good practice should be recognised and rewarded. Indicators of quality include a consistently low number of complaints and (for financial planning) meeting the criteria to be an Accredited Financial Planning Firm TM. All Accredited Firms have to demonstrate that they meet rigorous standards, not just initially but on an ongoing basis. The number and nature of complaints is one of the criteria, with the expectation that an accredited Firm should receive no complaints in any 12 month period. As firms must work hard to retain their Accredited Firm status, recognition should be given to the lower risk they pose to 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?	This is a major growth area. One example is Nutmeg Management Company based in London. The company was founded in April 2011 and is registered in the United Kingdom as Nutmeg Saving and Investment Limited, there are many others in the pipeline.

Q38 (cont)		The issues of know your customer and suitability must not be overlooked. Further consideration relating to main consumer considerations relating to automated advice are: • Who is behind (responsible for) the advice? • How has it been personalized to the customer's situation? • How legally binding is it?
Q39:	What are the main options to address the advice gaps you have identified?	See answers to previous questions.
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?	Competition can only be controlled if it is given in a standardised environment. That will usually mean a standardised and transparent fee structure. Promote healthy competition in the market and work to ensure that advice is not only available from large companies/ banks in the future. Fair treatment of all providers of advice irrespective of the format advice is provided in. Simplify or remove the conduct of business rules and reduce admin costs for providing advice.
Q41:	What steps should we take to ensure that the quality and standard of advice is appropriate as a result of any proposed changes?	Ensure that Financial Advisors are adequately remunerated for providing advice to clients at the lower end of the scale. Contract Law should punish inappropriate advice provided to clients. The focus on professionalism must continue. Irrespective of the delivery method for the advice, individuals should be appropriately qualified, skilled and knowledgeable. Far greater attention should be paid to effective Continuing Professional Development, with a less emphasis on input hours and more

FAMR Call for Input

Response from Paul Harding, IFA and Director of Chevening Financial Ltd. A personal view.

December 21st 2015

I have not provided an answer to every question as I have only answered those I felt I had something useful to contribute. I apologise if I have got any of the numbering wrong!!!

General comment

Throughout my life I'm sure I would have benefited hugely from more affordable "personal" advice on the law, tax, nutrition, exercise, health, cars, travel/holidays, parenting, education, building restoration etc etc. But if I couldn't afford or didn't want to pay an expert I just had to DIY. No big deal even though I got it wrong more than right.

So although I, as a regulated adviser, totally believe in how valuable good advice can be, why is financial advice apparently that much more important than every other kind of advice, such that the State (vie the regulator) feels so compelled to continually address it as something of such unique importance?

That said, if there really is the perceived need to do something that will lead to an "advice" (as opposed to a product) solution for those people who simply CANNOT afford large full advice fees, then it could be solved really easily; please see question 24

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

The complexity of terminology adds hugely to consumer confusion. There should be only two key distinctions which are that:

- the "service" being provided is either regulated or it isn't
- the person/firm providing the service is either independent or they aren't.

There is emphatically no need for any additional confusion or sub-division in terms of what consumers need to understand about the "advice providing" part of the FS industry.

<u>Regulated advice or not:</u>

The paper itself refers to Basic, Professional, Focussed and Regulated advice etc; however, all these are in reality Regulated Advice. Non regulated "advice" is effectively often referred to within the industry as Guidance. This is very confusing for those within the industry, let alone consumers!!

It should be made clear that the highest form of advice service a consumer can seek out is Regulated Advice, which can only be given by a Regulated Adviser. Anything and everything else, which is not confirmed to be Regulated Advice, is then non-regulated.

The cost of Regulated Advice will inevitably be higher but consumers would know that it is the highest form of advice out there and brings many benefits (e.g. professional, qualifications, personalised recommendations, full regulatory protection etc.)

The inclusion of a "personal recommendation" within the advice service would mean the service being offered would have to be Regulated Advice, as now.

All other forms of "advice" would be non-regulated and therefore able to be delivered far more cost effectively outside the regulatory regime. Consumers would need to be aware that non regulated advice would not include the protections and other attributes of Regulated Advice.

I believe this simplification would improve:

- Consumer understanding of what is available and what they are getting
- Consumer choice of the "right" kind of advice service for them and their circumstances
- The expansion of the availability of lower cost "advice" services which can be non regulated
- The sustainability of Regulated Advice for those scenarios where the CONSUMER understands it to be preferable and makes a choice to pay for the higher cost service

<u>In terms of the independence label:</u>

The current situation is ridiculously over complicated and achieves nothing to assist the consumer. For example:

There are many so called "independent adviser who make personal recommendations that include payments (via charges to the client) at some point within the product chain to their own organisation, IN ADDITION to the advice fee. This could easily be termed as bias but none of these firms appear to have ever been challenged by the Regulator for some reason. Examples of this are recommendations that:

- Use a platform owned by a shared parent company or even partly by the IFA firm themselves!
- Use of a DFM service that is linked to or is in fact the IFA firm themselves!

Additionally, many Restricted advisers explain their restricted status to Consumers by saying that it is because they CHOOSE to exclude certain product types from their solutions which means they have to call themselves restricted. This then means they don't have to explain more relevant restrictions and so the Consumer is not really getting a clear picture.

It would be far simpler if Regulated Advisers were only able to call themselves Independent if their relevant turnover derives solely from the delivery of advice and they do not receive any other remuneration from any other part of the solution they recommend. I.e. they are 100% unbiased and will earn solely from the client fee paid for the advice.

Any adviser who doesn't fit this definition is therefore not independent and would have to explain to a client the aspect of their advice that causes them to be unable to call themselves independent. **Consumers will therefore be fully informed**.

This is simple to understand (and hopefully enforce) and would **make life so much simpler for consumers who wish to find and purchase entirely independent advice**.

It is easy for those of us within the industry to lose sight of how confusing the terminology can be for the layman and the above are immediate changes that could be easily achieved and would **vastly improve the consumers understanding of the provision of advice**.

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

It is sought by those who:

- Recognise they have a need (many consumers do, but don't realise it!)
- Recognise they are not able to solve it themselves or would prefer to save the time it would take to solve it themselves
- Have the means to pay the full cost of complex and regulated advice

I suspect that less than 1% of consumers who would benefit from fully regulated and professional advice currently seek it out, for one or more of the above reasons

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

I think it is inevitable that the supply of Regulated Advice will dwindle, as the costs of delivery are becoming increasingly difficult to sustain at a level that will allow fees to be charged that clients will be happy to pay.

It is not just the explicit costs (regulatory, levies, expert compliance assistance, PI premiums etc) but its just as much the cost of the time spent reading and reacting to the regulatory output (on top of other incessant legislative changes) and the feeling among business owners that you have to spend time to protect yourself within every single case, given the fear of the compensation regime and culture.

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?

This is primarily due to the need for advice firms to charge "high" fees and the post RDR transparency of such fees. The transparency is a good change however, but it is not really surprising that some of those clients who were not aware of the cost of the advice they were previously getting may now have chosen to cease paying for it

But in simple terms, if regulated advice services were free they would be used by everyone, so inevitably the higher the cost of supply, the lower the demand.

It is also though probably in part due to the growing number of firms who recognise that the days of "needing" to create a product sale are gone. The commodity is the advice itself, there is no need for it to end in a product sale and so a growing amount of a professional advisers time is now spent on pure advice that doesn't lead to a product, whereas it was probably a lot less before.

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

I think this question misses how much the advice industry has changed.

The advice firm scopes out the advice needed and lets the client know the fee. The client then chooses to proceed or not. It is not therefore driven by which "segment" they belong to – all segments can receive fee quotes for whatever their issue is. But it is then an individual's decision based on what they can afford at that time in their lives for the particular issue and we see a huge span of consumer types paying for advice at wildly different fee levels.

So all "segments" are economic to serve IF they agree to pay the fees required!

It is inevitable that the large fees for advice tend to only be paid by the those with larger assets and more complex scenarios, but this is generally because of course their fee quotes are higher in the first place.

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

- The amount of regulatory change and output
- The unpredictable FSCS levies and the difficulty of working out fee rates in advance therefore
- The complexity of the definitions and regulatory concepts as explained earlier
- The need to spend (and hence charge for) substantial time with clients dealing with regulatory requirements, as opposed to what the client and we would rather focus the time on.

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

I think there is only a "Regulated Advice" gap – there is a huge amount of non regulated advice out there that is easily found by anyone who is bothered.

And the regulated advice gap is there only because of consumer confusion and the high cost of delivering regulated advice

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

I think there is a huge demand but the cost is too high – as I said earlier, if regulated advice were free there would be a huge demand for it, so necessarily it is the cost (real or perceived) that is causing the lack of demand.

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

How those who cannot afford the fees needed for fully regulated advice can still get practical and useful personalised help. See suggestion below in question 24

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

No, it should be to find a simple solution to the general problem in the answer to Q 21

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)?

No, it should be to find a simple solution to the general problem in the answer to Q 21

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?

See answers earlier to question 2

Plus I think one simple huge breakthrough would be to allow personalised advice to be delivered as non-regulated, where the total fee for that advice is below a certain low level, say £300 and the adviser meets the definition of independent as outlined in question 2 (i.e. no other margins being made)

It would mean we could effectively provide personalised guidance there and then in a very simple way just as a GP might conduct a surgery for example, albeit on a one to two hours rather than 10- minute basis! (I'm sure health is actually more serious than wealth, so if its deemed to be acceptable (though not perfect) for GPs to work like that, then it should be for us too)

This is a simple measure that I genuinely believe could be delivered by Regulated Advisers (ie like qualified GPS) en masse and would massively improve things for many many consumers, even if its not as "perfect" as fully regulated advice, which they probably couldn't afford or wouldn't CHOOSE to pay for.

It would provide a good increase in choice for consumers and would lead to far better outcomes than the current position, which is in simple terms between expensive personalised advice or lower cost guidance with no specific personal solution.

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

“Evidence” is tricky!!...but fwiw I have specifically advised my own children against entering the industry for that one single reason. Were I not already in the industry I would most certainly NOT enter it now as a business owner, given the relative unattractiveness of the lack of long stop, compared to virtually every other industry out there, so those making a choice early in life will be turned off such a negative aspect of our particular industry relative to others

Ultimately it requires owners and growers of businesses to house the advisers of the future and I do not sense many new entrants, considering the potential market that is out there.

I also think that many advice firms end up having to charge more than they otherwise would due to the time spent on each case to protect themselves as much as is possible, driven by the perceived risk of potential future complaints and/or claims, the extent of which is influenced by the awareness of the lack of time limit.

Also, the PI market is it seems to me flawed in this context. A PI provider can at any renewal choose to delete cover for some or other specific “product” that may have “gone wrong” for other clients. This means that there is in reality no PI cover that works for the long term in that any problems that do arise might eventually just be excluded at the next renewal. So there is effectively no certainty of long term PI cover for advice given at all, which again probably adds to the IFA firm feeling less and less secure on the issue, which leads to them feeling the need to spend more and more time (and cost to the client therefore) trying to make the file as robust as possible from every angle, even those not yet envisaged!! This in itself also leads to more and more difficulties for consumers given the weight of the audit and reports that are then deemed to be necessary!

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?

As above

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

Firstly I think the basis of the question is flawed. In no other industry are consumers protected indefinitely and many other industries involve products or implications that last for decades (e.g. houses, medical treatments, legal and/or tax advice etc). So I don’t think its “appropriate” for the protection to be different to other similar service industries, especially when I believe (as above) that it is probably having an impact on the costs to the clients.

Secondly, if the “indefinite” protection is only going to be for Regulated Advice, then the easiest solution is to say that Regulated Advice can only lead to the recommendation of Regulated Products (approved as such by the Regulator) which meet certain criteria, so that effectively no client solution could then ever go too far “wrong”, if delivered by regulated (ie confirmed as qualified and competent by the Regulator) advisers using regulated products.

Financial Advice Market Review

CAP's official response to the HM Treasury and FCA's call for input

October 2015

christians against poverty

CAP

Lifting people out of debt and poverty

Christians Against Poverty (CAP) welcomes the Financial Advice Market Review (FAMR). As a debt counselling charity, working with some of the poorest and most vulnerable in the UK, we are aware of the vital need to fill the advice gap affecting consumers in financial difficulty.

Our greatest concern is the lack of affordable, independent financial advice available to those who are considering whether to release assets to repay their debts. In particular, this involves releasing lump sums from pension pots, re-mortgaging properties to release equity or switching mortgages.

The average annual household income of our clients is just £13,897. While only small numbers have significant assets that could be used to settle debts, for these clients it is essential to be able to make an informed decision on this. Currently the vast majority are unable to access the advice they need, and are put at risk of financial detriment.

CAP commends the FAMR for recognising that some consumers are not accessing the financial advice they need. We have provided answers to questions relevant to our insights and experience, and hope that the FAMR will result in comprehensive provision of financial advice for all consumers, especially to meet the needs of those who are poor and vulnerable.

Matt Barlow
UK Chief Executive

Christians Against Poverty (CAP) helps thousands of individuals and families struggling with unmanageable debt each year. Through our network of 290 CAP Debt Centres based in local churches across the UK, CAP offers free face-to-face debt management, with advice and ongoing support provided from head office. In 2014, CAP worked with 12,295 households, with 2,534 of these clients becoming debt free in the year.

In addition to this, CAP is the largest provider of face-to-face adult financial education in the UK. There are currently 850 churches providing the CAP Money Course, a three week money management course, equipping over 12,000 people each year to budget, save and spend wisely. CAP has also recently expanded to address other causes of poverty. CAP now operates 145 CAP Job Clubs and is piloting 31 CAP Release Groups to tackle both unemployment and dependencies respectively.

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?

Those on low incomes and in financial difficulty often require financial advice to make complex decisions about using assets to pay off debts. However, the cost of independent financial advice and their financial situation prevents them from obtaining the advice they need.

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

In more complex situations, further to the debt advice Christians Against Poverty (CAP) provides, clients require financial advice to determine the most appropriate option out of debt. This includes pensions advice for those able to access a lump sum, re-mortgaging advice for those looking to release equity from a property, and mortgage advice for those struggling to afford repayments.

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

The types of decisions CAP clients need financial advice for are complex, with significant financial implications. In this context it is advice from professional financial advisers that is needed.

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

See answer provided for Q3.

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

While CAP appreciates that the FCA Consumer Spotlight segmentation model may be helpful in broadly understanding the different circumstances consumers face and tailor communication, it does not necessarily explain their advice needs. It should be recognised that not all consumers will fit into one of the segments and remain there. While the majority of CAP clients fall into segments defined by low income, with an average income of £13,897 per annum, unexpected life events such as bereavement and unemployment mean that there is movement between the groups. In CAP's experience, it is not unusual for someone 'mature and savvy' for instance, to suddenly find themselves in financial difficulty and struggling with everyday expenses.

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

Due to low income and less confidence in financial matters, the needs of 'living for now', 'hard pressed' and 'striving and supporting' segments should receive particular focus in the

Review. These are groups who may be more likely to live on the edge of financial difficulty, and less likely to be able to afford financial advice should they need it.

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

On a whole, there is lack of recognition of the need for financial advice amongst CAP's clients and how to obtain it. This is not due to overconfidence, but being unable to determine the steps they need to take to resolve their financial difficulty. Once the need for financial advice has been communicated, the most significant barrier preventing CAP's clients from seeking financial advice is the price. In addition, digital exclusion due to affordability or skills in technology inhibit some from utilising more general sources of advice online.

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

The current financial advice market does not cater for those who cannot afford to pay. The nature of financial difficulty means that when CAP clients require financial advice to determine how to best resolve their difficulties, they do not have the means to pay for it. This is advice CAP is not able to provide and in the majority of cases, clients have to make decisions uninformed. The circumstances CAP clients are in means that they are unprofitable and therefore there is no incentive for firms to fill this gap.

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

It should not be assumed that lack of demand implies that these consumers do not need advice. Those with low financial capability will not necessarily realise when financial advice is needed, and those without the means to pay for advice will not be actively demanding advice.

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

As previously stated, CAP considers there to be an advice gap for independent financial advice for those who cannot afford to pay for it, and need to make significant financial decisions about the use of their assets. While these assets may not be considered to be of high value, they are significant to low-income consumers and inappropriate use of them will have substantial impact on their financial position.

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

The lack of free, face-to-face independent financial advice, for those who cannot afford to pay for it, is the most important advice gap for the Review to address. It is not possible to make properly informed decisions of the type identified in response to Q3 through generalised sources of advice. In addition, there is currently almost no provision for those who cannot afford to pay for independent financial advice, and this puts consumers already in financial difficulty at risk of further detriment.

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

While these are all important considerations, please see the answer provided for Q21 for CAP's opinion on the areas in most need of focus.

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

CAP agrees that the focus needs to be on those without significant wealth. However those without any disposable income or cash savings should also be a priority.

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

When considering the extent that automated advice can fill in the advice gap, it needs to be appreciated that consumers' circumstances can be extremely complex. In these situations CAP is concerned that automated advice cannot adequately take into account the nuances of all relevant factors, and will not necessarily provide the right answer. In addition some consumers will not be able to engage effectively with automated advice due to limited understanding and capability. While automated advice may be able to cater for the needs of the majority of consumers, it is important that the minority who need other provision are not ignored. Just as CAP plays an essential role in the debt advice industry and provides holistic support to the poorest and most vulnerable, face-to-face services will always be needed to cater for the most vulnerable consumers.

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

To fill the advice gap affecting CAP's client there needs to be free, face-to-face, independent financial advice provided for those on low-incomes.

Requests for further information

This response has been written by Rachel Gregory, External Relations Analyst for Christians Against Poverty (CAP), with contributions from:

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Lifting people out of debt and poverty

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Financial Advice Market Review and consultation on public finance guidance

Citizens Advice response

Contents

Good advice and guidance matter for consumers

Citizens Advice aims to provide the advice people need for the problems they face, and to prevent problems happening in the future. We are a national charity and we deliver advice services from over 3,300 community locations across England and Wales, run by 338 registered local charities. We are the Charity Times Charity of the Year for 2015.

In the last year local Citizens Advice helped people with 1.8 million queries about debt and personal finances. Through our financial skills programmes we also help people to avoid money problems and gain knowledge, skills and confidence with money. We are also a partner in the Government's new Pension Wise service, delivering face to face guidance for people approaching retirement. We use that experience to advocate to improve policies which affect consumers' lives, including around advice, debt remedies and private pensions.

Good advice and guidance matter for consumers, particularly at a point of rapid change in the consumer and public policy landscape. Unsecured household debt is expected to rise to around £300 billion by 2020; welfare reform continues; consumers have new choices around pension decumulation. Yet over thirteen million UK adults find managing money difficult, and only two per cent of us are willing to pay today's going rate for pensions advice. This is despite significant investment in debt advice, money advice and financial capability services through a range of levies and directly from Government, local authorities and private organisations, including £80 million per year from the Money Advice Service alone.

We conducted research using our data and national polling to highlight the reasons so many consumers are missing out on the benefits of money advice. That research identified not one but four advice gaps.

Figure 1: The four advice gaps

The four gaps we identified are:

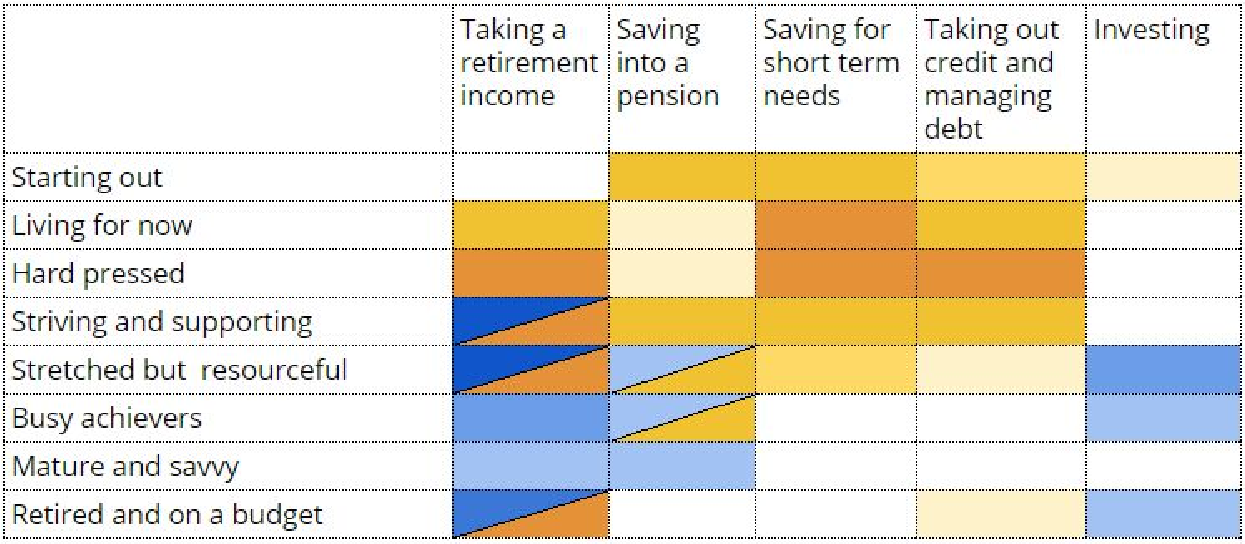
- The **affordable advice gap** which affects consumers who are willing to pay for advice but not at current prices. Our research suggests that up to 5.4 million extra people would consider paying for advice if it cost less.
- The **free advice gap** which affects people who want advice but are unable to pay for it. Up to 14.5 million people who think they would benefit from free advice haven't taken any in the past two years. The free advice gap includes 5.3 million people who have needed free advice in the past two years but haven't taken it, and 735,000 people who have tried to access free advice in the past two years but couldn't due to lack of supply.
- The **awareness and referral gap** which affects people who are not aware that advice exists, or where to get that advice. As many as 10 million people who think they would benefit from free advice are not aware of public financial guidance. The awareness and referral gap includes 3.3 million people say they need free money advice but failed to get it because they didn't know it existed or where to get it. In addition, 3.4 million people have raised a financial issue with a trusted professional at some point but were not given help or were not told where to find it.
- The **preventative advice gap** which affects those who would benefit from having money advice as a preventative measure. As many as 23 million people have fallen into a preventative advice gap at least once in their life. For instance, 39 per cent of people who have expected a baby would have taken money advice if it was offered. Even those who have accessed some advice may fall into this gap: 1.2 million people who have taken paid-for or free money advice in the last two years have not had the non-financial causes of those problems addressed.

The four advice gaps we have identified are not distinct and their overlap highlights the need to consider the provision of advice and guidance as a coherent system.

Advice and guidance are two sides of the same coin

Citizens Advice is responding to these two reviews jointly because policy on financial advice and public guidance must be developed in tandem. The chart overleaf, based on the heatmap in the FAMR call for input, indicates where Citizens Advice perceives the biggest advice and guidance gaps to be.

Figure 2: Key guidance (in orange) and advice (in blue) needs by segment and decision



Blue denotes a financial advice gap and orange denotes a guidance gap. The biggest financial advice gaps, in bright blue in the chart, are around pension saving and decumulation for low to middle earners. The biggest guidance gaps, in bright orange in the chart, are around saving, taking out credit and coping with debt for consumers managing tight family budgets. This chart also demonstrates that different consumers sometimes need advice and guidance at the same time, or in different areas at different times of life. For example, people with moderate resources are likely to need both guidance and advice around pension decumulation.

How to plug the advice and guidance gaps

The Financial Advice Market Review (FAMR) and consultation on public financial guidance offer a crucial and very timely opportunity to increase demand for and supply of advice and guidance, in order to plug each of these gaps and empower consumers with their money.

We propose that in order to deliver for consumers, the Government should:

- Expand the supply of advice and guidance that consumers will trust, using recognised brands to plug gaps.
- Reform public financial guidance to put the consumer at the centre; to get more money to the front line; to integrate debt and money advice; and to make better use of life events as engagement hooks.

This document is our joint response to both the FAMR call for input and the consultation on public financial guidance. We are grateful to members of the local and national Citizens Advice working group who have given up their time to inform it.

Citizens Advice delivers pension guidance on behalf of HM Treasury, under the Pension Wise brand. This document reflects the views of Citizens Advice as a consumer advocate and not the views of Pension Wise or HM Treasury.

Response to Treasury consultation on public financial guidance

Q2. What additional, or alternative functions and structures could a statutory body put in place to effectively co-ordinate debt advice provision?

Demand for advice on how to deal with debt issues is high. After welfare, debts are the second most common issue presented at Citizens Advice. In 2014/2015, we helped 402,000 people with 1.6 million debt problems.[1] Offering advice and support to individuals with debt problems can be a difficult and complex process, often involving casework over long periods in order to help people find the right approach to dealing with their debt. This can involve support with budgeting and reducing costs of essential good, negotiating with creditors, and in some cases, getting some debts rescheduled or written off. Debt problems rarely exist in isolation for individuals, and are often part of a cluster of problems that all need to be dealt with in order for people to move on with their lives. Citizens Advice does just that, providing an holistic service to help consumers; figure 3 overleaf shows the links between debt and other problems presented by Citizens Advice clients.

Demand for these services is likely to remain high and increase. Following a long period post-recession in which the amount of private debt households held as a proportion of their income was decreasing, this trend has recently reversed and is forecast to continue to rise between now and the end of this parliament. In particular, unsecured debt is on the rise, and grew by over 6 per cent last year compared to a 1.5 per cent growth of the total of secured debt.[2] This is in the context of a steady and significant decline in the savings ratio, as household spending growth has begun to recover sooner than household incomes. Not all groups are equally at risk - our recent work on changing patterns of indebtedness found that young people aged 15-24, people with low levels of wealth and assets and single parents were all at a higher risk of overindebtedness and need to resort to advice.[3]

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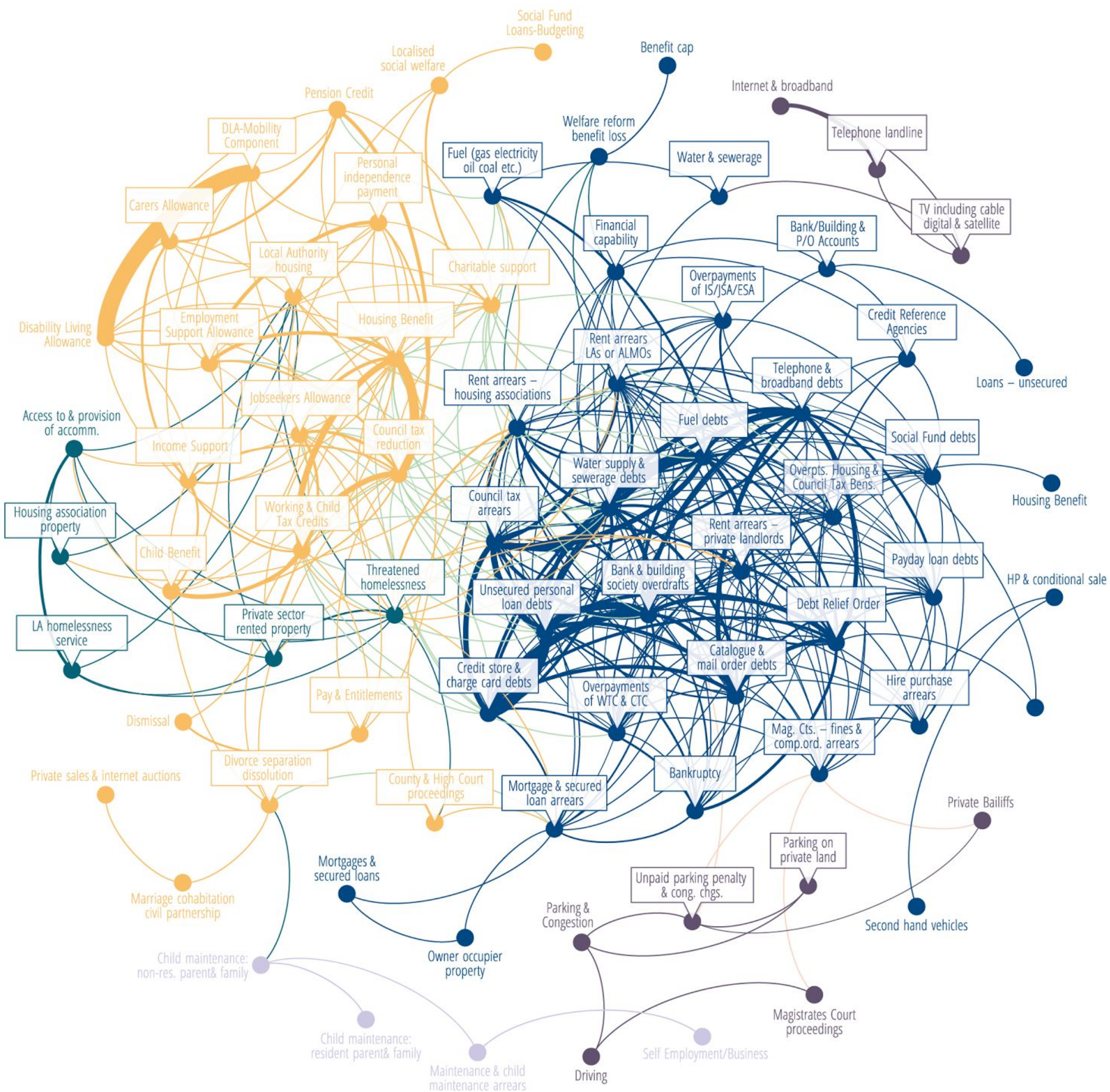
[1] The value of the Citizens Advice service: our impact in 2014/15, Citizens Advice, 2015.
[2] Unsecured and insecure? Exploring the UK's mountain of unsecured personal debt—and how it affects people's lives, Citizens Advice, 2015.
[3] *Ibid*

Figure 3: The links between debt and other issues for Citizens Advice



In this context, it is of the utmost importance that as much of the levy funding as possible is directed towards the delivery of advice and guidance services. It is positive that 91 per cent of the levy funding allocated for debt advice provision already reaches the frontline. The current functions and structures ensure access to high quality debt advice for large numbers, allowing people to access that advice through trusted independent charities and get the detailed and ongoing support that they need to reach a positive resolution when handling their debts. However, there is much room for improvement, as described in the Farnish review of the Money Advice Service.[4] The development and co-ordination of sector initiatives by the Money Advice Service has not been as successful as it could have been. We would like to see the development of a debt advice strategy that puts consumers at its heart. This would involve building services around people's needs and behaviours so that:

- All who look for advice are able to find it easily

[4] Review of the Money Advice Service, HM Treasury, 2015.

- Advice is high quality and delivered sensitively, mindful of the stress associated with debt problems
- All who receive advice achieve positive and sustainable outcomes
- Advice is holistic, addressing the whole person and helping them to tackle any problems underlying indebtedness or caused by problem debt

With these underlying principles, there are several other ways in which co-ordination could improve, and enable the funding that is currently available to be used more efficiently:

Sector-led development: In conjunction with a strong focus on consumer needs, more focus should be placed on using the experience and expertise of advice delivery organisations in the distribution of funding and the design of services and quality standards. As well as being expert on user needs, advice delivery bodies have excellent knowledge of the wider support landscape and how it fits with debt advice to offer a holistic solution to an individual's problems. The three main debt advice charities (Money Advice Trust, Citizens Advice and StepChange Debt Charity) together provide a well-functioning ecosystem of provision and we are working together to ensure a seamless journey between our services and will be exploring this further with other organisations. This work, which began in early 2015 and is independent of the MAS Debt Advice Steering Group, will continue with this consultation in mind.

Channel shift: With many different organisations involved in the debt advice landscape, often using different channels, it needs to be easier for people who need help to work out where to make the initial approach. People who need debt advice should be able to choose the most convenient channel for first contact with debt advice services. The 'common initial assessment' model developed by Citizens Advice delivers this, assessing people's needs and capabilities and identifying the correct channel for subsequent contact. Building on this approach would help to reduce the costs of delivering debt advice and increase the number of people who can be helped.

Integrated Money Advice: Debt advice is not reaching its potential effectiveness if it simply solves an individual's immediate problem but does not leave them more financially capable and resilient. To this end, generic money advice and efforts to improve financial capability should be better integrated into debt advice. Currently these are funded separately and managed by two separate teams within the Money Advice Service, each of whom adopt different approaches to sector engagement, service development and funding. This is apparent in the difference between the proportion of each budget that is spent on frontline services (91 per cent in the case of debt advice, 40 per cent in the case of money advice).[5] Many local Citizens Advice have found inventive ways to combine these funding streams, but these structural issues can limit the ability of many advice delivery organisations to use their funding in a way that would best help their clients avoid future problems. Only by integrating the funding streams and strategies can both funding streams be used most

[5] 2015/16 Business Plan, The Money Advice Service, 2015

effectively. Citizens Advice has piloted this approach with funding from Martin Lewis, as described in the box overleaf.

The Martin Lewis Integrated Money Advice Pilot

This pilot - which used a donation of £1 million from Martin Lewis - reached almost 4,000 clients in 16 local offices in 2014. It was set up to test the delivery of an integrated debt and preventative money advice service. The Integrated Money Advice (IMA) model comprised two key components:

- Decision Tree: a screening tool to enable assessment, routing and dealing with emergencies
- Money Focused Interviews: integrating financial capability education into standard debt advice appointments

The model was subsequently refined in light of the evaluation findings and elements of the Citizens Advice model continue to be piloted and improvements rolled out across our network. The local offices involved have very positive views on the Money Focused Interviews and their benefits to clients, and all of them have continued to deliver them after the pilot ended.

Q3. What role should a statutory advice body have in providing quality assurance and setting standards for debt advice?

The FCA should continue to regulate the provision of debt advice. As new providers (such as housing associations) begin to give advice, the FCA should ensure that they are appropriately regulated and enforcement activity works to ensure that consumers are protected from the risks of poor debt advice.

Quality assurance and standard-setting for funded advice should remain the preserve of specific funders of advice services or projects, which may include the responsible statutory body but also any other organisation that funds work in the sector. The statutory body should offer advice on best practice to these funders, and work with them to encourage them to set sensible standards that are in harmony with an overall debt advice and financial capability strategy.

Q5. What additional, or alternative functions and structures could a statutory body put in place to effectively co-ordinate public financial guidance on pensions?

Q6. How could the organisational delivery of public financial guidance on pensions be improved to provide greater efficiency?

Q7. What scope is there to rationalise the funding of public financial guidance provision on pensions?

Decisions around how to save for retirement and how to take an income from a pension are among the most important financial decisions individuals make over the course of their lives. Successive reforms to the pensions market and the state pension over the last two decades have led to an increase in the number of people needed to engage in this type of decision-making and the complexity of the decisions that they face. In particular, the pensions changes introduced in 2015 have vastly increased the freedom individuals have over how to use their pensions pots in retirement.

Citizens Advice supports the principles behind the pensions freedoms introduced in 2015, but these freedoms make it crucial that there is universal access to adequate information, guidance and advice on choices at retirement.[6] We know that people find pensions difficult to understand and decumulation choices hard to navigate. We also know from experience that people do not approach such important financial decisions discretely, and that advice and guidance about how to take income from a pension pot needs to be placed in the context of people's broader lives. While Pension Wise is bedding in well, there is room for guidance to develop so that people can access a more personalised, responsive service.[7] Better referrals from guidance to advice services and changes to the advice market itself could widen access to advice for consumers.

We have previously recommended the following changes to the Pension Wise service. The key theme across these recommendations is ensuring a smooth customer journey that allows individuals to access the guidance and/or advice that they need at the time that they need it:

- More should be done to ensure that people are referred to Pension Wise, which can then act as a gateway to regulated advice if people want extra support. Many consumers will want to take guidance and then seek additional help from a financial adviser but may struggle understanding what they want advice on or how to find and choose an adviser.
- Pension Wise should build on its early success to offer a more personalised service. The core script should be protected, but advisers should be able to offer guidance on wider issues such annual allowances and the new flat rate pension if asked.
- Guidance should help tackle the root causes of problems. In 2014, half of Citizens Advice clients seeking help about private pensions also asked for help on one or more other issues including: employment, tax and benefits, debt,

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[6] Even before the introduction of the 2015 pensions freedoms, 312,420 people sought help with their pensions from Citizens Advice, comprised of 52,761 face to face clients in our local offices and 259,659 people using our website. Face to face clients were up by 39 per cent compared to 2013/14, and online users increased by 44per cent.

[7] This year Citizens Advice started delivering face-to-face Pension Wise guidance on behalf of the government. All of our Pension Wise staff are accredited professionals.

consumer issues or family and relationships. Similarly, a significant proportion of Pension Wise clients raise questions about their broader lives in these sessions, such as financial capability, tax credits or debt. In total 27.3 per cent of Citizens Advice Pension Wise clients have booked a separate Citizens Advice session on other issues to help them find a way forward.[8]
- The current restrictions around one-off use of Pension Wise should be reviewed. Someone visiting Pension Wise aged 50 should be able to have a second session if they then retire at 65, for example.

Separately, the market for financial advice should be supported by encouraging new entrants and offering better referrals to restricted advice. In conjunction with all of these changes, greater promotion of and referral to the Pension Wise service. Local Pension Wise delivery centres could start promoting their service to local employers alongside a national effort to promote the service amongst larger firms. Engagement with employers would help improve referral links to Pension Wise and tackle the advice and referral gap.

However, pensions guidance should not be limited to helping people with their choices at retirement. As we know, not enough people are saving enough to support a comfortable retirement.[9] Auto-enrolment is welcome, but rates are currently set too low for many people's needs. Information, advice and guidance are vital - alongside auto enrolment and other behavioural nudges - to ensure that people begin saving for retirement and are encouraged to increase their pensions contributions whenever possible.

Life events and changes need to be exploited as hooks to encourage people to think about their future financial security. Employers have a role to play here, as do public services and advice providers. To that end, more should be done to integrate pensions advice with other debt and money advice, and financial capability interventions, which would allow the funding for all three types of advice to work more efficiently and deliver on several different Government priorities.

Q8. Are the statutory objectives underpinning MAS the right ones?

Q9. What role, if any, should a statutory body have in providing general money guidance?

Q10. What role, if any, should a statutory body have in supporting financial capability?

[8] The most common issues are financial capability (16 per cent of all our Pension Wise clients also booked a Citizens Advice session on this subject), benefits and tax credits (12 per cent), debt (3 per cent) and employment (2per cent).
[9] Approaching retirement How consumers think about their lives and future plans before withdrawing their pensions, Citizens Advice, 2015.

Successive governments have sought to improve financial capability, rates of household saving and retirement planning. This is increasingly important as consumers are given more freedom and choice about how to manage their money.

Paid-for financial advice is vital but even if prices fall substantially, many households will still be unable to afford it. Almost half (49 per cent) of households have net financial wealth of less than £5,000, so are unlikely to pay any price for advice.[10] So it is vital that the current free advice gap - which has seen up to 5.3 million people miss out on help they needed in the last two years - is addressed.[11]

Ensuring that people can manage their money is important because high levels of financial capability:

- Improve consumer markets by ensuring that more people make optimal decisions, thus driving increased competition and demand for financial products
- Reduce arrears levels for for utility companies, mortgage lenders and landlords (local authorities, housing associations and private landlords)
- Help people to manage debts and avoid problem debt
- Help people move on in their lives and plan for the future

We know that many people have low financial capability. This can make budgeting a struggle and make it harder for them to deal with financial shocks and plan for the future. Our recent polling found that 13.4 million GB adults find managing money and making financial decisions challenging and 18.1 million GB adults say that they rarely or never save.[12]

We suggest that the Government should adopt the following three principles to plug the free advice gap:

- Trust: Use familiar, trusted and convenient sources to provide advice. This will involve building on what already exists and joining up services
- Tailored: Ensure that different types of advice are available through different channels to meet people's needs and build their capability in the long term.
- Timely: Ensure that this advice is available at the times in life when it would be of most benefit to individuals.

It should ensure that the organisation that delivers the relevant statutory functions has the following role in providing general money advice or guidance and financial capability services:

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[10] Wealth and Assets Survey - Chapter 5: Financial Wealth, Wealth in Great Britain 2010-12, Office for National Statistics, 2014

[11] The Four Advice Gaps An analysis of the unmet consumer needs around financial advice and public financial guidance, Citizens Advice, 2015

[12] The free advice gap: Spreading the benefits of access to high-quality money advice, Citizens Advice, 2015

Self-service information and tools: The statutory body should ensure that there is enough independent, impartial and readily understandable information about money and financial products. It should survey and quality assess what has already been made available by business and charities. It should then focus on signposting to this information where appropriate and finding solutions - within the existing supplier base - to plug gaps left by the market. As people increasingly look to the internet for information and advice about how to manage their money, a statutory body could focus resource on funding sophisticated self-service online financial planning tools to ensure that more people have access to free individualised support with planning their money.

Individual guidance and advice: The statutory body should co-ordinate the supply of free money guidance and advice to help people deal with financial problems, including but not limited to problem debt. This will involve ensuring the provision of sufficient supply of individual advice and guidance across face to face, phone and online channels. It should ideally co-ordinate and fund the supply of free follow-up support to ensure that those who have experienced such problems to increase their financial capability and can avoid similar problems in the future.

Financial capability services: The statutory body should co-ordinate the sector, and focus on:

- What Works: Financial capability is a relatively new sector, and the evidence on what works and provides value for money is still emerging. A statutory body should play a strong role in collecting and assessing evidence on this issue, and use that evidence to guide its commissioning strategy. In particular, it should look to increase the evidence base on long-term outcomes and impact of money advice and financial capability interventions.
- Consolidating and streamlining levy and public funding to ensure maximum value for money and increase the number of individuals supported to solve their money problems and increase their financial capability.
- Preventing future problems: This would involve linking up money advice and debt advice cohesively, through providing support for individuals both when in crisis and through delivering financial capability services at the point of receptiveness. It would also involve delivering money advice to people who present at advice agencies with different problems (e.g. problems with benefits or housing) which are sometimes underpinned by difficulties managing money and getting good deals as a consumer. Finally, it would involve commissioning new services at times of major policy changes (such as the introduction of Universal Credit), economic changes (such as credit tightening) or shock events (such as flooding) to meet the increased need for advice and support.

The statutory body should also put resource into integrating these three types of support with money. Managing individual or household finances can be complex, and someone who is looking for information about interest rates on a payday loan may actually need advice about debt-management. Similarly, someone looking for information about pension drawdown products may need to have a wider conversation about planning their income in retirement, and the interactions between their assets, debts, the State Pension and any benefits they may be entitled to, as this may have a bearing on their choices around the decisions they make about drawdown. It should be possible for people to move between information, tools, guidance and advice as necessary, between free and paid-for advice as appropriate and also between channels, based on their particular needs.

The statutory functions should evolve to reflect the priorities outlined above. The statutory functions of MAS have changed over time in response to a range of external pressures and comments on its strategic function. The development of separate strategic aims for debt and money advice is unfortunate, because getting money and debt advice working together can help address people's needs. In addition, as outlined in the Farnish review, the current interpretation of some of the statutory functions around money advice have resulted in significant spend on marketing and promotion by the Money Advice Service.[13] We believe that this money would be better spent on frontline services delivered by organisations that are already familiar to customers.

The statutory functions should clearer and more directive. Importantly, they should be broadly similar for both money and debt advice. They should focus on making the statutory body an effective sector co-ordinator and commissioner, and a hub for research, evaluation and best practice. The statutory body should also focus on ensuring that advice and services meet consumer need, filling gaps in information and services and seeking to reduce duplication wherever it exists.

Q11. What scope is there to rationalise the funding of public financial guidance provision on money matters?

As outlined in the response to Q2 and Q8-10, many people struggle to manage their money and take financial decisions. Unsecured household debt is rising, by 6 per cent in 2014, compared with 1.5 per cent for secured debt.[14] UK households currently hold £170 billion of unsecured debt and this is set to rise to £300 billion by 2020.[15] Welfare reform is also set to continue apace during this period, setting a financial challenge for a large number of households (see box on Universal Credit below). At Citizens Advice, we have been seeing a significant increase in the number of people with difficulties keeping up with their rent and council tax.[16]

[13] Review of the Money Advice Service, HM Treasury, 2015.
[14] Unsecured and insecure? Exploring the UK's mountain of unsecured personal debt—and how it affects people's lives, Citizens Advice, 2015.
[15] *Ibid*
[16] In the last two years - between Q2 2013/2014 and Q2 2015/2016 - we have seen a rise of 8% in rent arrears issues and a rise of 27% in council tax arrears issues. Source: Citizens Advice Management Information.

Moving to Universal Credit

Over the next five years, around 8 million people will start a claim for Universal Credit. This new benefit is paid monthly, as opposed to every two weeks for legacy benefits. This means that many claimants will have to adjust from budgeting weekly or two-weekly to monthly. Citizens Advice research estimated that 77 per cent of our clients who would be moving to Universal Credit would need help in doing this.[17] If Universal Credit claimants don't have the money management skills necessary to do this, there will be negative impacts not just for the individuals who struggle but also to landlords, local authorities, utility companies and creditors.

In this context, it is ever more important that everyone has strong money skills and help avoid the poorer mental health and labour market outcomes that are linked to debt and money problems. Any reductions to funding of free advice and guidance in this area would be a false economy, as costs are likely to offset as higher spending in the NHS, or higher unemployment or reduced economic growth. Conversely this funding can help reduce demand and costs across a range of Government departments and public service providers. To illustrate, for every £1 in funding received by Citizens Advice, we generate at least £1.51 in fiscal benefits, which includes reduction in health service demand, local authority homelessness services and out-of-work benefits for clients and volunteers.[18]

As such, there is a strong case for maintaining and where possible increasing funding for public financial guidance provision and financial capability interventions. There is also a case for improving co-ordination within the sector and rationalising the different funding and delivery streams to make the funding deliver more for consumers. More needs to be done to increase delivery of this funding to the frontline, and to make that funding work harder. Where possible, the statutory body should look to use the funding it holds to leverage other funds where projects deliver joint outcomes; for example utility companies - many of whom already fund money and debt advice services - have a strong interest in ensuring that their customers are able to pay their bills in full and on time. Other relevant bodies include healthcare providers, local authorities, and private and social landlords. Funding from this wider constituency must work in conjunction with levy funding, not just alongside it, and the statutory body has a strong role to play in ensuring that this happens.

Q12. How do you think that the government could best complement voluntary sector provision of financial capability?

The voluntary sector is a key provider of financial capability programmes, often at low cost due to the time contribution of volunteers. Not only is the list of charities providing this type of support rich and diverse but so too is the list of services in

[17] Universal credit managing migration pilot Final results, Citizens Advice, 2013
[18] The value of the Citizens Advice service: our impact in 2014/15, Citizens Advice, 2015.

different areas. They may offer various services including debt counselling; specialist debt relief solutions; generalist money advice; money management courses and financial health checks. Even many national organisations offer different services in different locations. Within Citizens Advice alone, there is a very large range of services, reaching over 420,000 people over the last year.

Table 1: Numbers reached by Citizens Advice Money Advice & Financial Capability services 2014

Type of service	Numbers reached
Training for the public	167,000
Integrated Money Advice	123,000
Financial Products and Services Advice	76,054
Integrated Digital Money Advice	19,973
Energy Best Deal	13,788
Training for frontline workers	8,500
Energy Best Deal Extra	5,050
Martin Lewis Integrated Money Advice Pilot	3,931
Universal Credit Advice	2,239
Better Financial Health	1,153

Some of the voluntary sector provision is already funded by Government, for example through direct funding from local authorities to local charities. Other funders of this work include utility companies, Ofgem, housing associations, the Big Lottery and banks. While the current landscape is reaching large numbers and driving innovation in the sector, the complexity and number of the funding streams available make it difficult to design outcome-based services that address individuals' holistic needs. Too many programmes are focussed on process targets and numbers helped, as opposed to outcomes and measurable increases in financial capability over a long period. Sometimes innovative practice is abandoned before it can be properly tested or scaled up, due to lack of sustainable funding.

Therefore in order to best complement this work, the Government should:

- Liaise with current funders to encourage them to continue and increase their grants to the sector;
- Encourage new funders to enter into the sector;
- Work with current and new funders to establish longer-term funding for financial capability work to allow for security of funding and innovation;
- Collate and publish evidence on what works in the sector;
- Promote the scaling up of innovative and effective practice;

- Encourage diverse funders to work together towards an overarching debt reduction and financial capability strategy; and
- Fill the gaps in funding for this overarching strategy directly where necessary.

There is already a great deal of successful joint working and leadership in the sector (see box below), and therefore the Government should take care to support and build on the capacity and relationships that already exist.

Financial capability forums

Citizens Advice has supported regional financial capability forums across England and Wales, through its Financial Skills for Life programme, since 2007. There are now fifteen forums building on the successful example of the first forum in the North West.

The forums meet quarterly and bring together key local and national partners, including community advice agencies, housing associations, local authorities, credit unions, voluntary agencies, private sector funders, and government departments. Forum members support each other by sharing information and experience. Three of the forums are led by other organisations, and the emphasis in all forums is on involving everyone with an interest in delivering or engaging with financial capability. Since 2007 over 1,500 local, regional and national organisations have attended meetings.

Citizens Advice has channelled over £1 million of funding from sources other than the money and debt advice levies to forums so that members can work together to help people manage their money better. Members have delivered projects such as Save Xmas and Energy Best Deal, and have provided training to more than 150,000 people.

Q13. Do you think that the government could offer a more integrated public financial guidance service to consumers, throughout their lives? How do you think this could be achieved?

Consumers want and would benefit from proactive advice at key events and changes in their lives. Our research has found that only 27 per cent of people have been offered advice when divorcing or separating, but a further 37 per cent who had experienced divorce or separation would have taken up money advice if offered at this time, equating to 4.3 million people.[19] Applying this analysis, there is a sizable advice gap for each of the following life events:

Table 2: Advice gap at key life events[20]

Life event	Potential size of advice gap[21]
When starting or changing jobs	Up to 9.5 million

[19] The free advice gap: Spreading the benefits of access to high-quality money advice, Citizens Advice, 2015.
[20] *Ibid*
[21] Number of people who have experienced this event, were not offered money advice at the time but say they would have take it up if they had been offered.

When starting college or university	Up to 8.5 million
When buying a house	Up to 7.6 million
While expecting a baby e.g. at antenatal class	Up to 7.1 million
After a bereavement	Up to 7.0 million
When seriously ill (physically or mentally)	Up to 5.7 million
At retirement	Up to 5.5 million
When divorcing or separating	Up to 4.3 million

However, we know that people often wait until crisis point or until they can no longer meet their financial commitments until they look for information or advice about managing their money.[22]

In order to encourage people to get advice earlier, or at key life transition points, it should be provided by trusted organisations, and where possible in conjunction with the services they use regularly. Using these 'touch points' would increase access to and engagement with money guidance. These touch points should also be well-integrated into more intensive advice services where necessary. For example, a wake-up information pack from the Student Loans Company to new or graduating students could be complemented by free voluntary financial capability online tools or workshops, and those who used those tools or attended these workshops could be signposted to one to one advice where they are already struggling with money problems. This would help a large number of students learn more about their loans, a smaller number gain new financial capability skills and potentially avoid problem debt, and those already struggling to access individual advice.

The voluntary sector already follows this approach by giving advice in outreach locations. For example Citizens Advice provides outreach services at over 2,000 locations including GPs, children's centres, food banks, primary schools, community centres, prisons, banks, hospitals, courts, colleges, housing associations, local authority offices, universities and armed forces barracks. These proactive outreach services allow people to easily access advice and support with their money and other issues before they reach crisis points, through services where they have already built up trusted relationships. It also allows advisers to refer people to local Citizens Advice or external advice agencies or law centres for more extensive advice where complex issues are uncovered. The Government could do more to ensure that money advice funding is directed to these type of proactive, preventative frontline outreach programmes.

[22] Understanding financial difficulty: Exploring the opportunities for early intervention, Money Advice Trust, 2011.

There is also scope for more delivery of money advice through the workplace, building on the model of pensions advice and drop-in services that already exist in large employers. In particular, employers should be encouraged to do more to encourage saving by working with organisations in the financial capability sector to design schemes and advice interventions that would suit their particular workplace and workforce. This would also ensure the engagement with information and advice earlier in the consumer pensions journey, and create opportunities for signposting and referral to more intensive advice and guidance for any other money problems identified at this stage.

Q14. Do you think the government should explore any alternative options for the provision of public financial guidance?

Government should seek to ensure that the statutory body is equipped to encourage innovation in the sector and focused on identifying, spreading and scaling innovative and effective practice. That organisation needs to build sufficient reach to create a coalition of localised action through community and other organisations which can provide financial capability services. It should also look to harness people's current behaviours and the strengths of existing organisations in three ways:

- Encourage better use of existing contacts with public services and advice delivery organisations
- Make better use of digital tools
- Make better use of nudges to increase the number of people accessing financial guidance.

Use of existing contacts: Often funding for money advice and financial capability has been focussed on discrete projects that relate to specific financial decisions or transition points. However such services require promotion and active recruitment of individuals to take part. A more effective approach would capitalise on existing contacts with public services to offer proactive guidance, information and financial capability interventions. This could take the form of face to face outreach clinics in places like health or childcare settings, as described in the answer to question 13 and in the box overleaf, or using other interactions with government departments, local authorities or financial service providers to nudge people towards information or financial planning tools.

There is some scope for **greater use of digital advice and online financial planning tools** to delivery financial guidance to greater numbers of people at lower cost than face to face intervention. The government or statutory body should encourage the development of these tools through grants, and ensure that they are embedded in the websites that most people use, so that their use is not reliant on brand recognition or an individual knowledge of whether or not there is government advice available.

Finally, there should be **greater use of nudges and individual data** to engage people based on their behaviours or demographic details. This would include working with banks and other lenders to develop interventions to prompt people in danger of getting into problem debt to seek guidance, or nudges to save based on age or life events. The Government could also explore how to use legislative defaults such as auto-enrolment as a hook; for example yearly statements of pension savings to date can be used to prompt people to further engage with savings.

Prescribing Advice

At present, local Citizens Advice operate in 712 different health settings: 605 GP surgeries, 78 hospitals or hospices and 29 mental health day centres or groups. In Derbyshire advice services in GP surgeries have been operating across for nearly 20 years with support from the commissioning public health team. Presently the service operates in 94 of the 102 GP surgeries in Derbyshire. In 2013-14 advice was given to almost 7,000 clients about 28,500 problems, achieving financial gains of £15 million for their clients, including £4.5 million of debt that was either renegotiated or rescheduled. A recent Government paper shows that debt management interventions commissioned through health settings have positive outcomes and lower costs to society including to the NHS. For every pound invested, there is a return to society of £3.55.

Q15. Are the suggested core services the right ones? Should any core services be added?

Debt and pensions advice should be core services, but so too should the provision of basic information and guidance to improve financial capability, broadly encompassing help with budgeting, controlling household costs including choosing essential goods and services, advice on saving and taking on and handling debt. In some cases financial capability interventions may also need to include support with digital access and using online services, especially for those about to be moved onto Universal Credit (see box under Q10).

It is essential to include this third category as core because poor financial capability exacerbates problem debt. Poor financial capability and management can also have other consequences for Government and voluntary sector organisations, including higher rent and council tax arrears, and increased recourse to local social welfare provision. Similarly private organisations such as utility companies, banks and other lenders may experience increased arrears and defaults on loans. In addition better financial capability should lead to increased savings rates, supporting the Government's policy aims in relations to pensions.

As part of the core service, debt advice needs to be very strongly linked with financial capability and support and advice for other issues that might be caused by or contributing to the debt crisis that prompted the advice-seeking.

Q16. Are the suggested principles the right ones to underpin the statutory provision of the core services? Should any principles be added or removed?

The suggested principles are the right ones, and below we outline our understanding of what they would mean for the provision of the core services.

Consumer friendly: This should encompass focusing on outcomes and maximising funding to front line delivery, along with ensuring the landscape is clearer for consumers

Rationalised: This should encompass joining up services locally and nationally, putting the individual at the heart of the service and not the specific problem or choice they face

Efficient: This should encompass discharging the statutory functions in a cost effective manner, and utilising the strengths of existing voluntary and commercial providers of information, advice and support. This would mean effectively using existing trust and reach to consumers, and working with organisations who have the market position, experience and structure to achieve economies of scale in the delivery of information, advice, guidance and financial capability interventions.

Cohesive: This should encompass utilising the infrastructure, skills and experience of the existing providers of information, advice and support, not duplicating what exists

Evidence based: This should encompass focussing on what works and disseminating that learning nationally and locally

Promoting innovation: This should encompass reserving funding for innovation to incubate, develop and grow new delivery solutions and services to individuals.

In addition, we would also suggest adding 'targeted' as a final principle. In the context of limited funding for the provision of core services, resources should be targeted where they are likely to have the most benefit. This would mean focussing resources on those whose debt problems are the most acute or whose financial capability is the lowest and where intervention can have the most impact. This is because those who face the greatest challenges in managing their money and making financial decisions are also more likely to suffer the most from poor money management, poor financial decisions or financial shocks such as the loss of a job or the death of a partner.

Q17. Do you think that statutory provision should be restructured to improve the guidance service to consumers, and if so, how?

We support the recommendations of the Farnish review of the Money Advice Service, which suggest some reforms to the current use of the debt advice funding, and larger structural reforms to the current use of the money advice funding, including a reduction in spend on the MAS website and marketing. Any reduction in spend on this should be redirected to front line delivery on money advice and financial capability interventions. In addition, we support changes to the statutory functions as outlined in the response to Q8. Finally we believe that the choice around which organisation discharges those statutory functions should rest on which organisation can credibly:

- Help more people access money advice
- Integrate debt and wider money advice/financial capability interventions
- Co-ordinate money advice stakeholders
- Ensure that consumers take better decisions
- Work more closely with the FCA
- Deliver cost-effectiveness and accountability in the use of levy funding

Response to Financial Advice Market Review Call for Input

This review seeks to increase access to advice for people without significant wealth. Our responses are based on two recent Citizens Advice reports,[23] and support the review's focus on consumers who would both benefit from advice and are in a position where they may realistically be able to pay for that advice at some price level. Our research found that the advice market needs to be:

- **Affordable** for more consumers. To widen the market, bold steps such as using technology and helping advisers reduce lead generation costs are needed. Deregulation of the current advice business model alone will be insufficient.
- **Connected** with guidance services to build trust and provide a gateway for those who haven't paid for advice previously.
- Accommodating to **referrals** from other trusted service providers.
- Easy to access at **key life moments** so consumers are more like to take timely advice when they most benefit from it.

The cost of advice is often seen as the key barrier which prevents more consumers from paying for advice. While it is certainly a major issue for many, our research has highlighted that trust, independence, awareness and availability are also crucial to consumer decisions. Many consumers decide to not take advice well before finding out how much it would cost. So while new advice options are needed to create an entry level advice offering below the Rolls-Royce service many financial advisers currently offer, more improvements will also be needed in other areas to help consumers get the advice they need.

Section 1: What do consumers need and want from financial advice?

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

The vast majority of consumers do not distinguish between advice and guidance, let alone the different categories of advice, nor are they interested in becoming market experts. What they want is help with their situation, confidence that they are being treated fairly and means of redress if they are not. The labels given to types of advice are complex and can cause confusion for consumers. The protection given to consumers needs to be communicated more clearly than the five rather opaque regulatory concepts set out in the Call for Input.

[23] These reports are Citizens Advice, The Four Advice Gaps, October 2015 and Citizens Advice, The Affordable Advice Gap, October 2015.

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

Our research found that the demand for advice is not purely dictated by the price level. Three key findings on consumer demand stand out. First, the demand for advice is low; six per cent of people have paid for money advice in the last two years. Second, demand varies by type of advice, life stage and the wealth of the consumer. People are far more willing to pay for advice when starting a business than when they are choosing an ISA product, for instance. Third, level of demand is influenced by more than just price. When we polled consumers about the most important factors when seeking advice on their pensions, consumers only ranked the price as the third most important factor. Trust was most important with more than half (57 per cent) citing it as one of the two most important factors when choosing a financial adviser. The second most important factor, cited by 44 per cent of people, was independence. Affordability and price were only the third most important, chosen by 28 per cent of respondents.[24] The importance of trust is highlighted further by the fact that over 2 million consumers would be more likely to pay for advice if they were offered help in finding the right adviser for them.

Those findings highlight that publicly funded guidance has an essential role to play for those who can't pay, ensuring those who can are able to get advice at times in their lives when they are unable to pay and in driving up the demand for, trust of, and information about paid-for advice services. In a well-functioning system, guidance and advice services should complement each other.

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

Our research found considerable overlap in the demand for guidance and the demand for advice. Demand for guidance is not separate from but complementary to one regulated advice. Nearly half (44 per cent) of consumers with defined contribution pensions who plan to pay for advice also plan to use Pension Wise and large numbers of people who have a Pension Wise session then go on to seek further paid-for advice. The recent Government announcement on the secondary annuity market[25] - where Pension Wise will be extended to offer guidance to affected consumers and an advice requirement will be imposed above a certain threshold - underlines the importance of considering both guidance and advice as key parts of the consumer journey. The financial advice market works best when there are different points of contact and efficient systems of referral between providers.

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

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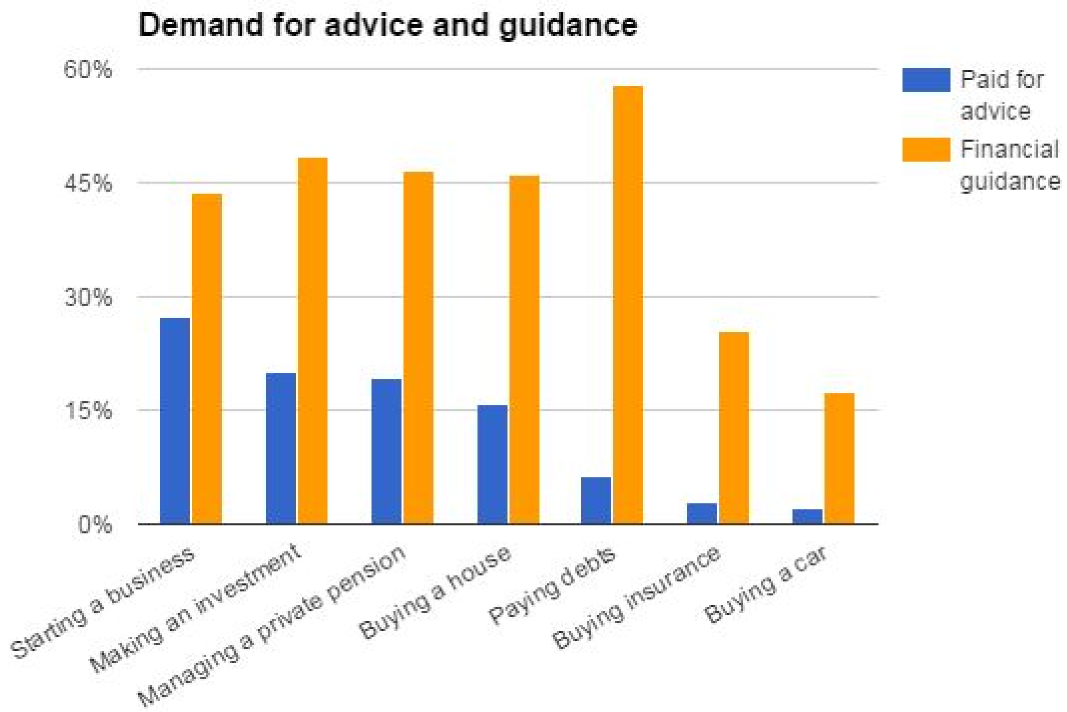
[24] These figures are from Citizens Advice, The Affordable Advice Gap, October 2015.
[25] HM Treasury, Millions given freedom over their pension as government outlines new secondary annuity market, 15 December 2015.

As highlighted in response to Question 3, we know that consumer demand for advice depends on a range of factors - one of these is *what* they people seeking advice for. As Figure 4 shows, the numbers of people considering paying for advice varies considerably by situation.

Figure 4: Demand for advice and guidance[26]



Up to one third of people would consider paying for advice when starting a business and nearly one in five when making an investment, while less than one in ten would pay for advice for help dealing with debts. Demand for advice varies not only by level but also by degree. For instance, people who are willing to pay for advice, are willing to pay more when starting a business than when taking income from a pension.

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

The segmentation is a useful method to recognise the complexity of the market and the need for a variety of advice services. One potential shortcoming of the segmentation is that it conflates life stage and resources. A potential, though less simple, alternative would be to consider the life stage and resources of a consumer followed by the services they would need and what they would be willing and able to pay for each service. That approach would allow the gaps in the advice market to be viewed alongside the gaps in the guidance sector, for people at different life stages, with different levels of resources and looking for advice or guidance for a range of decisions. Figure 4 above shows how people's needs for advice and guidance overlap within the current model.

[26] Data is taken from a YouGov survey of 2,041 adults between 2nd - 5th October 2015. The survey was carried out online.

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

It is crucial that consumers' needs for paid-for and free advice are considered together. In particular, groups such as 'stretched but resourceful', 'striving and supporting', 'busy achievers' and 'retired on a budget' are likely to have guidance and advice gaps often for the *same* financial decisions.

Our heatmap in Figure 2 provides a summary of the segments which should have most focus for this Review. For instance, 'stretched but resourceful' consumers may be willing to pay some money for advice on saving into a pension but would also be likely to use free guidance offered when changing jobs. They may also be interested in guidance on managing debt (but unwilling to pay for it) and may pay some money for advice on investing limited resources. The needs of this group illustrate the wider conclusions of our research; people need guidance and advice services which complement each other and provide for overlapping demands and complex needs.

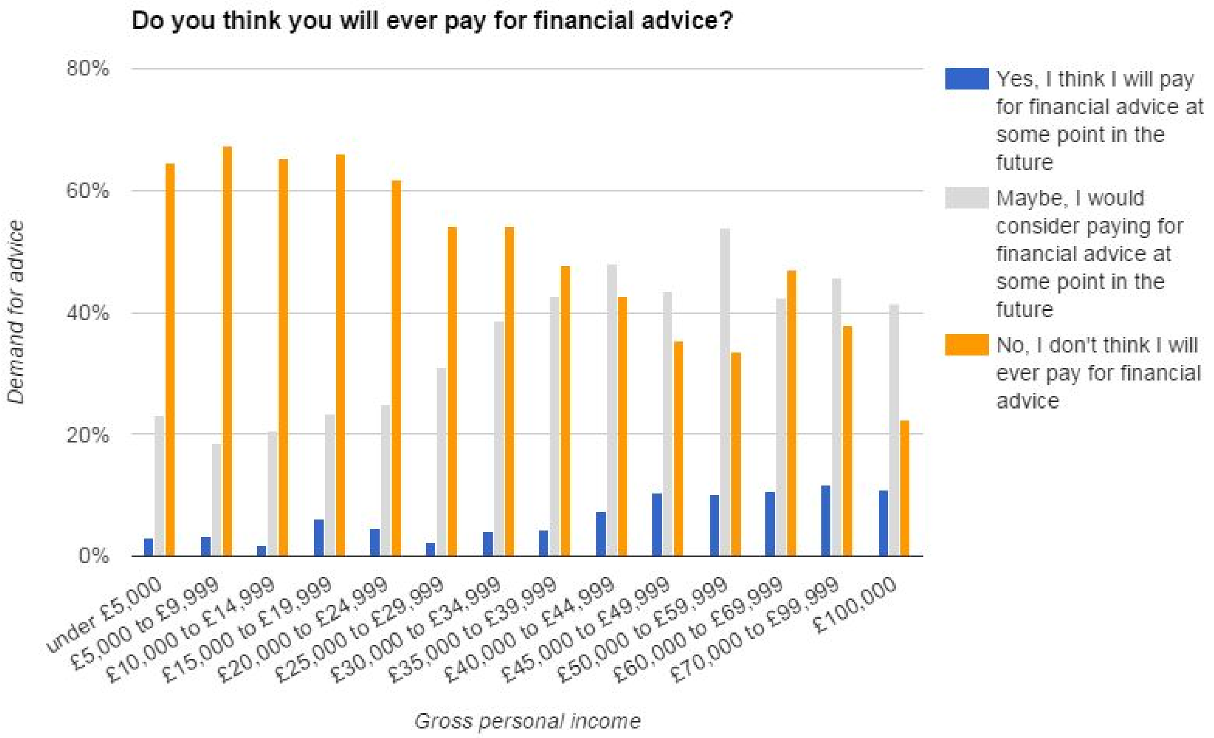
As well as focusing on segments, the Review should also pay special attention to certain types of financial situation. Consumers are particularly likely to need guidance and advice services when they have small but complex pension pots. They are likely to face complications (such as having a guaranteed annuity rate or with profits fund) and may find it hard to understand their overall position. They may also face a challenge getting the decumulation products they want from their providers. So consumers may want guidance to help understand their different pots and how they can draw them. They may then want to be referred to advice - either because it is mandatory or because they want specific recommendations and help dealing with providers.

Public financial guidance should and can complement the advice market by helping people to improve their financial circumstances, building trust in the advice sector, providing information, and referring people to the advice services they need.

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

See response to Q5; demand for advice is affected by a range of factors including wealth and income levels. Our research found a strong correlation between income levels and the consideration of paying for advice.

Figure 5: Attitudes to paying for advice at different income levels[27]



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

We have evidence of four key reasons why consumers do not seek advice. They are: affordability, a lack of awareness, poor referral processes and that fact that advice is not easily accessible at key life events.

First, only six per cent of consumers have paid for advice in the last two years and only four per cent of the remainder say they plan to pay for it in the future. Within the group of consumers who haven't paid for advice and would not consider paying for it, there are large numbers of people who are not in a position to pay for it. However for those who can, it is not simply the price which puts them off seeking advice.

Second, people don't get advice because they're not aware it is available. This includes those who have a complete lack of knowledge of the services that exist, and those who don't know where to get advice, who to get it from and how it could help them.

Third, that lack of awareness is compounded by a lack of system of referral; many consumers do not know where to present their money issues. We have found that people regularly raise money issues with trusted confidants such as doctors, banks or employers and are not consistently directed to the advice service they need. (For more detail, see Q18). The lack of referral has a significant impact; up to 2 million people who don't currently expect to pay for advice would be more likely to do so if it was easier to find. Similarly, 8.5 million consumers would be more likely to pay for

[27] Data is taken from a YouGov survey of 2,041 adults between 2nd - 5th October 2015. The survey was carried out online.

advice if they could get help choosing an adviser. The way the guidance sector works with advisers is crucial in helping people get the support they need.

Working with advisers - Moneyplan

Citizens Advice has worked in collaboration with the Personal Finance Society since 2005 to provide general advice services, from trained advisers, through local Citizens Advice offices.

Independent Financial Advisers, qualified to level 4, are currently, or will be, based at 137 local Citizens Advice offices providing general advice, but not product recommendations. They will offer support around mortgages, endowments, equity release, banking, savings, investments, life and health insurance and pensions.

Fourth, the provision of advice is not designed with people's lives in mind. Advice is not offered to people when they most need it. Just 14 per cent of people who have had a baby were offered advice, whereas 39 per cent of those who weren't offered it, would have taken it.

Low demand for advice should not be seen simply as a product of high prices, or a simple lack of knowledge or product recognition. Low demand is also a result of the way advice services are not well enough designed around consumers' lives.

Section 2: Where are the advice gaps?

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

Our analysis of the four advice gaps which consumers experience is set out in the introduction above.

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

Lack of demand means that consumers are missing out on the benefits of advice, so it does reflect a gap. It is a product of the services that are available and the way the market is designed as much as it is a product of consumer choice. As highlighted in the introduction, consumers' level of demand for advice varies depending on their life stage, the decisions they are making and the advice they are looking for. That demand is further affected by how easy it is to find information about the advice on offer and how trustworthy that source is. Finally, demand is currently hindered by the limited extent to which advice is embedded in the services people use in their day-to-day lives and the services they engage with at major turning points.

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

Our analysis of the four advice gaps which consumers experience is set out in the introduction above. Figure 2 also identifies how gaps in the provision of advice and guidance affect different segments of the population, in different situations, to different degrees.

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

We analysed national polling and our own data. Further discussion of that analysis can be found in our published research.[28] Our research questions were based around consumer experiences and preferences in relation to advice and guidance services.

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

This review should be focussed on plugging the affordable advice gap. Any action to lower the cost of advice while empowering consumers and maintaining consumer protections would be a welcome change to the market for a crucial service.

What is crucial is recognising the limits both to how low the price for advice can realistically be and to how far a lower price will encourage people to seek advice. The affordable advice gap is closely related to the three other gaps in advice we identified in our research above. Ensuring more people get the benefits of advice requires an advice and guidance system where services complement each other and respond to people's needs.

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

As highlighted in Figure 2, different types of consumers fall into different advice gaps. We agree that these three areas merit attention. Closing these gaps must involve both advice and guidance services which can serve different consumers within those groups.

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

Yes. It is important that the Review is not solely focussed on those consumers who fall just below the line of significant wealth and so fails to address the problems of the vast majority of consumers. Specifically, that means thinking about solutions that would make advice, in conjunction with guidance, available to those such as the 'striving and supporting' group who commonly have some small savings and where almost half have incomes of below £20,000.

Section 3: What are the options to close the advice gap?

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

[28] Citizens Advice, The Four Advice Gaps, October 2015.

It is well known that consumers find engaging in financial service markets difficult. This means that blanket advertising is ineffective, and instead engagement should be encouraged at key points when consumers are more amenable to prompts. This is especially important because many financial services provide credence goods with a long duration, often featuring significant asymmetry of knowledge between retailer and consumer.

In the personal current account market for instance, consumers' apparent inertia is blamed for a lack of competition and the resulting consumer detriment. One proposal from the Competition and Markets Authority, in their recent review of the current account market, to combat that inertia is to ensure that consumers are prompted at pertinent times, for instance when they are charged by their bank or when their circumstances change. That approach may be useful to engage consumers around financial advice market at the right time, in the right way. This is discussed further in our response to Q8-10 of the public financial guidance consultation.

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

A number of systemic changes could improve consumers' engagement with the advice market. Consumers need clearer information around the price and benefits of advice so they are able to make informed comparisons and decisions; this could take the form of a TripAdvisor-style website for advisers, as suggested in response to Q39 below. The systems that aid engagement also need to be improved. Our research has found that better referral would encourage more consumers to seek the advice they need. Guidance also has a crucial role to play and must be available and situated alongside the services consumers already engage with. It must build the trust and information available to help consumers make better choices.

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

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

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

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

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

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

Any changes to regulation which are designed to reduce costs should not be made unless it is clear that consumers will not suffer from a lower quality service as a result. If other changes are made the implications must be communicated very clearly to consumers. On the two major regulatory changes considered in the review, any potential benefits must be carefully weighed against the risks for consumers. In terms of the long-stop, we have not seen any examples of a how a long-stop would significantly reduce the cost of supply of advice. Pensions are by definition long term investments and decisions so it is important that consumers have access to long-term redress. Safe harbour legislation could allow advisers to provide cheaper advice if they can focus on particular, clearly agreed areas of advice. It may reduce costs in terms of their time and their liability if those regulations are clear. This may suit some consumers who only want help in specific areas. But any such legislation would need to be communicated very clearly to consumers - and accompanied by strong risk warnings and a very well-thought out approach to the way types of advice are labelled (as discussed under Q2).

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?

Automated advice has an important role to play, but it is only one part of the answer to a complex set of problems rather than a solve-all for all consumers. It can help consumers find out about different sources of advice and compare and choose both advice and financial products. Automated advice also has a crucial role to play in helping people make product choices (such as assessing the benefits of different types of ISA). It may also help consumers determine whether they could benefit from further support, or make it easier for people to store and share personal information. Automated guidance could also refer consumers to face to face, telephone or web-based guidance or advice services while ensuring that the work they had already done to identify their financial position was built upon and not replicated by any provider they chose in the future.

In both the advice and guidance sectors however, it is essential that automated solutions are understood as one strand of a multi-channel solution to fill the advice gaps, complementing face-to-face, telephone and web-based services.

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

A range of measures are needed to help more consumers get the advice they need.

Advice needs to be cheaper. Our research found that just two per cent of people would pay over £1,000 for advice on withdrawing a £61,000 pension pot, compared to 16 per cent of people who were willing to pay between £200 and £1,000.[29] Bringing down the price of advice - which could be done by making greater use of digital technology, reducing the cost of lead generation through improved referral processes, or clarifying regulatory boundaries - will enable the sector to meet a high level of unmet demand.

Advice needs to be easier for consumers to find. Our research found that up to 2.2 million people would be more willing to pay for advice if they could get help looking for it. The guidance sector, directories and other financial organisations must play a role in growing the demand for advice by making sure people are directed towards professional help when they need it.

Information about advice needs to be clearer. Currently around 30 per cent of advisers publish price information on their websites. To engage with the market, consumers want to be in a position to make informed decisions. Ensuring that advice providers publish accurate and clear information about the services they offer would encourage more people to seek the advice they need.

The benefits of advice also need to be promoted better to consumers. Financial service companies and guidance organisations can help highlight the benefits of getting professional financial help and also what types of advice are available. Providing that sort of information could be assisted by new sources of information such as improved comparison or TripAdvisor style websites for the sector.

Any offer must involve careful thinking about the different channels through which advice is available. A key aspect of that will be automated advice, as discussed above, but alongside that consumers need access to face-to-face and ongoing support where it is required. Our research has found that 71 per cent of consumers with DC pensions would want face-to-face assistance as a first preference, compared to 15 per cent for website, email or webchat support and four per cent for telephone support.[30] An important aspect of improving the provision of advice and so addressing the gaps in the market will be to ensure that those channels link together and people can move smoothly between them.

Finally, even significant changes to the market will still leave a large segment of the population unserved by the advice market; only around 22 per cent of consumers are willing to pay even £200 for advice. Some consumers - such as those with a mortgage and a range of other debts, or people with multiple small pension pots - need access to publicly supported or very low cost regulated financial advice that they can trust. That might be delivered, for instance, by providing advice vouchers through guidance

[29] Citizens Advice, The Affordable Advice Gap, October 2015.
[30] This is based on a ComRes survey of 572 consumers aged 50+ with DC pensions not yet in payment. See Citizens Advice, Approaching Retirement, 2015.

services. Guidance services could also suggest further support where it is needed and provide impartial information about advice providers.

Free, confidential advice. Whoever you are.

We help people overcome their problems and campaign on big issues when their voices need to be heard. We value diversity, champion equality, and challenge discrimination and harassment. We're here for everyone.

citizensadvice.co.uk
Published December 2015
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Registered charity number 279057.

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

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

There is a history over the last 27 years of attempting to label or box advisers and advice into categories, whether it is tied, multi tied and independent, restricted and independent or basic advice. With the exception of Independent Financial Adviser none of the other labels appear to have had any currency, so perhaps it is time for a re-think on labelling. A good outcome would be for all organisations to be able to describe their services in a fair and not misleading way consistently across the industry and charge appropriately.

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

A significant proportion of consumers continue to want and receive professional advice. However, the economics of providing full advice has resulted in an increasing focus by advisers on higher net worth customers. That said, there should be a substantial latent demand for advice from the mass affluent consumer if the savings gap is ever to be reduced. However as with many financial products, other than debt or credit products, the amount of consumer demand falls substantially short of what would be necessary for adequate financial provision. Whilst some of this can be attributed to structural issues in the market, the greatest explanation is simply one of lack of financial education and knowledge. The Treasury and the FCA therefore need to address both the demand side and the supply side in any long term solution.

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

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

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

The Consumer Spotlight segmentation model is complex and whilst it has the attraction of granularity, the Money Advice Service segmentation model is simpler and easier to understand in terms of where to drive resources. It would be helpful if the two bodies were to coordinate in this area to ensure consistency of approach.

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

Using the MAS segmentation model, resources should be driven at segment three.

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

There is increasing polarisation of wealth in society with the vast majority holding very little of the UK's wealth. To that extent the the economics of providing advice are driving firms towards wealthier segments of society, and this sector will continue to be better served. Auto enrolment may change the distribution of wealth over time, or at least it may make lower income groups more attractive for advice providers as they accumulate greater retirement savings. It is important to recognise that very low income groups and those on benefits will probably best be served through the safety net of the benefits and working tax credit system. But serious consideration needs to be given as to how the economic group just above the working tax credit level can be supported so that they don't fall back on tax credits and benefits. This focus should be both on the demand and supply sides.

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

At a base level there are a range of behavioural reasons why consumers don't see advice, such as inertia around making financial provision or a failure to recognise the importance of financial provision. However, for consumers that do want to seek advice the general contraction in the supply of advice either through direct sales or through the change in advisory firm focus as a consequence of RDR means that the availability of advice at low cost is now difficult to obtain.

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

RDR has improved the professionalism of the advice sector and to that extent the FSA/FCA has answered yesterday's problems. However, the consequence of increased professionalism is that advice is now costlier and well trained advisers are less willing to work for low rewards. Regulation has consequently become part of the problem. The full advice model and the difficulties of crossing to anything less than full advice means that the smaller premium simpler product market is not catered to. Any review of the current arrangements would therefore need to consider why simple products could not be bought with simpler advice qualifications than QCF Level 4.

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 all about economics, a factor that seems to get lost in the regulatory discussion. In a market where there is a small reward for getting advice right and a big penalty for getting advice wrong, this asymmetry of reward means that firms 'play safe' by staying within the well defined regulatory boundaries of full advice and execution only. The current growth in execution-only services is a direct response to the desire to sell product but not want to be 'on the hook' for the advice. Whether consumers are well served by these models we shall see, but the lesson is that advice and product suppliers are economically rational; it is a lesson that FAMR needs to consider if it is not to join well-intended but poorly conceived models such as basic advice, simplified advice or stakeholder products.

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

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

Full advice is costly, the KYC requirements are lengthy and the potential liabilities from not knowing every detail about your client means firms are not prepared to take risks by short cutting the KYC process. In addition, adviser training now takes nearly 10 years to be able to operate at the highest standards, this increases costs and makes well trained adviser reluctant to operate in markets where their knowledge and experience cannot be adequately rewarded. The regulator has also attempted to make consumers more informed, but at the same time it has been unwilling to make consumers more responsible. The result is that advisers continue to provide information, particularly paper based information, in ever greater quantities so that consumers have all the information to make a rational decision. Sadly, many are not educated, trained or experienced enough to deal with their financial decisions (despite the Mintel et al survey responses) and they resort to using behavioural heuristics to resolve the challenges they face.

In searching for a solution there will be a temptation for the FCA/Treasury to look simply at the overt costs of providing advice and to seek ways in which this can be reduced. But for many firms the greatest potential cost is the cost of remediation for poor or negligent advice and I think this is a significant issue when firms are assessing whether to enter particular advice markets.

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 mass affluent that comes into money, HNW clients, the DIY market and corporate pension market.

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

All of the factors outlined in the discussion paper play a part in why firms do not provide advice to all segments of the market. Of these, regulatory costs, business costs and potential liabilities are, in our opinion, why firms choose not to deal with lower income/capital groups. It simply isn't economically viable to seek out low income clients, who, whilst numerous, cannot produce the economic reward to justify the costs in dealing with them.

On the liability issue, whilst advisers account for a small proportion of FOS complaints, the reality is that many advisers have been affected by the endowment and pension review processes and are now unwilling to take risks when the rewards are low and the liabilities potentially high. To have a functioning market, firms need a structural reform of the PI market from it's 'historic all risks' approach to underwriting and a better balance of liabilities between consumers and advice providers.

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 advice gaps?

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

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

and

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?

Saving into a pension should not be a focus. Auto enrolment has made a start on providing a pension in retirement. What is needed for this to be a greater success is more honesty about the amount of money that needs to be saved to produce an adequate pension. To this effect the Government should be increasing the minimum level of saving into pensions.

Investing and saving should be a focus for those with some capital because it ensures that they do not fall back on benefits. Focusing on the 'at retirement' cohort would be appropriate in terms of protecting themselves from poor decisions. The increased flexibility and choice around pensions at retirement will prove a heady mix for consumers unused to making large financial decisions and an inability to understand the longevity, investment, interest rate, annuity rate and mortality drag risk issues will place them at a considerable disadvantage.

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

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

The regulator has delivered an onerous regulatory approach to advice provision, with increasing requirements for KYC, suitability letters/reports and lengthy contractual documents all designed to ensure that consumers receive good advice and sufficient information from which to make a decision. For many consumers there is simply a lack of desire to read, absorb and understand this information, particularly product documentation.

For regulation to succeed it may have to move away from the current perception of consumers as rational economic people and take a more pragmatic approach to the advice provision that recognises consumer unwillingness to always engage in the decision process, instead giving firms a more principle led option to provide information appropriate to consumers needs.

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

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

The lesson from previous initiatives is analogous to the better mouse trap in marketing, just because you create low cost products doesn't mean consumers will beat a path to your door. The challenge in most of financial services is for consumers to recognise they have a problem about which they need to take action. Regrettably for most consumers that behavioural step change is a step too far. It is the reason financial services has been sold not bought over the last one hundred years. In the mass affluent market there has to be sufficient economic benefit for product manufacturers to distribute product. At the moment that economic benefit has been squeezed out of the system through onerous regulatory requirements. Less onerous requirements will enable an economic dividend to reassert itself and for financial services to be distributed at reasonable cost.

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

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

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

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

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

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

and

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?

Unlimited liability whilst not necessarily a significant real cost to the advice market has a substantial psychological effect on firms' willingness to provide advice. The advice market has in effect become liability driven with market participants unwilling to engage in riskier areas of business and assessing consumers on their economic worth and likelihood of complaints. With the relatively low rewards for working with the mass affluent together with the asymmetry of risks and benefits from providing advice firms have sought to focus on higher income/wealthier clients where liabilities can be more easily managed.

In addition, in recent years the balance of responsibility has shifted significantly away from the consumer towards the provider of advice, and in the current environment consumers appear to have very little responsibility for their own decisions. There is a cost to this imbalance that will eventually become detrimental to consumers because it will drive firms to exit the market or constraint the supply of advice in the longer term.

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

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

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

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

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

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

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

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

From:
Sent: 22 December 2015 11:51
To: FAMRSecretariat
Subject: Clifton Compliance Services Ltd

To whom it may concern

I am pleased to provide our response to the FAMR call for input.

I am providing this response in the capacity of a representative of an authorised firm.

With kind regards

Ian Scaife - Dip (Comp)
Group Head of Compliance
Clifton Compliance Service Ltd

The Pavilions | Eden Park | Ham Green | Bristol | BS20 0DD

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?

Probably, but not aware of examples to support this.

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

The current forms of advice should be maintained (although the terms 'restricted' and 'IFA' are not particulary customer-friendly, and should be re-defined) with the addition of a simplified / lighter version (provided by qualified advisers) for those who do not need a full advisory service.

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

Many people only seek financial advice when circumstances demand it, and there is little evidence to suggest that there is mass demand; therefore, financial education is required, which suggests that it could take generations to resolve this issue.

Of course, pension freedoms has increased the demand for advice, but there are still many people who will not take advice because of the costs / complexity.

Increased demand for advice in relation to pension deccumulation does not alter the fact that advice is required at a much younger age.

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

Views based on own experience, client actions, press, etc.

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

Question is too generalised. Consumers 'may' seek advice on various matter at various times in their life depending on their circumstances, financial situation, financial education, etc.

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

Yes, but it does highlight the groups that are unlikely to seek advice, or who would be excluded due to cost.

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

Main focus should be 'Starting out' to ' Stretched but resourceful'.

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

No evidence, but the general view is that the higher the income / wealth, the greater the likelihood that advice would be sought (and would be affordable).

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

The reputation of the industry / lack of trust. Lack of education regarding financial matters. Accessibility / Affordability. The internet.

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

No.

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?

This is an inevitability due to factors such as cost, accessibility, internet access, etc.

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

It is inevitable that technology will continue to play a greater role; therefore, it is vital that the regulatory environment fully supports this.

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

No comments.

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

No comments.

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

'Busy achievers' and upwards.

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

The biggest barrier is the fact that open-ended liability sits with firms. A much needed aspect is a return to 'caveat emptor' to ensure customers also take responsibility for decisions. Of course, this needs to be proportionate, but it is not unreasonable to say that the current environment is disproportionate in favour of the customer. As a consequence, there is a genuine regulatory and economic barrier in respect of those with limited means (and interest). See Q24 also.

In addition:

- Cost of regulation.
- Continuous regulatory change – little time / scope to consolidate.
- Lack of confidence within the industry to pursue new digital technologies.
- Lack of confidence / trust in financial services.
- Lack of understanding in the value of financial advice

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

Segments of society who do not, or cannot afford to, seek advice. The consequence being lack of planning for future events which may result in financial hardship / reliance upon the state.

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

We don't think they reflect each other. Addressing the advice gap will not resolve a lack of demand; therefore, these issues need to be treated independently. Of course, if there was no advice gap, increased demand is likely to increase. But, ultimately, we must not be drawn into the belief that addressing the advice gap is the answer to a broader problem.

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

'Starting out' to 'Stretched but resourceful'.

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

No. Largely based on probability, general view, press, etc.

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

See Q19.

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

Yes.

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

No.

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

Yes, potentially. The current initial disclosure, KYC, etc, requirement means that a significant amount of time (and expense) has to be applied irrespective of the fact that a customer may be relatively non-affluent and may also have little engagement / interest in the overall process. Nevertheless, whilst the customer may be focused on the outcome, firms effectively have to spend a considerable amount of time to mitigate risk in respect of potential future liabilities. As previously stated, this demands time and expense, which is ultimately perceived as being poor value for money.

Therefore, the current regulatory framework would benefit from a sliding scale of requirements and 'caveat emptor' to allow firms to navigate affluent and non-affluent customers within a reasonable / proportionate safe environment. Simply put, taking into account the current framework, it is simply too expensive to offer services to non-affluent customers. The consequence of the current framework is the creation of what is effectively ' savings apartheid'.

If, for example, we subsequently have a regulatory framework that supports the use of digital technology to deliver simplified advice, firms must be suitably assured that they are supported by the regulatory framework where potential liabilities are shared fairly and proportionally across firms and customers.

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

No. The underlying principles are sound. However, it is the regulatory framework that is preventing the innovation that is essential for the future of financial services in the UK. Furthermore, advancements in innovation / technology / lighter touch advice should be supported by appropriate protection for firms with customers taking more responsibility for their actions.

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

Very little, other than to understand the relative failures of the past (Stakeholder, pension simplification, parts of RDR) and how to NOT repeat these failures. Maybe it is better to look at the successes of other nations.

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

Yes, certainly USA and Australia for innovation.

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

We assume you mean 'how can we increase demand'? The scope to increase demand amongst current generations is probably fairly limited; therefore, the emphasis needs to be on educating younger / future generations within the school curriculum and other environments. A bi-product of this may be that more people see a future career in financial advice, which is an important consideration in respect of ensuring there are enough people to provide advice in the future.

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

You need to be careful with safe harbours as it could result in self-defeating initiatives that are designed to close the gap / increase demand but actually widen the gap / demand. That said, consumer protection should be aligned with the service provided, i.e. full advice = full protection, technology based guidance = limited protection, with simplified / basic advice falling somewhere in the middle.

It is an over-simplification to state that if a firm does X then their customers would have no recourse. In fact, it is practically impossible to suggest what safe harbours may look like when we don't know what the future of financial advice and the associated innovation / technology looks like.

In short, yes, safe harbours should be aligned with the process, but difficult to be any more specific than that. It is a case of striking the right balance to risk to firms, risks to customers, and customer responsibility.

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

Technology based 'advice' processes should be of less risk to firms in respect of liability regarding customer actions. This should come with lower regulatory costs and lower PII costs.

However, how would the regulator define the appropriateness and suitability of future technology based solutions? Whilst it is very easy to state that safe harbours should be applied to certain processes defined by firms as being low risk, but will the regulator be regulating and testing future advancements, or would it simply be a case of seeing how this evolves and the regulator following up with subsequent thematic work? We would assume it would be the latter, which may result in hesitance in relation to innovation.

Yes, areas of simplified advice should benefit from a safe harbor, but this does open up a range of other related considerations. Whilst a 'hard-edged' safe harbor may provide firms with greater security, a 'tend to establish compliance' may offer greater flexibility and scope for innovation. Therefore, a balance between the two would be preferable. A consultation paper in this regard would, most likely, be embraced by the industry which should provider indicators regarding potential best practice.

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

Initiatives which include safe harbours should result in reduced protection for consumers (subject to firms working within a regulatory framework of course). But we have two different areas of consumer protection to consider. Should consumers be protected from outcomes resulting from new technology based solutions, or should they be protected from the adequacy of these new solutions? Thus we return to earlier point regarding the need for a clearly defined regulatory framework within which firms can operate with confidence. Of course, this does not guarantee that all simplified processes will provide appropriate solutions. Therefore, it is practically impossible to define currently what would be appropriate.

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

No.

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

No.

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

No. The benefits are relatively obviously.

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

No.

Overall comments regarding Longstops: It is understandable that firms should seek comfort regarding the extent and limitations of potential longer-term liabilities. Therefore, we believe that a form of long-stop should be implemented for our own peace of mind, our insurer's peace of mind, and to ensure that consumers take a greater degree of responsibility for their actions. A single longstop would probably be the most viable and workable solution. Varied limitations in relation to product term probably wouldn't work. For example, in the new pension freedoms environment, a pension product may have an 80-year lifespan.

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?

Anecdotally, it would appear that firms are reluctant to embrace new technologies in relation to automated advice until the regulatory landscape is clear. As such, innovation is probably fairly minimal currently.

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

Further consultation with the industry. Review best practice within foreign jurisdictions. A workable / practical regulatory framework. Appropriate safe harbours.

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

Automated advice is not a solution. Implementing processes of this nature will probably not increase demand, and increasing demand simply has to be the primary consumer consideration. Consumers do have strong relationships with technology these day, but it would be foolish to believe that this would immediately increase demand on a large scale. Yes, it would be a positive move for those who do engage with their financial needs, but currently feel excluded. It would also be a positive for firms who would be able to promote new services, but we return to our earlier comments regarding the need to provide financial education at an early age.

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

Firms need to have the confidence to innovate and build the financial advice landscape for the future. Without this, too many people will remain excluded from financial advice.

It is reasonable to assume that there will be appetite to innovate in respect of automated processes, supported by simple and flexible products.

Nevertheless, we return, once again, to the need for Government(s) to be committed to appropriate education in relation to financial services. We referred to the school curriculum earlier, but initiatives of this nature should extend to further education, the workplace, etc. Government(s) should be committed to reducing the risk of reliance upon the state; however, this demands time and investment. Therefore, there should be financial incentives (tax breaks, subsidies, etc) for firms / organisations that undertake a program of financial awareness for individuals. And / or there could be some form of tax relief for consumers in relation to the cost of advice. Either way, there needs to be some form of financial incentive for firms / individuals to pursue what is currently perceived to be unprofitable and possibly not worth pursuing.

It is not unreasonable to expect Government(s) to be committed to the concept of accessibility for everyone (the FAMR certainly suggest the current Government are committed), but there are many long-term issues to consider which may be discarded / neglected through the short term nature of party politics. Therefore, why not remove long-term planning to close the advice gap from party politics to allow long-term workable strategies to form (this will never happen of course, but should be considered if we want long-term coherent and consistent strategies).

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

No comments.

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

Firstly, we need innovation that is not stifled within a regulatory framework that is too hard-edged. It is reasonable to assume that innovators will follow best practice from foreign jurisdictions; therefore, we can benefit from the best-of-the-best from existing innovations / practices / technologies.

Whilst safe harbours will provide confidence to innovate, there must be confidence that outcomes from these innovations meet regulators expectations. If the FCA / HMT wishes to pursue some of the concepts raised within the FMAR, there will need to be further consultation with the industry. Putting it another way, there will be a need to take the broader concepts resulting from the FMAR and consult further to help the FCA formulate the regulatory framework.

The FCA should subsequently engage with innovators to minimise the risk of retrospective action such as subsequent thematic reviews on simplified / automated advice processes resulting from a lack of engagement from the regulator during the period of design and innovation.

In short, work with the industry to define best practice. Look at other jurisdictions to see what operates effectively. It is unlikely that a revised regulatory framework will translate easily and immediately to best practice; therefore, full engagement and co-operation within the industry from all parties should help form future strategies.

From:
Sent: 01 December 2015 16:40
To: FAMRSecretariat
Subject: Colin Butterworth

Dear Sir,

I wish to make it known to you that I very greatly value the advice of my Independent Financial Advisor. He has given personal advice to me (and my company) for very many years.

I understand that the Financial Advice Market Review may possibly conclude that the advice of Independent Financial Advisers could be possibly be eliminated, and may be replaced by computerised advice. I feel that this would be a disastrous step to take, and would encourage all kinds of ill-conceived advice and probably encourage sharp practice.

Please consider the absolutely invaluable role played by Independent Financial Advisers, who give advice based on a very personal service and knowledge of each of their clients' individual circumstances. This type of role cannot possibly be given by any automated system.

Yours faithfully,
Colin Butterworth

Call for input

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

Not necessarily how different forms of financial advice could be categorised – rather that everything should be aligned. For example, MAS has the word 'Advice' in its title suggesting that the individual will get advice i.e. the suggestion is that the individual will get advice at the same level as seeing a financial adviser. This is incorrect – MAS provides guidance only, as does Pension Wise. There needs to be consistency between all government departments and initiatives regarding what 'advice' looks like before then passing that message to the community at large.

One thought though - in order for consumers to have access to professional financial advice, there should be a government incentive similar to legal aid for financial advice. Maybe the FCA could pay firms to give advice for free to low value clients or give them a discount on their fees if firms give free advice to such consumers. With cash returns at an all-time low, pensioners need advice more than ever. Having worked hard all their lives it's not their fault their investments cannot support their retirement. Many of these clients will not deal online and want face to face advice.

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

Those less affluent people most probably would take advice if it was offered for free. The problem is that the fees tend to be disproportionate to how much they want to invest. This is because the advice process by the firm is the same and the liability is the same for these people as it would be for people with higher amounts to invest.

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

No

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

No

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

The FCA Consumer Spotlight is interesting and a starting point.

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

Yes. This would allow the area of financial advice to become more available to all clients and by its segmentation that clients can be directed to various areas of advice such as Pension Wise, IFA and perhaps where this type of advice can be sought. This would have an impact on those unwilling or unable to pay a fee.

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

It would appear that as clients become more affluent and knowledgeable that they are seeking a more bespoke services and are willing to pay either via product charge or fee.

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

Bearing in mind the adverse publicity over the years both via the media and the press raising concerns over the areas such as pension transfers, structured products, PPI, it could be argued that consumers have a credibility issue with professional advisers.

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

This needs to be encouraged as this is the way of the world. Advice is still mainly face to face. This builds rapport, advisers can answer questions and trust is built up. However the younger generations are used to everything being online. They will expect communications to be by email/Skype etc. If the financial service profession does not keep up with technology and what it could, can deliver, there is a fear that future generations will disengage further from financial services as it will look more confusing than it already is.

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

Generally most firms can cope with the requirements of the FCA – it is FOS that they are more fearful of. The FOS does impose a similar six-year limitation period on claims (plus a three year "date of knowledge" period) but it can decide cases on what it considers is "fair and reasonable" and investigate on a 'balance of probabilities. It is not bound by the law. Therefore, in order to give advisers some peace of mind, a key starting point would be to ensure that FOS will follow any limitation periods/safe harbour rules/ legal rulings that arise. Furthermore the FCA and FOS should not act independently of each other as the current situation is concerning - more consistency is required between the FCA rules/guidance and the FOS rulings.

There is also the question of how the FSCS is funded. There is a school of thought that firms who do not write 'contentious' business such as QROPS, structured products, use NMPI funds, should not pay as much into the FSCS as they possibly do not pose as much of a risk that the FSCS will be relied upon.

We do not believe that FOS and FSCS are a barrier to entry to come into the profession as the advisers do not necessarily understand their implications when first setting up the firm i.e. the future charges that will have to be paid towards these bodies. It is over time when they start to receive complaints and/or have to pay the FSCS levies when they have not written any contentious business that advisers become frustrated.

However it is felt that the administrative costs for compliance to small adviser firms is disproportionate. This cost is either passed on to the consumer or reduces profitability. Given the increases in capital adequacy that come into effect next year, it is likely that these costs will be passed on to the end consumer. This means that there may possibly be more consumers who do not wish to pay for the price of advice as it increases.

What this means is low investment amounts are not cost effective to advise upon and intermediate.

Also, where firms go 'bust' and start up again under a different guise (leaving the FSCS fund to pick up the financial pieces) this should be stopped altogether. The FSCS levy grows every year and has to be paid by fewer surviving regulated businesses A cap on the amount of FSCS levy so that any levy can be planned for (as far as possible) would be useful so that it is not an unknown figure year on year. Alternatively, a levy could be put on every product sold with the more toxic products carrying a higher levy.

Furthermore, PI is now an elite insurance. Without PI firms cannot trade. Some advisers believe that they are being held to ransom and ripped off by PI insurers particularly when a firm has never claimed on their policy. There is no discount/recognition for this. Financial advisers are tarred with the banking miss selling and the premiums are hiked accordingly. This is a huge concern. There is no other industry like it.

Generally the feeling is that the advising community should be supported and be incentivised to keep advising rather than constantly increasing costs and ongoing liability for the advice given.

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, given the pension freedoms now in place and the increased flexibility that this allows, namely passing on the wealth to future generations, no need to purchase an annuity and the flexibility it allows also comes with Investment risk.

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. We believe that focus should be on households with wealth between £0 - £4,999 as this accounted for 45% of households according to the Bank of England data.

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?

Safe harbours will give firms some level of re-assurance that as long as they meet set criteria, they will be safe from future claims. This would breathe fresh air into the system and encourage more firms to look at how advice could be delivered effectively and efficiently to more people

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

- Some forms of online advice
- Stakeholder products
- ISA top up advice

- Regular premium ISAs and pensions

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

- The disclosures made to the consumer
- Encourage adherence to the 'Plain English' standards

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

Advisers becoming disillusioned with regulation and therefore leaving the profession. For example, CATS have had one adviser who is selling his practice and getting out of the profession altogether as he is so fed up with everything.

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

We do believe that the absence of long stop is stopping advisers from coming into the market – advisers are a dying breed. We have heard of stories where a sole trader who had retired for a number of years had an award made against him for £100k – had to sell his property to pay the redress. It could be argued he should have had ongoing PI cover. If this was more attainable and at a reasonable price, then more people would most probably take this out. In addition, bearing in mind the level of complaints and adverse publicity less and less insurers are willing to enter the market

It is a concern to advisers who are looking at succession planning – they want to retire. They can usually pass to the client bank to another firm but not the ongoing liabilities of the firm. The FCA won't de-authorise the firm until they are happy that there is some kind of cover for the past liabilities.

It is appreciated that not many complaints that went to FOS exceeded the Limitation Act timescales. However by applying the time limits:-

- Avoids uncertainty for advisers especially when going into retirement – the liability is a reducing one, not open ended.
- Liability is not open ended for lawyers and accountants, whose advice also may not be realised for some time after the initial advice was given.
- Furthermore if financial services is to be considered a profession and on a par with solicitors and accountants then we should treated with the same respect.
- It could relieve the pressure on the FSCS as less firms could be placed into default.

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

In any other professional services there is no fund for clients to apply for redress if it transpires that the advice they received was poor. If they want redress they have to go to the courts where a higher burden of proof is required.

We are not suggesting that FOS and FSCS should be abandoned but rather how they are funded.

At the moment, particularly if a complaint is via an ambulance chaser, if the complaint is rejected, they automatically refer to FOS. I dealt with a case where the case was referred to FOS for a buy to let mortgage which is not covered by FOS. The client has nothing to lose by doing this. However for the firm it was another day spent on reviewing the file again and putting a response back to FOS explaining why they should not accept the case for review. If complainants were charged a notional amount to take their complaint to FOS it should reduce the number of frivolous complaints taken to FOS. This would reduce the work load on firms and FOS itself. It would also encourage clients to take a more active engagement on what they are buying.

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

It is accepted that the financial services profession needs to work on how to make its documentation more engaging and easy to understand. However, there also needs to be a serious programme of education by consumers. The concept of 'buyer beware' is indoctrinated into English law but in financial services, due to various financial 'scandals', more legislation is brought into place to protect the consumer making them not willing to take responsibility for their own actions.

In terms of the suggested options for long stop the paper puts forward 5 suggestions:-

- Maintaining the current regime – we do not believe that this is fair to financial services profession. Long stop is in place for other professions where consumers have to take ownership of their decisions and so why should it be any different for financial services.
- Introducing a single long stop – agree – applying the Limitation Act makes it fairer for everyone involved.
- Introducing varied limitation periods linked to terms of products – this option would be better than nothing.
- Enhanced PII – arguably this should be put in place regardless of what decision is made about long stop periods. Furthermore given the amounts of investments being made by some firms, the amount of cover should be increased.

  However, what must be put in place is mandatory wording for PI cover and the requirement to have run off cover. Again, solicitors and accountants have this in place, so why not financial service?
- Compensation fund – this is something that we strongly oppose to. This fundamentally will be another body which will need funding by staff, premises etc. and yet another fee which firms will have to pay into which will have steady increasing costs, as he FSCS does. This is not the answer.

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

Be clearer in what firms can and cannot do. The FCA also needs to make sure they keep up to date with technology and what functionality people will want in the future i.e. not to be behind the curve in issuing guidance on advice via technology.

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

Make sure that the clients understand what they are buying. This will have to be by way of interaction, risk warnings along the way, ensuring language is easy to understand and ensuring it is in plain English.

Contributors to this response paper:

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CBI response to the Financial Advice Market Review: Call for input

Introduction

The CBI welcomes the opportunity to respond to the joint HM Treasury and Financial Conduct Authority (FCA) Call for Input on the Financial Advice Market Review (the Review).

Questions raised in the Review cut to the heart of a wider debate about the role of business in society. The business community is working hard to rebuild public confidence through initiatives like *The Great Business Debate*.[1] Improving consumers' engagement with business is a key part of the solution and addressing the advice gap can play a crucial role here. Engaging those who need these services but are either unaware, or unable to access them, has the potential to improve outcomes for a large number of consumers. This will help foster greater confidence in an important sector that is ultimately a force for good in society. As such, the CBI supports the aims of the Review.

Beyond this the CBI also welcomes the process and structure of the Review which has been well-received by members, in particular the creation and use of an expert advisory panel is viewed positively as a constructive approach.

An advice gap exists in the UK and it is right for the government to focus on this issue

CBI supports the analysis in the Review that, for some consumer segments, a need for advice is currently not being met by either the market or public sector bodies.

This is not the case for all consumers, and those that are most able to afford advice are currently being well-served. However for a number of reasons not all consumers are either able to afford, or inclined to access, financial advice. From the CBI's perspective, the key reasons why consumers are not currently accessing advice include:

- The high cost of fee charging advice; compounded by the impact of regulatory change
- A low level of financial awareness, capability and confidence
- A lack of trust in both advice and financial services more broadly

We also agree with the Review as to the types of product that represent the 'pinch-point' in the advice gap: investing, saving into a pension and taking retirement income. The advice gap here is even more pressing today in the context of the new pension freedoms. While 48% of respondents to the CBI's latest pensions survey believe the changes will make employees better able to afford retirement a similar number, 47%, recognise the need to adapt their provisions by offering additional guidance.[2]

However we also recognise that consumer understanding and engagement remain low across financial services more broadly and that a need for better information and guidance exists across other financial services markets.

The advice gap is more pronounced for those consumers with lower annual incomes and some existing savings

When focussing on the products identified above CBI broadly agrees with the assessment set out in the Review of which types of consumer are at the centre of the advice gap.

Members also agree that a positive relationship exists between income levels and the take-up of advice. For example research by YouGov for the ABI has found that the use of an Independent Financial Adviser (IFA)

[1] http://www.greatbusinessdebate.co.uk/
[2] CBI/Mercer, 'A view from the top: CBI/Mercer pensions survey', 2015

increases with gross personal income and greatly increases above an income threshold of more than £50,000 per year.

This issue is however a broader one and the findings of this review should inform wider government thinking

While the Review is right to focus on those consumers with some existing savings but not significant wealth we would also highlight the broader need to improve financial capabilities. Increasing the UK's propensity to save more generally should remain a government priority. This ultimately feeds into a broader agenda of ensuring the benefits of economic growth are felt by everyone.

Our recent report on how to improve living standards, *A Better off Britain*, found that today one in five people report having no savings whatsoever. It also highlighted the UK's household 'net saving rate' which has remained lower than for many of our international comparators since the turn of the century. In this context, helping the financial sector to better support its customers is vitally important. Helping more people to save more should be viewed as a central part of the solution for raising living standards across the UK.[3]

So while the focus of this review is correct we believe that the findings from this work should be used to inform other government thinking; especially about how to improve access to information for other financial services markets.

A number of barriers hold back the provision of advice most notably regulatory uncertainty and concerns about liability

A number of barriers to providing advice exist and many have been set out in the Review. Of these the related issues of regulatory uncertainty and concerns about liability are the most significant.

The Review recognises that despite attempts to improve guidance for firms the legal framework remains complex. CBI supports this view and there remains considerable nervousness around the liability businesses may face in meeting the suitability requirement which goes with providing advice. This adds to the cost of providing advice, which takes time and investment for an extensive "fact find" necessary to build a detailed understanding of individual circumstances. Indeed the simplified advice regime has led to a bifurcated market where firms are willing to either provide generic information or fully personalised advice but not offer help that would fall in the middle.

Specifically, some firms feel constrained from differentiating the level of suitability test that might be appropriate to different circumstances. For example, the needs of a relatively wealthy investor with an existing portfolio seeking advice on where to invest the annual ISA allowance are likely to be quite different from those of an elderly person who has lost a partner and finds themselves having to deal with financial matters in which they were not previously involved.

Some businesses also feel that a lack of clarity over the definition of advice is holding them back. CBI members operating in the insurance sector have highlighted that the FCA's Finalised Guidance on Retail Investment Advice has not fully solved this and it is seen to be constraining the ability of firms to support customers as they remain nervous in answering even relatively simple queries.

This relates to concern over the potential liability of providing advice. Concern over the potential for retrospective regulatory interpretation or action from either the FCA or Financial Ombudsman Service can hold firms back from innovating and providing advice in new ways to a wider range of consumers. The Aviva Adviser Barometer, for example, has found that while advisers are optimistic about the opportunities presented by Pension Freedom and Choice, 47% of respondents reported concern about professional indemnity costs.[4]

Consumer engagement with advice, and financial services more generally, remains low and a lack of trust remains an underlying cause

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[3] CBI, 'A Better off Britain: improving lives by making growth work for everyone', 2014

[4] http://www.aviva.com/media/news/item/uk-advisers-rank-their-top-financial-priorities-for-the-new-government-17494/?cmp=eml-group-17494-html

Coupled with supply side barriers members have highlighted a series of demand side issues. The Review sets a number of these out and the CBI broadly agrees with its analysis.

The most notable is a general lack of awareness and engagement amongst consumers. The Review highlights evidence from a report by Mintel and feedback form CBI members echoes these findings. We agree that a lack of understanding exists about the benefits of advice and its process for delivery. This includes knowing exactly what advice constitutes, who advisers are, how they are qualified and how their interests are aligned.

Ultimately we believe an underlying cause for under-engagement remains a lack of trust: highlighting the need for business and government to focus on tackling this issue. The need for better engagement is recognised by businesses and can be seen in the additional focus on engaging employees on their pension options. The CBI's latest pensions survey found that 'maximising employee engagement' has now become the top pensions priority for leaders of businesses with DC pension schemes (cited by 29% of respondents).[5]

As the Review also highlights cost is also a demand side barrier and there is evidence that high costs are leading to unmet demand for lower cost advice. A survey for Citizens Advice found that 47% of respondents would be willing to pay a fee for advice. However when asked about cost only 2% per cent of respondents with a £61,000 pension pot would be willing to pay more than £1,000 for fee charging advice while 16% would be willing to pay between £200 and £999.[6]

The CBI supports solutions aimed at increasing the supply of advice including efforts to simplify and clarify the regulatory framework

Increased regulatory clarity and addressing concerns about the potential for future liability would give firms the confidence to innovate and expand in the market.

Greater clarity around the suitability obligations in different circumstances from the FCA would be welcome. Also, given the perceived lack of clarity over the boundary between regulated investment advice and a personal recommendation, government should consider aligning the Regulated Activities Order on investment advice with the MiFID definition.

Additional clarity from the FCA would also be welcome in relation to innovation and the delivery of automated advice. Ultimately the advice market should be regulated in a way that encourages innovation and does not restrict the adoption of technology. While we understand the FCA is reluctant to 'sign-off' specific processes, some additional assurance for firms who are looking to provide advice in new ways would be helpful.

Concern about future liability stemming from the suitability obligations is also a major concern. As such, we would welcome further investigation into the potential to limit liability in certain circumstances. We also welcome additional investigation into the use of a long-stop. While a balance must be struck between consumer protection, especially for long-term products, and limiting liability for firms it has the potential to reassure firms and bring additional providers into the market.

The CBI also supports solutions aimed at increasing the demand for advice and improving the engagement of consumers with financial services more broadly

CBI supports efforts to simplify, and improve consistency in, the language and terminology used around financial products perceived as complex – such as pensions and retirement savings. We believe this would help reduce the barriers for consumers to engage with the market.

More can also be done from an earlier age to equip people with better skills to understand and navigate financial decisions through both the education system and practical employer help. Supporting young people to develop financial literacy early on in their education will help to ensure they are better able to make informed choices further down the line, and as such we welcome the increased focus on finance in elements of the new national curriculum and in reformed GCSEs.

[5] CBI/Mercer, 'A view from the top: CBI/Mercer pensions survey', 2015
[6] Citizens Advice, 'The Affordable Advice Gap: How Affordable and Clear Pricing can help more Consumers Access paid-for Financial Advice', October 2015

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22 December 2015

By Email: FAMRSecretariat@fca.org.uk

RE: The Financial Advice Market Review – Call for input

Dear Sir or Madam,

Please find attached responses in respect of the above review.

I would be interested to see the final output/report if possible.

Yours faithfully

Martin Berkeley

Martin Berkeley JP, BSc, BA(Hons), IMC, Chartered MCSI
Director

Responses

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

   Yes, many are confused by basic financial concepts and intimidated by advisors. Sadly, the vulnerable are preyed upon by the less scrupulous, though many reputable providers ensure that this sector is dealt with appropriately.

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

   Where advice is not being given that this is made clear to clients. Not only in the documentation must this be clearly explicit but also the implications of non-advised sales must be made clear, ideally at the start of the process. Many clients are confused to discover what they thought was advice is not, due to a clause in the contacts.

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

   There is an excess of demand over supply. Unfortunately, the changes brought in by RDR have resulted in further reluctance to pay for advice, which in turn affects provision.

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

   Information and advice comes from many sources. That may be information via the media, informal advice (friends/family), via a professional (lawyer, accountant, CAB) as well as formally. Many choose the non-formal route due to intimidation /costs.

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

   The usual spectra, but much focus on investments, pensions and insurance.

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

   Once the principle of paying for advice is accepted and the value is seen, people will pay. However the value is not always obvious and the low regard of financial advisors reduces the take up. Clearly those with greater disposable income may pay for advice and be used to paying for it.

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

   Fear of being 'ripped off', cost, access, intimation

8. *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

9. *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

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

    See response below.

11. *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?*

Introduce regulation to limit the sale of regulated products on a ‘non-advised’ basis to retail and intermediate customers. Firms to avoid obligations often use this approach.

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

More standardisation of documentation. For example fund fact sheets in the UK contain disparate information that makes comparisons difficult. In Colombia the format and content is mandated, resulting in greater transparency and increased competition.

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

It may be difficult to mandate and implement, but ensuring they were considered as part of a suitability assessment would be helpful.

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

If there are redress schemes that consumers are confident in, this will help encourage the taking of and paying for advice.

15. *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?*

Nutmeg. However, I am not sure this is advice.

16. *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?*

Clarity on charges. These are presently opaque and confusing.

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

The law protecting the consumer appears to be tilted against the consumer. Concepts of advice, limitation and, estopple etc. favour firms. Additionally the cost of litigation is often prohibitive. However the rise of 'no win/no fee' arrangements and Claims Management Companies (CMCs) have done harm though the rise of vexatious litigants and those showing buyers remorse at performance. Perhaps a fundamental reform of the law is needed.

The perception is that you can effectively 'get away' with anything in financial services as the chances of detection are low, sanctions while potentially onerous are remote and the apparent immunity of senior management from responsibility does little to enhance trust. Perhaps the introduction of criminal sanctions as in the USA would be deterrent.

Financial Advice Market Review - call for input

Response by the Council of Mortgage Lenders
to the HM Treasury and Financial Conduct Authority consultation paper

Introduction

1. The CML is the representative trade body for the residential mortgage lender industry that includes banks, building societies and specialist lenders. Our 134 members currently hold around 95% of the assets of the UK mortgage market. In addition to lending for home-ownership, the CML members also lend to support the social housing and private rental markets.

2. We welcome the opportunity to respond to the HM Treasury and FCA's call for inputs to the market review of the provision of financial advice.

3. Our response relates only to the mortgage-related aspects of this consultation. Rather than answer each question, many of which overlap, we have set out a number of themes.

General points

4. Nearly all mortgages are set up following the provision of professional advice, either from the lenders' own sales forces, or from mortgage intermediaries. CML data shows the majority of all new mortgages are sold by intermediaries – 72% of all first time buyer mortgages by value, 66% of home movers and 68% of home owner re-mortgages (for the 12 months ended September 2015). We agree with the conclusion in the paper that there is no advice gap in this sector and we would add that lenders comment that the increase in the proportion of advised sales has not impacted unfavourably on the quality of the advice.

5. We think that the FCA's conclusion in its thematic review of mortgage advice and distribution, published in July 2015, that it "did not identify systemic consumer detriment"; nor were significant numbers of customers getting an unsuitable outcome confirms that impression.

6. So the question for lenders is not so much whether advice is available for the borrower; more, what impediments remain to its efficient delivery. An area we feel worthy of further exploration is the best way in which mortgage advice can be delivered by a digital channel. Whilst UK consumers receive information and advice increasingly through digital channels, FCA rules concerning advice seem primarily geared to a face-to-face environment. There is potential to consider the feasibility of how an advice regime could be adapted to online channels. We suggest that this will be especially relevant to those who are extending or varying a mortgage, rather than those seeking additional loans or entering the mortgage market for the first time.

7. There are several potential opportunities; for example, an opportunity increased use of video conferencing in the advice process – reducing the requirements for in-situ face-to-face meetings would be a positive move which would introduce more flexibility into the process for consumers. We believe that the FCA can usefully work with lenders, intermediaries and suppliers into the market to remove any (real or perceived) regulatory inhibitions so that the regime better allows new technologies to be exploited for the benefit of consumers and industry alike.

8. Our own work has also highlighted areas where delivery of advice could be improved.

The need for appropriate information and advice

9. The **CML's Retirement Borrowing project** has brought together large and small lenders and other interested parties to address current issues around lending *into* and *in* retirement. This has highlighted that at present there is a very limited cohort of advisers who can cover residential and lifetime mortgages and investment advice. Advice is segmented due to different regulatory regimes, different types of advisor; and different product heritage. Our two reports: Retirement Borrowing:

Reality, Perceptions, Projections and Potential and Consumer demand for retirement borrowing set out recommendations for industry, government and regulators in detail.

10. Our report highlights the main issues facing people seeking advice into retirement. These included:

- The complexity of individuals' financial affairs increases at and around retirement, making access to financial advice of crucial importance.

- Retirement borrowing advice is multi-faceted and changing, addressing whole of market; stage of life; and single products. For example, the 'traditional' timing of when to offer (and advise on) product or service solutions has altered - end of term is no longer 65; and advising consumers on the role their property asset plays in their longer term and whole retirement is a different form of advice from considerations around paying off a mortgage.

- At present, there is no cohort of advisers who can cover retirement, lifetime mortgages and investment advice. The vast majority of mortgage advisers do not have permissions to advise on lifetime mortgages. Advice is segmented, which is aided in part by regulatory approaches to the giving of advice.

- The 'hand-off' between different types of adviser dealing with different parts of the market can be clunky and discouraging for the customer. There can be reluctance to hand over – referral relationships between the residential and the lifetime mortgage markets could be more seamless; to allow for a smoother process for consumers to understand the differences between them and, where appropriate, to transition between the two.

- There is thus scope for both product and distribution channels to become more closely aligned, to enhance consumer outcomes and experiences.

11. We hope that this market review will look at how to resolve this sort of "advice gap" (which primarily relates to the way in which components of the advice market fit together).

12. We have also worked with consumer group Which? throughout 2015, on the **CML / Which? Transparency Review of mortgage fees and charges**; to help customers better understand and compare mortgage fees and charges when 'shopping around'.

13. Whilst this work has been more focused on how consumers can obtain clear information before they turn to an adviser for help, this project has identified the need to improve consumer education and financial capability. We will take forward consideration of these matters in our work with the Money Advice Service in particular, and also the Financial Services Vulnerability Taskforce.

14. The role of price comparison tools to provide details of financial products is increasing and customers are more frequently relying on the details found to ascertain the cheapest financial product. However, the use of these does not negate the need for professional advice. Consumers may be unaware that the cheapest deal may not be the best for their individual needs and circumstances. In an area where digital innovation can be seen to enhance the customer experience, care should be taken to ensure that the best customer outcomes are maintained. The development of 'automated advice' as mentioned by the FCA could be a way of reducing the risk, and also creating a better customer experience for time-poor customers wishing to apply to a firm directly.

15. Another area of the market where financial advice may prove difficult surrounds consumers undergoing a life event, such as the birth of a child. Other consumers with protected characteristics may also experience difficulties in obtaining financial advice. During pregnancy/maternity for example, consumers will undergo numerous changes to lifestyle and income, whereby access to professional advice could prove advantageous. As with older borrowers, consumers can often find it difficult to obtain new products during this time.

The gap between full advice and execution only transactions should be explored

16. The MMR ended a process called “non-advised sales” in the mortgage market (a decision which we are not seeking to reopen). But this (basically sensible) development has had unintended consequences. Customers seeking to perform relatively straightforward transactions, such as re-mortgaging or varying an existing mortgage contract can be frustrated at having to go through the lengthy, complex full advised process when they know what they want and what they need but still seek further guidance than is available from an execution only process. The regulatory regime needs to be more tolerant of a speedier process which is more customer-friendly and more attuned to different customer needs, especially in circumstances where no new funds are being borrowed.

17. Although the rule book confirms that those factors ‘in so far as relevant’ require assessment, the FCA’s own response to an FAQ on this subject states:

> “Firms will need to demonstrate why a particular factor was not considered to be relevant to the customer’s needs and circumstances. Providing this evidence effectively requires the firm to explicitly consider each factor even if the outcome is to discount certain factors as not relevant for a particular borrower.”

18. Innate caution within lenders leads to sends firms down a route which is lengthy and frustrating for customers. The advice gap will be better plugged when all parts of the regulatory regime acknowledge that a proportionate approach is desirable in circumstances where little consumer detriment is involved.

Is the best the enemy of the good?

19. For many years the advice sector has been dogged by the concept of “best advice”; as though for every set of personal circumstances, there was a single indisputable solution which has somehow to be unearthed. The consequence of this concept is that the advice process becomes ever longer (and thus more costly) as all possible avenues are explored. If the advice gap is really to be filled, then there may need to be an acceptance that, for many consumers, there are likely to be a small suite of sensible outcomes and that time spent exploring beyond that is likely to add expense for little purpose. The adviser who stays to this brief should not be held to have broken regulatory requirements if it is subsequently decided that there were other solutions. The devising of this suite of products has long eluded those many who have investigated this area. It would be good if this review finally led to its creation.

Contact information

20. We have prepared this brief response with our members. Please contact Sue Rossiter with comments or questions.

CFS

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15 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

Christopher Culley

Berkshire IFA Group members

Christopher Culley	Culley Financial Services Ltd	Newbury
John Ashworth	The Safe Insurance Agency Ltd	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
Elaine Given	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.