Evaluation of the Retail Distribution Review and the Financial Advice Market Review
Call for input

May 2019

How to respond

We are asking for comments on this report by
3 June 2019

Or in writing to:
RDR and FAMR Review
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1 Executive summary

Introduction

1.1 This paper outlines our plans to evaluate the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR). Both initiatives sought to improve the distribution of retail financial services products. We promised to review them in 2019.

1.2 As the market has evolved considerably since the RDR and FAMR were introduced, we will also seek to use this review to assess the future of the market. We will consider market developments, and whether advice and guidance services meet current consumer needs and will do so in the future.

1.3 This Call for Input marks the launch of our review. We have a clear view on the overall scope of the review but want your feedback on the issues you think we should consider.

Context

The RDR

1.4 The RDR was launched by our predecessor body, the Financial Services Authority (FSA), in 2006. Most of the rules it introduced took effect in 2012.

1.5 The aim of the RDR was to establish a more resilient, effective and attractive retail investment market in which consumers would have confidence and trust. It made several significant changes to the way investment products were distributed to retail consumers in the UK. The RDR raised the minimum level of adviser qualifications, changed the way charges and services were disclosed to consumers, and banned the use of commission to pay for financial advice.

1.6 In 2014, we published a post-implementation review (PIR) of the RDR. This concluded that there were positive signs that advisers were raising their levels of professionalism, although the impacts of RDR were yet to be fully realised. We also found that product bias and product charges had been reduced and consumers were shopping around more. The PIR found little evidence that the availability of advice had reduced significantly because of the RDR reforms. Advisers were willing and able to take on more clients. While a small group of consumers with less to invest might find it more difficult to find an adviser, there were still advisers in the market willing to serve them.

1.7 The PIR found some early indications that the cost of advice had increased and that the quality of advice was improving. However, we decided to allow more time before drawing definitive conclusions.

FAMR

1.8 FAMR was launched jointly with HM Treasury in 2015 and built on the work of the RDR. FAMR's objective was to identify ways to make the UK's financial advice market work better for consumers. The review had a wide scope, and looked across the entire financial services market to assess the accessibility and affordability of advice and guidance to help people with their financial decision-making.

1.9 FAMR's final report in 2016 included a package of 28 recommendations for FCA, HM Treasury and other organisations. In June 2017, we published a baseline set of market indicators. They serve as a benchmark against which we can track changes in the advice and guidance market over time.

1.10 The regulatory framework has continued to develop since 2016. For example, we have:

- Implemented several pieces of new EU legislation about the distribution of investment products. Relevant EU legislation includes the Markets in Financial Instruments Directive II (MiFID II), the Packaged Retail and Insurance-based Investment Products Regulation (PRIIPS) and the Insurance Distribution Directive (IDD).
- Established an Advice Unit to provide feedback to firms developing automated models to deliver lower cost advice and guidance to consumers. Through this work we are encouraged to see innovation and positive developments in automated advice services. This innovation could create better, cost-effective outcomes for consumers.
- Continued to focus on regulating the market for financial advice and guidance. Relevant work in this area includes the investment platforms market study, the assessing suitability review (a new review will be undertaken in 2019), the retirement outcomes review, and our work on pension transfers.

Why we are issuing this Call for Input

1.11 The FCA Mission sets out our decision-making framework. After introducing remedies, particularly for our largest interventions, we look to evaluate their effectiveness.

1.12 In the 2017 FAMR baseline report and the 2018/19 FCA Business Plan, we committed to review the RDR and FAMR in 2019.

Our approach

1.13 We have published outcomes and indicators for both the RDR and FAMR to measure their success (see Annex 1 and Annex 3 for more information). We plan to assess the RDR and FAMR against these outcomes. Our assessment of FAMR will be conducted jointly with HM Treasury.

1.14 The market is dynamic and has evolved considerably since the initiatives were introduced. We will, therefore, assess the market to consider whether it is meeting consumer needs now and will do so in the future.

1.15 As set out in our analysis of the investment sector, we have some concerns that, in parts of the market, there may be problems with conflicts of interest, poor treatment of consumers and misleading or confusing communications. Consumers can struggle to assess the cost of advice and may overpay for services which they do not need.

1.16 In this Call for Input we are inviting your feedback on the issues you consider are most important. The paper is structured as follows:

- Chapter 2 provides background information to the RDR and FAMR
- Chapter 3 outlines our approach to assessing the initiatives against their outcomes and indicators
- Chapter 4 invites feedback on consumer needs from advice and guidance services
- Chapter 5 asks how well the market is meeting these consumer needs
- Chapter 6 asks for views on market changes that have, or will have, an impact on how consumers engage with financial advice and guidance
- Chapter 7 sets out our planned next steps

1.17 We will use your feedback to the Call for Input to help structure our ongoing work.

1.18 Over the course of 2019, we will conduct research with the industry and consumers to gather data to inform our work. We are also taking account of insights from other FCA work – such as the investment platforms market study and the assessing suitability reviews.

1.19 If we identify problems in the market, or ways to improve advice and guidance services, we will consider how best to intervene.

Who should read this paper

1.20 This Call for Input will be of interest to:

- consumers and representative consumer bodies
- firms, professional associations and trade bodies that work in retail financial services
- businesses which support those firms, including consultants and IT suppliers

Next steps

1.21 We want to know what issues you think we should consider in the review. Please send us your feedback by **3 June 2019**. Your responses will inform our review and the additional research we will carry out during 2019. We intend to publish our findings in 2020.

2 Summary of the RDR and FAMR

2.1 This chapter provides more detail on the measures introduced by the RDR and FAMR.

Background to the RDR

2.2 The RDR identified problems that affected the quality of advice and consumer outcomes, as well as confidence and trust, in the UK investment market. As a result, the following interventions were made:

- Training and professionalism: The RDR identified that levels of training and professionalism among advisers were relatively low compared to other professions. The concern was that this increased the risk of poor quality financial advice and undermined confidence in the sector. To address this, we introduced a higher minimum qualification level in December 2012, along with requirements for continuing professional development and adherence to ethical standards.
- Remuneration arrangements: Before the RDR, most advisers were remunerated by commissions paid by product providers. The RDR concluded that this distorted the incentives of advisers in recommending retail investment products to clients. Adviser remuneration and product charges were also bundled together, which reduced transparency.
  As a result, many consumers believed advice was free of charge and did not understand the impact commission would have on their investment returns. To address this, we banned commissions to advisers and required advisers to develop, communicate and agree with the consumer their own adviser charges. From April 2014, we banned payments by providers to investment platforms and cash rebates paid by providers to consumers for new business, because these were found to be distorting competition between firms in the market.
- Clarity on services provided: There were concerns about the clarity with which financial advisers communicated the type of service they offered and the associated prices. Lack of clarity could lead consumers to use a service that wasn't the best fit for their needs. The RDR introduced mandatory disclosure requirements on the type of service.

2.3 Annex 1 sets out the desired outcomes and indicators of success for the RDR.

The 2014 RDR PIR

2.4 The RDR was subject to an initial PIR in 2014, 2 years after most of the new rules took effect. The key findings of that review were:

- The removal of commission paid by providers to advisers and platforms had reduced product bias from adviser recommendations. This was reflected in a decline in the sale of products which previously paid higher rates of commission.
- Product prices had fallen by at least the amount previously paid in commission and there was evidence that some product prices might fall further.
- Most advisers were now qualified to the new minimum standards. There had also been an increase in the number of advisers going beyond these minimum

standards. This indicated positive moves towards increasing professionalism in the advice market.

- Overall, firms appeared slightly better placed to deliver on their long-term commitments, with both average revenues and profitability of advisory firms having increased.
- There was little evidence that the availability of advice had reduced significantly, with advisers still willing and able to take on more clients. While a small group of consumers with less to invest might find it more difficult to find an adviser, there were still those in the market willing to serve them.
- Good, accessible guidance may be sufficient to meet the needs of some consumers.
- More time would be needed to see the full effect of the RDR on some key issues, including access to advice, the quality of advice and charges.

Background to FAMR

2.5 FAMR was launched in August 2015 by HM Treasury and the FCA. Its aim was to explore how Government, industry and regulators could stimulate the market for universal affordable and accessible financial advice and guidance.

2.6 It was launched following concerns that the market for financial advice in the UK was not working well for all consumers. Social and demographic changes, such as the UK's ageing population, changes in the housing market, and changing employment patterns, combined to make the decisions people face more complex and varied. People were making more of these decisions without any, or with only limited, advice or guidance. Advice use declined as an awareness of the cost made it unattractive. At the same time, more products were being offered online without the need for advice. This was compounded by a distrust of financial services companies.

2.7 The Review made a series of recommendations for Government, the FCA, employers, service providers and consumers. The recommendations fell into 3 key areas:

- Affordability: The report acknowledged the RDR had brought about a positive step change in the quality of advice available to those with larger amounts to invest. However, it recommended steps to make the provision of advice and guidance to the mass market more cost-effective. Several recommendations were made to allow firms to develop more streamlined services and engage with customers in a more effective way. These included a proposal that the FCA should set up a dedicated team to help firms developing mass-market automated advice models to bring these to market more quickly. Additionally, it was proposed that HM Treasury should consult on amending the definition of regulated advice in the Regulated Activities Order (RAO).
- Accessibility: The report said people often lack confidence when faced with decisions about their finances. It proposed measures to help consumers engage more effectively with advice. These included making information more easily available to consumers and the development of nudges (such as timely prompts) to encourage consumers to seek support at key life stages. The report also recommended measures to help employers give more support to their staff on financial matters.
- Liabilities and consumer redress: Many advisers said concerns about future liabilities prevented them from giving advice. While recognising that concern, the

report also acknowledged the importance of consumer protection in building confidence in the sector. The report made recommendations to increase clarity and transparency about the way in which the Financial Ombudsman Service deals with consumer complaints. It also made recommendations about the funding of the Financial Services Compensation Scheme (FSCS) to help advisers struggling to predict and budget for the levy they pay.

2.8 Annex 2 details the FAMR recommendations. All these recommendations have been implemented.

The FAMR baseline

2.9 One of the FAMR recommendations was that the FCA and HM Treasury should work together to develop an appropriate baseline and indicators to monitor the development of the financial advice market. These indicators would also serve as a benchmark for measuring the impact of FAMR against its success factors set out in the final report. The baseline was published in June 2017, in a joint report by the FCA and HM Treasury.

2.10 See Annex 3 for a list of the desired outcomes and indicators of success for the FAMR.

3 The RDR and FAMR outcomes and indicators

3.1 The RDR and FAMR have defined outcomes and indicators to measure their success. We intend to use qualitative and quantitative evidence from industry and consumer research to evaluate the initiatives against these measures. In our work, we will also seek to review developments in consumer needs, the current state of the market and any developing trends.

3.2 Much of the data we collect will mirror research for the FAMR baseline in 2017. This will help us to track any movements in the market since then and to monitor developments in key areas over time.

Using industry data to measure effectiveness

3.3 The FCA already collects much of the data needed to assess many of the outcomes and indicators. These include:

- Retail Mediation Activities Return (RMAR) data
- product sales data
- complaints data

3.4 We will also make use of data gathered as part of relevant FCA market studies and ongoing supervision activity. This will include data from the investment platforms market study and our reviews into the quality of financial advice.

3.5 We do need to collect some additional data from firms, however. We are in the process of designing a survey which we will send to a sample of firms.

3.6 We also propose to gather data by engaging directly with the industry, trade bodies and consumer organisations. In addition to considering responses to the Call for Input, we plan to hold several events this year at which stakeholders can share their views.

Using consumer data to measure effectiveness

3.7 We will be engaging with consumers to hear their thoughts on access to, and the affordability of, financial advice and guidance.

3.8 We plan to gather consumer information through:

- the Financial Lives Survey, which is an extensive survey of consumers based on face-to-face and online interviews about their experiences of financial products and services

- separate qualitative consumer research to support the quantitative data in the Financial Lives Survey and to ensure that we are capturing developments in the market

Q1: **Is there any other evidence we should consider in our review of the RDR and FAMR outcomes and indicators in Annex 1 and Annex 3?**

4 Consumer needs

4.1 Our focus in the review will be on determining whether advice and guidance services meet consumer needs. In this chapter, we set out thoughts on access, affordability and consumer outcomes from advice and guidance services. We invite your feedback on whether these are the right issues or if others should be considered.

Access to advice and guidance services

4.2 The need for increased access to advice and guidance for all consumers was one of the main themes of FAMR. The work identified several reasons that people do not seek help with important financial decisions. There were also concerns about declining adviser numbers and advisers targeting their services at clients with significant levels of wealth. This makes it harder for 'mass market' consumers to find the right advice or guidance services for their needs.

4.3 This could lead to a situation where consumers do not have appropriate access to services to help them in their financial planning. This is sometimes referred to as the 'advice gap'. If it exists, this could lead to consumer harm. For example, the pension freedoms introduced in 2015 offer consumers greater choice and flexibility on how they take their retirement income. Without appropriate support to help them navigate their choices, consumers may decide not to act or may make the wrong decisions.

4.4 We want to assess whether consumers have access to appropriate advice or guidance services. We recognise that different groups of consumers have different needs, and that it is important that the industry can develop offerings to meet those needs.

4.5 In August 2018, we published interim consumer research to inform our ongoing work on FAMR. Some of the findings from this are:

- There was a statistically significant increase in the number of people taking regulated financial advice since 2017, with an additional 1.3m people taking advice. There was also a significant increase in the use of guidance services, and automated-advice services, to help with financial planning decisions.
- More men than women received advice, and the propensity to take advice was found to increase markedly with age and wealth, and education levels.
- Of people who have not taken regulated financial advice in the last 12 months, but whose circumstances suggest there may be a need for advice (defined as people who have at least £10,000 in savings and/or investments):
  - the most frequent reason (50% of responses) was that they did not feel they had a need to use an adviser during this time
  - a further 37% said they felt able to decide what to do with their own money (significantly higher than the 28% who said the same in 2017)
  - less than 1% said they had not been able to find an adviser, 2% they did not know how to find an adviser and 5% said they had doubts about whether they could find an adviser suitable for them

4.6 As noted in the interim research, there were limitations to the design of the 2018 survey. The unweighted sample of respondents was not representative of the UK adults, aged 18+ (weighted) who had participated in the 2017 survey. To correct for this, the results were weighted (using the Financial Lives Survey 2017 as a target), giving an effective sample size of 409. Despite this weighting, some bias in the sample may still exist. As a result of this, and a low effective sample size, the findings presented in this report give an indicative view as to the impact of FAMR measures but should be interpreted with a degree of caution. The new consumer research we undertake this year will provide a more robust assessment.

4.7 We want to hear from you whether there are any issues facing consumers, or any groups of consumers, in their access to appropriate advice or guidance services.

Q2: **How do different groups of consumers access appropriate advice and guidance? Does this vary by financial need or consumer group?**

Q3: **Are there any barriers to consumers accessing advice or guidance that meets their needs or to firms providing them?**

Q4: **Do consumers have the right information to compare advice and guidance services and to shop around? How easy is it for them to compare services?**

Affordability of advice and guidance services

4.8 The August 2018 interim consumer research found there was no statistically significant change in the proportion (65% of respondents) who felt that the fee paid for advice was about right and offered value for money. The work also found early indications that low-cost automated online advice could help expand the total number of people accessing advice and make advice more affordable.

4.9 In our work this year, we will consider whether different consumer groups are able to find affordable and appropriate advice and guidance services. We also welcome your feedback on whether more could be done to make advice and guidance more affordable.

Q5: **What barriers exist to making advice or guidance services more affordable?**

Consumer outcomes

4.10 Overall, we want to see the industry offer advice and guidance solutions that meet the needs of all consumers. To deliver this, we are looking at a range of outcomes.

4.11 We also want to see high levels of consumer satisfaction and trust in the services. In our previous work, we found that most consumers were satisfied with the service they received. We will consider whether this remains the case and whether we can do more to improve consumer engagement.

Q6: **Do advice and guidance services offer sufficient quality and choice to meet the needs of different consumer groups? Are any consumer groups underserved?**

Q7: **Do consumers have confidence and trust in advice and guidance services and do these services address their needs?**

Q8: **Do consumers who take advice or use guidance services get better outcomes than those who do not? If so, how, and if not, why not?**

5 The provision of advice and guidance services

5.1 In this chapter, we invite your comments on how well the market is meeting consumer needs for advice and guidance services. If the market is working well, we would expect:

- advice and guidance services to meet the needs of different consumer groups
- services to provide value for money to consumers
- regulation to support this by promoting competition and minimising the scope for harm from conduct issues in a proportionate way

Advice and guidance services

5.2 In the June 2018 Data Bulletin, we published information on the market for financial advice. Some of the relevant data include:

- The reported number of adviser staff at financial adviser firms was 26,311 in 2017 (an increase of 3% compared to 2016).
- The number of intermediary firms has also increased, from 4,970 in 2016 to 5,048 in 2017. The number of firms has been increasing steadily, by 10% since 2013.
- UK financial adviser revenue and profits have been increasing.
- Revenue from commission, as a proportion of total revenue for retail investment businesses, continued to fall following the RDR commission ban.

5.3 We will explore whether these trends are continuing, but also welcome your feedback on how well the market is delivering the services needed by consumers.

Q9: What are the key advice and guidance services offered in the market and do they meet the needs of all consumer groups?

Q10: What new business models are being developed and how will they meet consumer needs?

Value for money

5.4 Consumers have a great variety of financial goals and need access to different advice and guidance services to achieve them. The development of new business models can improve competition and drive down the cost of advice and guidance services. Cost is, however, only one element in determining the value of a service. Other factors include elements such as the quality of the service, the level of support provided and the range of additional features offered.

Q11: What aspects of advice and guidance services do consumers value and why? Does it vary by consumer group or financial need?

Q12: What emphasis do consumers place on the cost of advice and

guidance, against other elements of value for money?

The role of regulation

5.5 Regulation plays a key role in the market by helping it deliver good outcomes for consumers without imposing disproportionate costs on firms.

5.6 While regulatory costs can be seen as the cost of doing business well, we are also aware that our actions can have a negative impact on the market and, by extension, on consumers.

5.7 There have also been several changes to the regulatory framework since FAMR and RDR measures were introduced, including the UK implementation of MiFID II, PRIIPs and the IDD.

5.8 As well as considering consumer needs and how business models are changing, we wish to investigate the impact regulation is having on the market.

Q13: **Are there any barriers to effective competition between firms offering advice or guidance?**

Q14: **Are the rules and guidance around advice and guidance working well?**

Q15: **Are there points where the regulatory system may drive too many people to seek advice?**

Q16: **Does regulation support the development of advice and guidance services, including automated advice services, that work well for firms and consumers? How can it be improved?**

Q17: **Did FAMR or the RDR result in unintended consequences that have caused consumer harm?**

6 Market changes

6.1 In this chapter, we set out our plans to consider market developments since the RDR and FAMR were implemented. This will enable us to assess not only whether the RDR and FAMR are delivering for consumers now, but whether they will meet consumer needs in the future.

6.2 Our views on how the market is developing are set out in the FCA Sector Views. We want to hear your thoughts on emerging trends. This will feed into our analysis of consumer needs and how the market will deliver services to meet those needs.

Changes to consumer needs

6.3 Consumer needs have continued to develop and evolve since the RDR and FAMR initiatives were introduced. Further information is available in the FCA work on Our future approach to consumers, the financial lives research and in the FCA Business Plan. Some of the drivers behind these changes include the following:

- Demographic changes are leading to an ageing population, which will have specific needs, access issues and potential vulnerabilities.
- Intergenerational financial inequality is increasing. Younger generations have relatively lower incomes, lower pension contributions and are more likely to rent their homes than older generations. This is exacerbated by a rise in less secure forms of employment. As a result, younger generations will face continuing challenges if their long-term savings do not fund the same quality of retirement as for older generations.
- Housing market trends mean that people have been finding it harder to save enough to buy their first home.
- Changes to pension planning place more responsibility onto individuals to make adequate provision for their retirement but also grant greater choice to them over how they access their pensions in retirement.
- Low interest rates and high levels of debt since the 2008 financial crisis have changed attitudes to debt. This may create an incentive to borrow rather than to save for the future.
- Technological advancements are changing the way firms design, distribute and market their products. This is expected to lead to changes in the way that people engage with financial services in the future. It may also lead to the exclusion of some consumers who are unwilling or unable to use the internet.

6.4 We are interested in your thoughts on how consumer demands and needs are developing.

Q18: How have consumer needs for advice and guidance services changed since the RDR and FAMR initiatives were introduced?

Q19: **Are there any new or emerging trends (for example, the ageing population and increased pension flexibility) that will lead to further changes in consumer demand for advice and guidance services?**

Q20: **What changes to the market might be needed to encourage consumer interaction with, and good outcomes from, advice and guidance services in the future?**

Market developments and future trends

6.5 The analysis on the retail investment sector published in our January 2019 Sector Views is also relevant to our consideration of how the market is developing. Some of the key messages in that analysis are set out below.

6.6 The analysis identifies some areas of concern. For example, it suggests that, in some parts of the market, there may be problems with conflicts of interest, poor treatment of consumers and misleading or confusing communications. Consumers can struggle to assess the cost of advice and may overpay for services which they do not need.

6.7 Some concerns have also been expressed about the availability of value-for-money advice for consumers with small pots to invest. The advent of automated advice and easy access to cheap passive funds have opened up alternative routes to investment, which could help address these concerns. These new services may also meet the developing need for digital engagement in financial advice and guidance services among some consumer cohorts.

6.8 The UK's withdrawal from the EU is likely to have a significant impact on consumers and their need for financial advice and guidance. We will continue to monitor developments and to consider their impact on our work.

6.9 We welcome your thoughts on other issues that we should consider in our work. We would like to hear your comments on whether the industry is working to deliver new advice and guidance services for different consumers.

Q21: **What market developments have taken place since the RDR and FAMR reviews? What impact have these had on consumers, the market and competition?**

Q22: **What future market trends do you expect to see and what do you expect their effects will be?**

Q23: **What opportunities and barriers are there for developing advice and guidance services in the future?**

Q24: **What emerging risks to consumers do you see in the market?**

7 Next steps

7.1 We are keen to receive input from all stakeholders to this Call for Input. Please send us your feedback by **3 June 2019**.

7.2 As described in Chapter 3, we are planning to host several events to gather feedback from interested stakeholders. We will send invitations to stakeholders with the details of our planned events in due course. If you would like to be invited, please contact us using the details on page 2.

7.3 We will conduct further research over the course of 2019 and expect to report on our conclusions in 2020. At that stage, we will confirm if we need to conduct further work or to consult on new rules to improve the quality of advice and guidance services.

Annex 1:
RDR outcomes and indicators of success

RDR desired outcomes	Indicators of success
1. An industry that engages with consumers in a way that delivers more clarity for them on products and services. **2.** A market that allows more consumers to have their needs and wants addressed. **3.** Standards of professionalism that inspire consumer confidence and build trust. **4.** Remuneration arrangements that allow competitive forces to work in favour of consumers. **5.** An industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly. **6.** A regulatory framework that can support delivery of all these aspirations and which does not inhibit future innovation where this benefits consumers.	**Short term** • Consumers understand the difference between different types of advice (independent advice, restricted advice) • Firms adhere to the new landscape, e.g. describe their advice services appropriately as independent or restricted • Advisers meet required standards of professionalism **Long term** • Firms sell fewer products that currently (i.e. pre-RDR) pay high commission, sell more products that currently pay little or no commission, and sell more cheaper/lower charging products • Consumer engagement in the market, caused by improved perception of the quality of services • Fewer unsuitable sales • Improved product persistency • Firms' solvency increases along with cyclically adjusted profitability • Unintended consequences of the RDR do not materialise or are mitigated appropriately

Annex 2: List of FAMR recommendations

Monitoring

Recommendation 1

To support progress over the 12 months after publication of the FAMR final report, members of the FAMR Expert Advisory Panel should form a Financial Advice Working Group, together with members of the FCA Consumer, Practitioner, and Smaller Business Practitioner Panels.

Affordability

Recommendation 2

HM Treasury should consult on amending the definition of regulated advice in the existing RAO so that regulated advice is based upon a personal recommendation, in line with the EU definition set out in MiFID.

Recommendation 3

The FCA should consult on new guidance to support firms offering services that help consumers making their own investment decisions without a personal recommendation. This should include a series of illustrative case studies highlighting the main considerations firms need to take into account when developing such services and dealing with specific areas of uncertainty identified during the Review.

Recommendation 4

The Review recommends developing a clear framework that gives firms the confidence to provide streamlined advice on simple consumer needs in a proportionate way. As part of this, the FCA should produce new guidance to support firms offering 'streamlined advice' on a limited range of consumer needs. This should include a series of illustrative case studies highlighting the main considerations when developing such models.

Recommendation 5

As one of the measures to help develop a simple and clear advice framework, the FCA should consult on modifying the time limits for employees to attain an appropriate qualification in the FCA's existing Training and Competence sourcebook (TC). This will give firms more flexibility to train a new generation of advisers by allowing employees to work for up to 4 years under supervision to obtain an appropriate qualification and experience.

Recommendation 6

The FCA should consult on guidance about the cross-subsidisation rules in relation to the interpretation of 'long term' and the flexibility allowed.

Recommendation 7

HM Treasury should ensure in transposing and implementing MiFID II that, while meeting obligations under EU law, it does not undermine the FCA's ability to follow through with the proposals which are designed to give firms the confidence to deliver streamlined advice.

Recommendation 8
The FCA and industry should continue to work together with the aim of bringing about improvements to suitability reports, reducing their length, where appropriate, and the time firms spend preparing them.

Recommendation 9
The FCA should build on the success of Project Innovate and establish an Advice Unit to help firms develop their automated advice models.

Recommendation 10
The FCA should consult on guidance to provide clarity on the standard types of information required as part of the fact find process. In addition, the guidance should also set out key considerations for verifying a fact find that has been performed by third parties.

Accessibility

Recommendation 11
The FCA and The Pensions Regulator (TPR) should develop and promote a new factsheet to set out what help employers and trustees can provide on financial matters without being subject to regulation.

Recommendation 12
The Financial Advice Working Group should work with employers to develop and promote a guide to the top ten ways to support employees' financial health.

Recommendation 13
HM Treasury should explore ways to improve the existing £150 income tax and National Insurance exemption for employer-arranged advice on pensions.

Recommendation 14
HM Treasury should explore options to allow consumers to access a small part of their pension pot before the normal minimum pension age, to redeem against the cost of pre-retirement advice.

Recommendation 15
The FCA should take steps to help ensure that firms and advisers are aware of the existing flexibility in the rules on adviser charging.

Recommendation 16
HM Treasury should challenge the industry to make a pensions dashboard available to consumers by 2019, bringing together industry and consumer representatives to help them set direction and drive progress.

Recommendation 17
The Financial Advice Working Group should publish a shortlist of potential new terms to describe "guidance" and "advice", with the final choice of words and approach to implementing them to be confirmed after market research and consumer testing.

Recommendation 18
The Financial Advice Working Group should lead a task force to design and test a set of rules of thumb and nudges.

Recommendation 19
HM Treasury should assign the continuing responsibility for the rules of thumb and nudges to an appropriate body with financial capability expertise. This body will be responsible for updating the rules of thumb and nudges and encouraging the use of them by employers, government agencies and charities.

Liabilities and consumer redress

Recommendation 20
The FCA regularly undertakes funding reviews of the Financial Services Compensation Scheme (FSCS), and FAMR recommends that the 2016 FSCS Funding Review, should specifically explore risk-based levies, reforming the FSCS funding classes, and more extensive use of the FSCS credit facility. The review should explore the merits, risks and practicalities of alternative approaches.

Recommendation 21
Following its review of FSCS funding, in light of evidence received as to the impact of the professional indemnity insurance (PII) market on FSCS funding, the FCA should consider whether to undertake a review of the availability of PII cover for smaller advice firms.

Recommendation 22
The Financial Ombudsman Service should consider undertaking regular 'Best Practice' roundtables with industry and trade bodies where both sides can discuss relevant issues such as the evidence used when considering historic sales and suitability requirements.

Recommendation 23
The Financial Ombudsman Service should publish additional data on its uphold rates, specifically around cases where advice was given more than fifteen years before the complaint was made, and a breakdown of financial adviser uphold rates by product. The Financial Ombudsman Service should consider the best way to do this as part of its review into its approach to publishing data more generally and update its stakeholders in 2016.

Recommendation 24
The Financial Ombudsman Service should consider whether to establish a more visible central area for firms on its website by summer 2016, bringing existing resources (e.g. summary of approach, technical guidance notes, case studies etc) together in one place to help advisers.

Recommendation 25
The report of the Financial Ombudsman Service's appointed Independent Assessor should be expanded to include a more in-depth analysis of the cases they consider and identify potential areas for process improvement from 2017.

Recommendation 26
The FCA should not introduce a longstop limitation period for referring complaints to the Financial Ombudsman Service. As part of the review in 2019, the FCA and HM Treasury will consider any ongoing trends and the impact of the Financial Ombudsman Service's complaints data relating to advice on long-term products.

Implementation

Recommendation 27

The FCA and HM Treasury should work together over the 12 months after publication of the FAMR final report to develop an appropriate baseline and indicators to monitor the development of the advice market. These should then be tracked on an annual basis and published on the FCA website.

Recommendation 28

The FCA and HM Treasury should report jointly to the Economic Secretary and FCA Board, 12 months after the publication of the FAMR final report, on the progress made towards implementation. In 2019, both organisations should conduct a review of the outcomes from FAMR.

Annex 3:
FAMR outcomes and indicators of success

FAMR Outcome 1: Good availability of affordable, high quality advice and guidance, which consumers at all stages of their lives are able to access to help them with their particular needs.		
Access	Demand:	• Numbers of consumers receiving advice • Numbers of consumers using information or guidance • Numbers of consumers acting without advice • Reported reasons for not seeking advice
	Supply:	• Number of advice firms • Number of advisers • Number of independent/restricted advice firms • Minimum investment/pension pot size advised on
Affordability	Demand:	• Consumer willingness to pay for advice • Number of consumers using different channels
	Supply:	• Adviser regulatory costs • Adviser charges
Quality	Demand:	• Levels of satisfaction with advice received
	Supply:	• Levels of compliance with FCA's suitability standards (proxy for quality)
FAMR Outcome 2: There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice.		
Access	Demand:	• Level of consumer awareness of automated services • Level of consumer use of automated services
	Supply:	• The extent to which firms are offering different types of services e.g. automated advice • Assets under management of automated services • Usage of technology by advisers • Industry views on the clarity of the regulatory framework around provision of services for the mass market
Affordability	Demand:	• Levels of adviser charges
FAMR Outcome 3: A range of channels through which consumers are able to access advice and guidance, including in the workplace, and appropriate flexibility in the way consumers are able to pay for advice.		
Access	Demand:	• Use by consumers of workplace advice & guidance • Use by consumers of support from platforms
	Supply:	• Number of advisers/advice firms • Different types of advice firms and profiles including independent/restricted split • The extent to which firms are offering different types of services e.g. automated advice (as above)
Affordability	Demand:	• Consumer willingness to pay for advice and cost levels • Use of workplace advice/guidance and other channels
	Supply:	• Common adviser charging structures
FAMR Outcome 4: Consumers engaged with their own financial affairs and so seeking out the advice and guidance they need.		
Access	Demand:	• Consumer self-reported levels of engagement • Proportion of UK adults who do not know where to start to look for an adviser

Annex 4:
List of questions in this document

Q1: **Is there any other evidence we should consider in our review of the RDR and FAMR outcomes and indicators in Annex 1 and Annex 3?**

Q2: **How do different groups of consumers access appropriate advice and guidance? Does this vary by financial need or consumer group?**

Q3: **Are there any barriers to consumers accessing advice or guidance that meets their needs or to firms providing them?**

Q4: **Do consumers have the right information to compare advice and guidance services and to shop around? How easy is it for them to compare services?**

Q5: **What barriers exist to making advice or guidance services more affordable?**

Q6: **Do advice and guidance services offer sufficient quality and choice to meet the needs of different consumer groups? Are any consumer groups underserved?**

Q7: **Do consumers have confidence and trust in advice and guidance services and do these services address their needs?**

Q8: **Do consumers who take advice or use guidance services get better outcomes than those who do not? If so, how, and if not, why not?**

Q9: **What are the key advice and guidance services offered in the market and do they meet the needs of all consumer groups?**

Q10: **What new business models are being developed and how will they meet consumer needs?**

Q11: **What aspects of advice and guidance services do consumers value and why? Does it vary by consumer group or financial need?**

Q12: **What emphasis do consumers place on the cost of advice and guidance, against other elements of value for money?**

Q13: **Are there any barriers to effective competition between firms offering advice or guidance?**

Q14: **Are the rules and guidance around advice and guidance working well?**

Q15: **Are there points where the regulatory system may drive too many people to seek advice?**

Q16: **Does regulation support the development of advice and guidance services, including automated advice services, that work well for firms and consumers? How can it be improved?**

Q17: **Did FAMR or the RDR result in unintended consequences that have caused consumer harm?**

Q18: **How have consumer needs for advice and guidance services changed since the RDR and FAMR initiatives were introduced?**

Q19: **Are there any new or emerging trends (for example, the ageing population and increased pension flexibility) that will lead to further changes in consumer demand for advice and guidance services?**

Q20: **What changes to the market might be needed to encourage consumer interaction with, and good outcomes from, advice and guidance services in the future?**

Q21: **What market developments have taken place since the RDR and FAMR reviews? What impact have these had on consumers, the market and competition?**

Q22: **What future market trends do you expect to see and what do you expect their effects will be?**

Q23: **What opportunities and barriers are there for developing advice and guidance services in the future?**

Q24: **What emerging risks to consumers do you see in the market?**

Annex 5
Abbreviations used in this paper

FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
IDD	Insurance Distribution Directive
MiFID II	Markets in Financial Instruments Directive II
PII	Professional Indemnity Insurance
PIR	Post-Implementation Review
PRIIPS	Packaged Retail and Insurance-based Investment Products Regulation
RAO	Regulated Activities Order
RDR	Retail Distribution Review
RMAR	Retail Mediation Activities Return
TC	The FCA Training and Competence sourcebook
TPR	The Pensions Regulator

We have developed this work in the context of the existing UK and EU regulatory framework. The Government has made clear that it will continue to implement and apply EU law until the UK has left the EU. We will keep the proposals under review to assess whether any amendments may be required in the event of changes in the UK regulatory framework in the future.

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