Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review

December 2020

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1 Executive Summary

1.1 This paper summarises our evaluation of the impact of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR). Both reviews were significant milestones which sought to improve standards in the distribution of retail financial services products. We committed to review their impact on the market for support for consumers seeking to invest, and to test whether they delivered their desired outcomes. Looking forward, we want to see a competitive and innovative market that works well for consumers, firms and the wider economy. Since the RDR and FAMR, there have been a range of social and demographic changes and indeed the market itself has evolved. This report also considers market developments, changes in consumer engagement, and whether advice and guidance services meet consumer needs now and whether they seem likely to meet needs in the future.

1.2 The consumer investments market can help to improve people's lives. It performs a vital function in allowing people to provide for later life, to save for major expenses or for a home, and can help them deal with unexpected shocks. A well-functioning investment market also channels money to companies looking to grow and innovate, supporting the UK economy. This will be even more important as the UK recovers from the economic effects of the coronavirus pandemic. The consumer investments market supports many consumers: 26.7 million members have £739bn held or invested in contract-based workplace and non-workplace defined contribution (DC) pensions, and 3.2 million consumers have £314bn in stocks and shares ISAs.

1.3 To help consumers make investment decisions there are a range of not-for-profit and for-profit organisations delivering information, guidance, and advice. There are over 5,000 advice firms and 27,000 regulated professionals advising on retail investments and pensions. The advice market remains dominated by holistic advice (where an adviser considers a consumer's overall financial circumstances and objectives, and makes recommendations to meet them), accounting for upwards of 90% of revenue, and target customers remain largely wealthier consumers. The average advised customer has over £150,000 of assets under advice. Robo-advice services, offering automated digital or online advice, are becoming more common but remain only a small fraction of the overall market.

1.4 In summary, we found that, on the whole, the financial advice market is improving, albeit slowly. However, we also found that many consumers are holding their money in cash rather than investing it, so are missing out on the potential opportunity to make their money work better for them in the longer term. Many consumers do not seek, or receive, the sort of help with their finances that would equip them to make better investment decisions. Although there has been some innovation in the market, in particular around the development of automated advice, there is more scope for further development and innovation of models and services that could serve more consumers at different stages of their lives. Our ambition is to facilitate a market that supports consumers so they make the decisions that are right for them, and make the most of the money they have.

1.5 It should be noted that our fieldwork was completed before the coronavirus pandemic caused the UK to enter lockdown in March 2020. This has clearly had a significant impact on the economy, stock markets, consumers and firms. Any resulting changes to firms' business models and finances, the economy, and consumer attitudes towards savings and investments, will not have been captured in our data or findings. Any longer-term changes as a result of Covid-19 will need to be considered as part of the development of any future work.

Background to the RDR and FAMR

1.6 The RDR was launched by our predecessor, the Financial Services Authority (FSA), with most of the rules it introduced taking effect at the end of 2012. The aim of the RDR was to establish a resilient, effective and attractive retail investment market that consumers had confidence in and trusted. It made several significant changes to the way investment products are distributed to retail consumers in the UK.

1.7 FAMR was launched jointly with HM Treasury in 2015 and built on the work of the RDR. The objective of FAMR 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 of advice and guidance to help people with their financial decision-making.

1.8 The FAMR report in 2016 included 28 recommendations for the FCA, HM Treasury and other organisations, which have all been implemented. In June 2017, we published a baseline set of market indicators which serve as a benchmark against which we can track changes in the advice and guidance market over time.

1.9 We committed to review the impact of the RDR and FAMR on the market to date, and assess how it may develop. Over the past 6 years we have conducted and published the findings of previous post-implementation reviews connected to FAMR and the RDR.

Wider context

1.10 Our 2020/21 business plan included 'Enabling effective consumer investment decisions' as one of our 5 key priorities over the next 1 to 3 years. Our priority is for the investment distribution process, and the support network around it, to enable consumers to make better investment decisions. We want consumers to have access to high-quality advice and guidance at the right time, and to know how to protect themselves from scams and fraud. In September 2020, we issued a Call for Input on the priority, requesting feedback and insights from consumers, firms and other interested parties. We have asked for comments on that Call for Input by 15 December 2020, and will use that feedback to inform our thinking and work over the next 3 years. We ask, for example, for thoughts on how we can help the market offer services that meet straightforward investment needs, and how we can encourage firms to develop services which help a wider range of consumers to invest.

1.11 There is also other ongoing FCA work looking at how the retail investments market functions. We are implementing rule changes to support 'at-retirement' consumers with their investment decisions, including the implementation of 'investment pathways' by pension providers. We published an update in June 2020 on our ongoing work in relation to defined benefit pension transfers.

1.12 Alongside this, the government is committed to making free-to-access financial guidance available to consumers, and in 2019 launched the Money and Pensions Service (MaPS).

1.13 As noted in paragraph 1.5, our fieldwork was completed pre-Covid-19, and any longer-term changes resulting from Covid-19 will need to be considered as part of the development of any future work. We did respond to some of the challenges firms faced earlier this year when many customers were concerned about falls in the value of their investments, and so seeking information and support from financial services firms. We issued guidance in April 2020 to explain how firms can avoid straying into making personal recommendations when bringing out the implications for customers of realising their investments or cancelling life assurance, a good example of how we can provide additional support to facilitate good outcomes. As we note at various points in this report, there are some positive trends around the use of technology and innovation among adviser firms that anecdotally Covid-19 appears to have accelerated, which we'll look to continue to support through our future work.

Overview of the RDR/ FAMR 2020 evaluation

1.14 This review focuses on financial advice, guidance and information services (which in this paper we refer to collectively using the general term 'support') available for retail investments and pensions, not advice relating to credit, mortgages, insurance or protection products. As FAMR was a joint initiative with HM Treasury, we conducted this part of the review jointly with them.

1.15 In May 2019, we published a Call for Input, outlining the intended scope of the RDR and FAMR review (which received 57 responses). To supplement the Call for Input, we held a series of stakeholder events across the UK (which were attended by c.300 stakeholders) to gather further feedback, and met with trade bodies, firms and other interested parties.

1.16 Through 2019 and 2020, we conducted new research to establish an up-to-date evidence base. This includes qualitative and quantitative research with consumers, data collection from a representative sample of firms operating in the market, and looking at some international markets, to see what lessons can be learned. See Annex 2 for more detail about our project methodology.

Findings

1.17 The retail investment market enables consumers to get help with their financial affairs from a range of sources, including both commercial providers of advice and guidance, and non-commercial providers of guidance (eg MaPS). Many firms, including banks, asset managers, life insurers and pension providers offer forms of non-advised support, by providing information to help consumers make financial decisions. Some firms provide investment advice through automated or online channels, where customers do not interact with human financial advisers. Others use hybrid models where the service is mixed between automation and some potential for interaction with a human adviser. Financial advisers provide holistic financial advice, where an adviser considers a consumer's overall financial circumstances and objectives and makes recommendations to meet them.

1.18 Both the RDR and FAMR sought to improve the retail investment market in various ways. Most measures (see Annex 1 for further detail) show that the advice market is moving in the right direction. For example, 4.1 million UK adults had accessed financial advice in the previous 12 months (up from 3.1 million in 2017), and 56% of consumers reported being satisfied with the advice they had received (up from 48% in 2017). There are however, areas where we are looking for different ways to make the market work better for all consumers.

1.19 There are many mass market consumers holding money in cash that could be invested, but who have not received support from financial services firms. We believe that accessing support could help them decide to invest at least some of their cash. However, the services on offer from the market are not always the ideal fit for all mass market consumer needs. This leads to a potential harm, which is that many consumers are missing out on the opportunity to invest their money and make it work better for them in the longer term.

1.20 People have a range of saving and investment needs, from putting money aside to cover short term shocks to their income, to saving for one-off large expenses such as a car or a house, or putting money aside for retirement. While many short-term needs are best served by cash saving with instant access to the savings when needed, over the longer-term people historically have seen better returns through investing excess savings for longer-term needs. Our consumer research found that 54% of UK adults with £10,000 or more of investible assets, around 8.4 million people, did not receive any formal support to help them make investment decisions over the last 12 months. Not all of these consumers will need or want support, or be aware they could benefit from it. However, we believe that many consumers would benefit from receiving support to help them make investment decisions.

1.21 Of those consumers with more than £10,000 of investible assets, 37% did not have any investments at all and were holding their assets entirely in cash, and a further 18% were holding more than 75% of their investible assets in cash. These consumers are missing out on the opportunity of potentially higher returns. We view this as a harm to consumers as, depending on individual circumstances, holding money in cash will see its value eroded by inflation and will miss the historically higher returns available from investing.

1.22 A combination of factors – both on the demand and supply-side – can help explain why people don't seek or receive services (which could be advised or non-advised) that might help them to consider their investment options.

- On the demand-side, our consumer research found that the most common reason given for not seeking full regulated advice was that people do not think they need it (67% of consumers). Take-up of automated services was held back by a number of factors, including a wariness about using unfamiliar brands.
- On the supply-side, there has been some innovation in the advice market, but it has not yet been able to attract large numbers of consumers. The industry does offer a range of services – from automated or robo-advice, to one-off specific advice, to ongoing face-to-face holistic advice, but there is significant clustering around a few service types. Advice firms appear to face little competitive pressure to innovate and offer new, more affordable services, or to try to attract less wealthy consumers. Competition does not appear to be operating effectively in the interests of consumers.

1.23 The market brings together a range of not-for-profit and for-profit providers who offer a range of services: from generic, factual information at one end; to holistic, ongoing financial advice services at the other end. However, while the market does provide a range of services between generic, factual information and traditional holistic advice, we consider that there is scope for more varied services to develop to better meet the needs for support from which many people could benefit. New automated services have developed in recent years, but growth has been slow and they have not yet attracted large numbers of customers.

1.24 We think more can be done to provide support to mass market consumers, to help them engage with their finances and make better investment decisions. This could include more tailored guidance services, and simpler advice services. We understand that the current regulatory framework may pose challenges to further market development in sufficiently meeting these consumer needs, and recognise our role in making sure the regulatory issues noted in this report are explored and addressed, where possible.

Next steps

1.25 We want more people to invest as, for many people with sufficient wealth, having it all in cash will not generally make sense for them. To make that happen, we want to see a market that offers a broader range of consumer support services, so people can find the right support for their needs that gives them the confidence to invest. This would be good for consumers, good for the industry, and help to support the wider UK economy. If the market develops in this way, then we believe:

- more consumers will get the support they need to help them decide whether to invest, and then find investments that meet their needs at an appropriate price
- a broader range of services being offered can lead to greater consumer engagement and increased competition between firms across the market, encouraging further beneficial innovation and improvements in costs, services and value to consumers

1.26 During the review, we worked with firms to explore how we can support them to do more within the current regulatory framework, and encourage those developments that are beneficial for consumers.

1.27 We now want to supplement the evidence from this review on regulatory challenges with feedback from the Consumer Investments Call for Input process. We will consider what further work we need to do in light of that feedback, and how that fits within the other objectives of the wider strategic priority. We expect to carry out this work during the first half of next year, and will provide a further update at that point.

2 The consumer perspective

Key findings

- Most people are comfortable making less complex financial decisions themselves, such as buying car insurance or taking out a cash ISA, without getting advice or more specific support from firms.
- But, for decisions they see as more complex, such as deciding to invest in an equity ISA, most would value some support, although generally just on a one-off basis.
- While use of support services has increased slightly in recent years (up from 26% in 2017 to 28% in 2020), many consumers do not use the services that are available in the market.
- There are particular challenges to consumers' engagement with automated services (which have only been used by 1.3% of UK adults in the last 12 months).
- While most consumers (55-67%, depending on the type of guidance) who had used guidance found it to have helped 'a little', only a minority (14-34% depending on the type of guidance) found each of the guidance or information sources to have helped 'a lot' in enabling them to make a decision.

In this chapter, we discuss what consumers need and want from the market for financial advice and guidance.

Methodology

2.1 The consumer research, on which this chapter is based, was conducted by Ignition House, and a full explanation of the methodology used is in their report (see Chapter 8 of that report, published alongside this report).

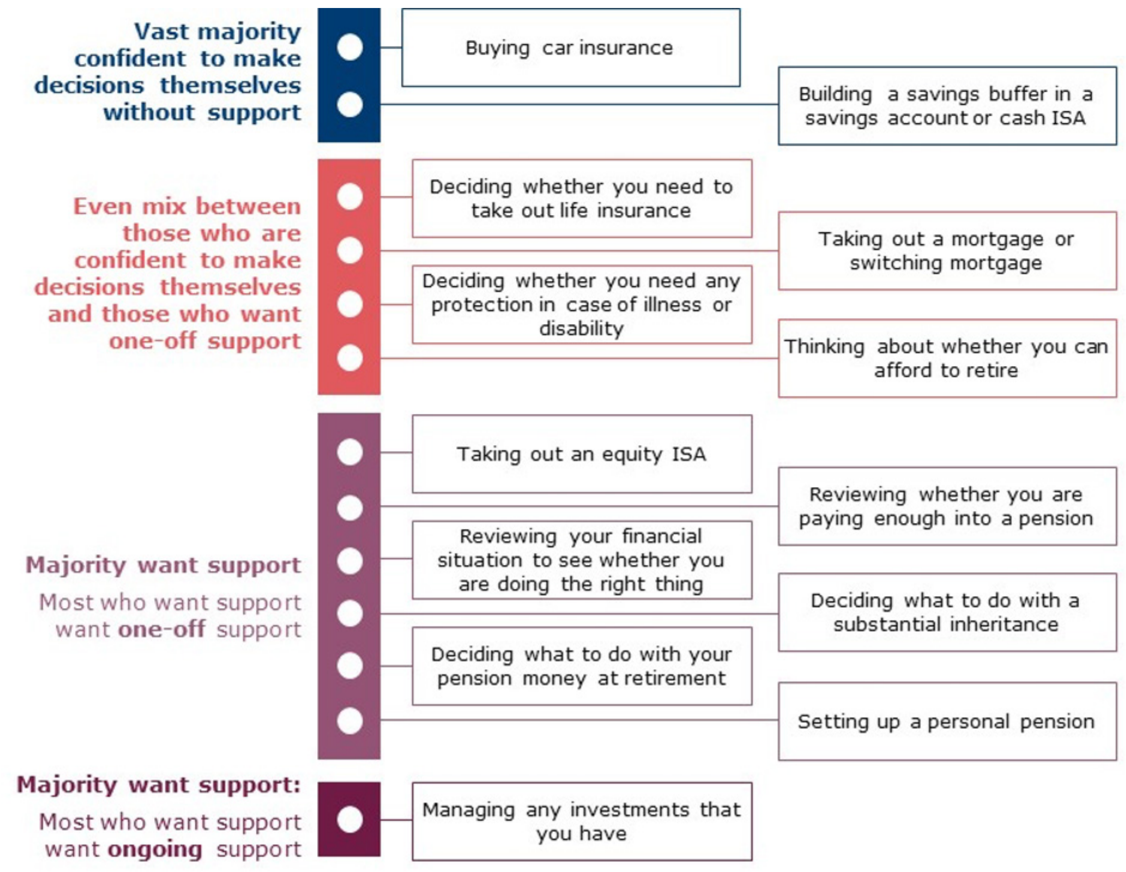
2.2 While there is no definitive asset threshold that triggers when consumers need support to help them in managing their finances, we consider £10,000 to be a reasonable proxy for our research, in line with previous reviews. As we explained in the FAMR Baseline report (June 2017, page 7), this threshold was chosen because of FAMR's desire to improve access to advice for the mass market, so we chose to focus on individuals with relatively low levels of investible assets. This is based on an assumption that people with more than £10,000 of investible assets would generally benefit from considering whether to invest at least some of their money. The appropriate level of cash holdings will clearly depend on individual circumstances and other factors, such as their attitude to risk.

2.3 Although investing in non-cash assets is generally a medium to long-term strategy and is not appropriate for everyone, we believe that many consumers suffer harm if all their savings are left in cash, as they are not maximising the benefit they could potentially get if they invested it. Many consumers would probably be better served if they accessed support services that encouraged them to consider a wider range of options. For example, the illustrative stimulus materials that were used as part of the qualitative consumer research, illustrated an example of real and nominal returns over the previous 10 years. Although these figures were for illustrative purposes only, this showed that £10,000 kept in cash from 2008-18 would be worth £11,720, whereas if the money had been invested it would be worth £21,905.

What support do consumers say they need?

2.4 In our qualitative consumer research, we considered a wide range of financial decisions, and asked consumers what type of support they would find most helpful.

Figure 2.1: Results of qualitative research exercise to understand the financial decisions adults are comfortable making with and without support



Source: Qualitative consumer research, Ignition House

2.5 Unsurprisingly, as the level of complexity inherent in the financial decision increases, the perceived need for support also increases. These decisions are perceived by consumers to be more complex because they felt outside their comfort zone. For example, we found that a significant group of consumers said they would want one-off support to help with making decisions like taking out an equity ISA.

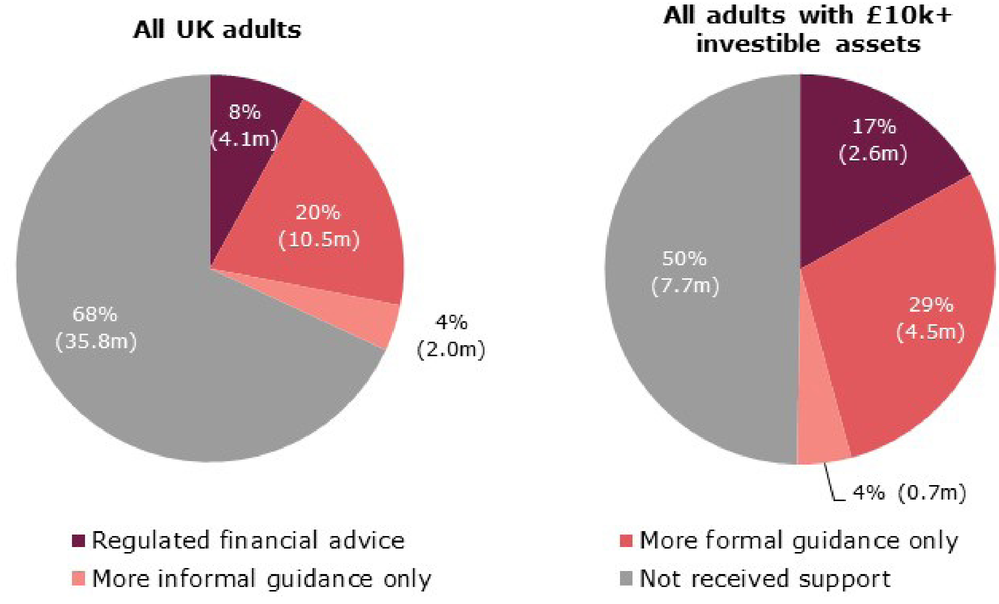
2.6 Other decisions that consumers want support with are those that they make infrequently so there is no opportunity to learn from their mistakes. These are important, potentially life-changing decisions, and harder to rectify if people make the wrong choices. For example, if a consumer does not contribute enough to their pension this will impact their retirement plans, and they may only realise this when it is too late.

2.7 When making decisions they perceive to be more complex, consumers indicated they wanted to receive one-off support. This suggests that consumers only want support for a specific decision, and do not believe they need regular ongoing support. The exception was the need for ongoing support to help them manage a portfolio of investments.

How do consumers seek help for their financial decisions?

2.8 We explored how consumers engage with the financial services market to meet those needs. We found some positive trends, but many consumers do not seem to engage with the services that would give them the support they said they would like, and that they would benefit from. Of consumers with investible assets of £10,000 or more, 54% have not received formal support (that is support provided by a professional) in the past 12 months. Wealthier consumers tend to engage more with the market: those with £100,000 or more in investible assets access both guidance and financial advice at a higher rate than less wealthy consumers.

Figure 2.2: consumer use of support services

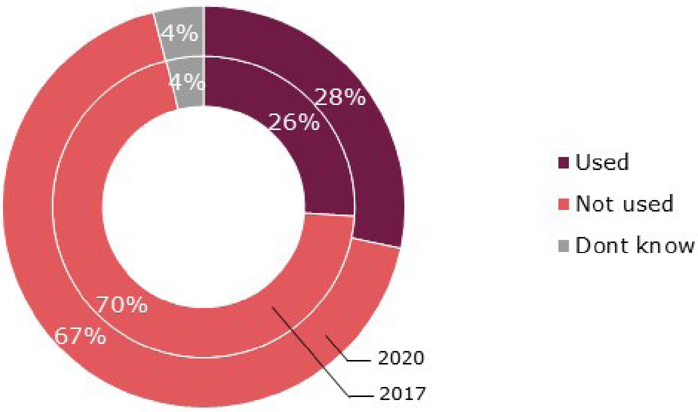


Source: Financial Lives Survey 2020

Consumer use of guidance

2.9 Figure 2.3 shows that, since 2017, the number of consumers who have accessed information or guidance has risen from 26% to 28%. This indicates the trend is going in a positive direction, although slowly (and it should be noted that for the purposes of our research 'guidance' was defined very broadly, including informal guidance not provided by financial services firms). In this report, we suggest that this trend could be supported by the development of more personalised guidance by the market, with regulatory support.

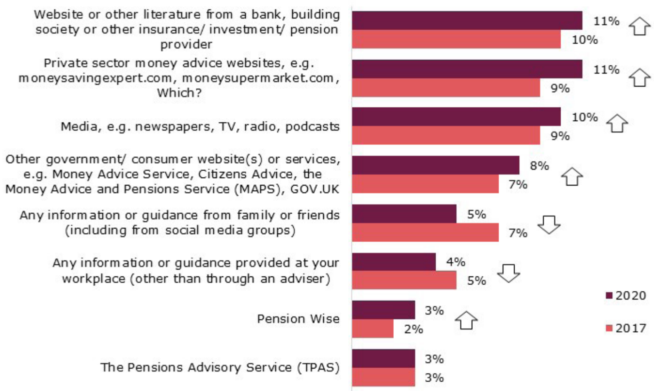
Figure 2.3: Proportion of UK adults who have used information or guidance in the last 12 months, 2017 vs 2020



Source: Financial Lives Survey 2020

2.10 For consumers who receive guidance, a wide range of potential sources can be used. Many consumers use information from more informal sources, including the media and family or friends, rather than guidance from more formal sources such as financial services firms. Compared to 2017, fewer consumers who used information or guidance in 2020 received this from family and friends (down to 5% from 7%) or from their workplace (down to 4% from 5%). All other sources of information or guidance have seen an increase in use.

Figure 2.4: Proportion of UK adults who have used information or guidance in the last 12 months by source, 2017 vs 2020

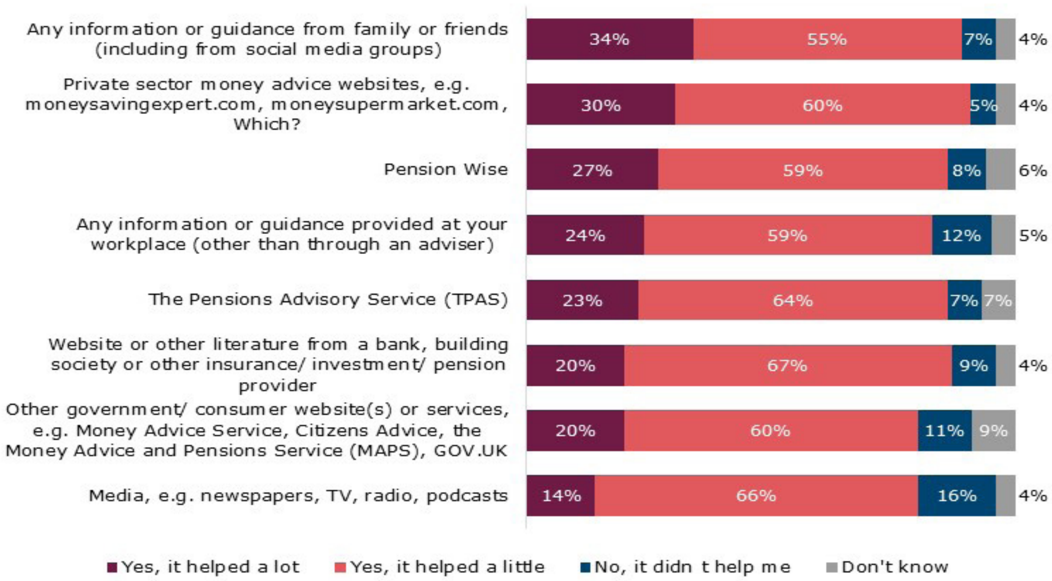


Source: Financial Lives Survey 2020

2.11 Although 11% of consumers reported using literature and information from a financial services firm, this is still a low proportion of consumers. Government-sponsored support and guidance also play an important role: 11% of UK adults having used one or more of the various services available.

2.12 Consumers think guidance can be helpful for understanding 'the basics'. But, in its current form, they said it often does not go far enough to help them feel confident to make decisions such as about investing in an equity ISA. Guidance that only helps 'a little' rather than 'a lot' (see Figure 2.5) is unlikely to be sufficiently helpful to enable a consumer to make a decision.

Figure 2.5: How different information or guidance sources used in the last 12 months were perceived as helping consumers make a decision, even if that decision was to do nothing, 2020



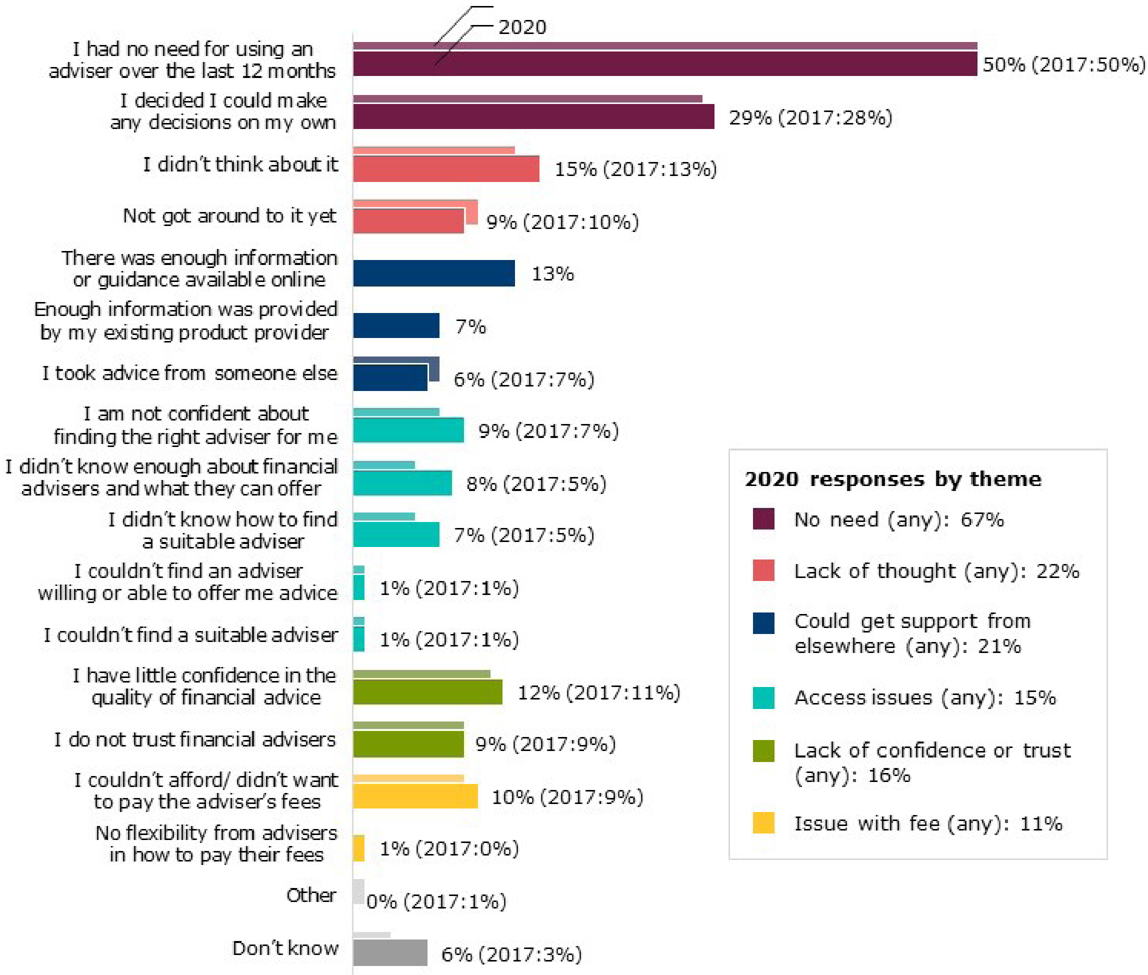
Source: Financial Lives Survey 2020

Consumer use of advice

2.13 Figure 2.2 shows that 17% of UK adults with over £10,000 in investible assets took regulated financial advice in the last 12 months. 25% of consumers with between £100,000 and £250,000 of investible assets received financial advice in the last 12 months, and 38% of consumers with more than £250,000 in investible assets received financial advice in the last 12 months.

2.14 We also conducted research to explore why some consumers do not seek regulated financial advice.

Figure 2.6: Reasons given for not seeking regulated financial advice in the last 12 months by adults who have not had advice but might have a need for support, 2017 vs 2020.



Source: Financial Lives Survey 2020

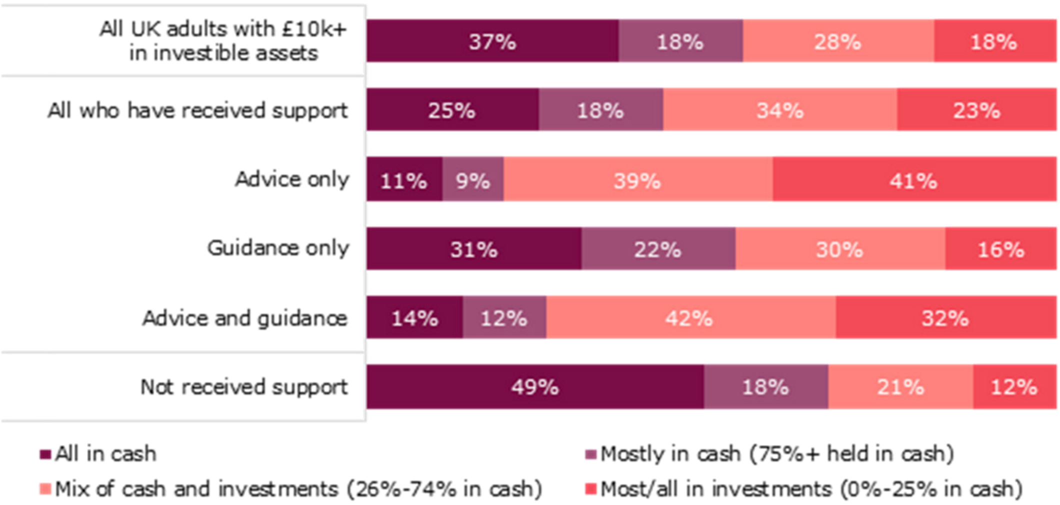
2.15 The most cited reason for not accessing financial advice is the perception that the consumer would not benefit from it (Figure 2.6). 67% of consumers who had not received financial advice over the last 12 months explained this was because they thought they didn't need it. These consumers often believe their financial affairs are in order and that making different decisions about their finances would not benefit them.

2.16 One potential barrier mentioned in our qualitative research was that consumers are not always encouraged to seek it. For example, some explained that, in the past, they were prompted to engage with their finances during visits to bank branches, when bank staff would encourage them to seek support for financial planning questions.

Potential consumer outcomes based on market engagement

2.17 As outlined above, up to 8.4 million people with more than £10,000 in investible assets do not currently seek formal support from which they could potentially benefit by helping them make financial decisions. To explore what that means in practice, we studied how those that engaged with different types of support services made different investment decisions.

Figure 2.7: Proportion of investible assets held in cash savings products vs. investment products for adults with £10,000 or more in investible assets, by whether or not they have received support in the last 12 months, 2020



Source: Financial Lives Survey 2020

2.18 As shown in Figure 2.7, consumers who receive advice are more likely to hold investment products, with those who have not had any support less likely to hold investments. Those who have received guidance are somewhere in between. It is important to note that this is not necessarily demonstrative of cause and effect; there are other factors that can contribute to decision making. For example, consumers have different risk appetites and different long-term plans, which will influence the type of support they seek and the way in which they save and invest their money. When consumers who do not currently have any investments were questioned on their attitudes to investing, many explained that they were concerned about losing money and had a general wariness because they did not feel informed about investing.

3 The industry landscape

Key findings

- The UK market for financial support services is mainly focused either on giving holistic advice, or giving factual information.
- Automated advice services are available and growing, but currently only provide a small proportion of advice services and don't yet provide competitive pressure to more traditional advice services.
- Most consumers taking holistic financial advice are provided with an ongoing advice service.
- There could be benefits to consumers from increased competition in the market. The total charges for holistic advice services can be relatively high compared to automated offerings, and it is not clear how consumers assess value for money. Many adviser firms appear to face little competitive pressure to innovate and offer new, or more affordable, services.
- We consider the market would benefit from greater development of 2 key support services, which do exist but have not yet developed on a significant scale: simpler forms of streamlined advice, and more personalised guidance services, both of which can be accessed in a more flexible, transactional way. There are barriers to the development of these services.
- We looked at international markets to see what we could learn from how they have tackled similar issues. We found evidence of beneficial innovation and that greater transparency of charges and services can lead to increased consumer engagement and focus on the value proposition of services.

In this chapter, we discuss whether the financial services industry is meeting current consumer demands and needs for support, and whether it is likely to do so in the future.

Market overview

3.1 Consumers can get help with their financial affairs from a range of sources, including both commercial providers of advice and guidance, and non-commercial providers of guidance (eg MaPS). On the commercial side, there are over 5,000 financial adviser firms and more than 27,000 individual advisers acting as intermediaries between the consumer and their investment. The advice sector consists of a high number of smaller firms: 89% of firms have five or fewer advisers. Although forming less than 1% by number of the firms in the market, firms with 50 or more advisers employ approximately 52% of all advisers in the market. At a very high level the market is made up of these services:

- information and guidance
- automated advice
- holistic financial advice

3.2 In the following sections, we summarise our findings for each service.

Information and guidance

3.3 Based on the consumer research reported in Chapter 2, consumers use a broad range of information and guidance offerings from the not-for-profit and public sector providers, and from the commercial sector. These services support consumers by providing information to help them make financial decisions. The services do not make a personal recommendation, instead tending to give generic, factual information.

3.4 Many firms, including banks, asset managers, life insurers and pension providers offer this type of non-advised support and so must follow our rules. Although our suitability rules do not apply to non-advised sales, our high-level standards concerning clear, fair and not misleading communications, and the fair treatment of customers, do apply – they are important consumer protections as customers who are not getting advice need good quality information on which to base their decisions.

3.5 Free impartial guidance is also provided by other bodies, such as the Money and Pensions Service and Citizens Advice.

Automated advice

3.6 The 2016 FAMR report (Section 3.4) recognised that automated advice had a key role to play in reducing the cost of advice and developing new ways to engage consumers. It was hoped that advice services would be automated and made accessible online, where the recommended course of action is generated by an algorithm.

3.7 We have seen a range of new automated services emerge since 2016. The FCA established the Advice Unit in May 2016 to help firms develop their automated models. Since then, it has received 137 applications seeking regulatory feedback, with 65 applications accepted. We are also aware of numerous services still in development, which did not involve the Advice Unit.

3.8 Automated advice services usually incur lower fixed operational costs than traditional, holistic advice, and can be more affordable for consumers. On average, total annual fees, covering both advice and investment charges, are approximately 0.8% for automated advice, compared to 1.9% for holistic advice. Automated advice is, therefore, priced at a level that should make it more accessible to mass market consumers.

3.9 Many firms operating automated advice services told us they aim to provide advice to first-time investors who are typically underserved by firms providing holistic advice. This tends to include consumers with smaller amounts available to invest, and those in the 25-44 age demographic. Most firms also said they want to compete with firms offering both traditional financial advice and execution-only platforms, where consumers might want additional support.

3.10 As shown below, there has been a significant increase in assets under advice (AUA) of automated advice services since 2016, although this remains a small part of the market overall.

Figure 3.1: Estimated assets under advice (automated advice services)

Estimated assets under advice (£)			
Q3 2016	**Q3 2017**	**Q3 2018**	**Q3 2019**
0.4bn	1.3bn	2.5bn	3.2bn

Note: Data aggregated from multiple sources and may not be directly comparable between periods

Source: FAMR Baseline, Internal reports and Platforum

3.11 Consumer awareness of automated advice has also been increasing, with 19% of consumers reporting having heard of these services, compared to 10% in 2017. However, this increased awareness has not translated into a significant increase in usage and only a small proportion of UK adults have used an automated advice service (1.3% of UK adults have used a provider of automated online investment and pension services in the last 12 months). The assets under management account for less than 0.5% of the retail investment market.

3.12 Our consumer research shows that consumers aged between 25 and 44 are the most likely to use automated services. However, less affluent and less confident consumers are not attracted to these services. The people most likely to use automated advice are those who could access holistic advice: confident consumers with over £10,000 in investible assets.

3.13 Investors often start with a smaller investment, usually around £500, to try out the service. If the investment goes on to perform well, these consumers plan to invest more with the firm over time. We found that users typically fall into one of two categories:

- those already investing via online services, who are looking for an alternative, lower-cost solution
- those who had not invested before but who were persuaded to experiment to see if they could make more money than keeping their money in cash savings

Trends and future developments

3.14 There have been a number of developments, but it is important to consider why take-up of automated services has not been greater. We found that the following factors contribute to this:

- Consumers are not always confident when investing, especially if they have not invested before. Although not unique to automated advice, in this model there is a greater focus on first-time investors.
- It can be a problem if customers are expected to act without speaking to support staff to guide them. A lack of human contact means consumers do not have reassurance to address concerns they may have. Most respondents in our research

indicated they would want to speak to a person, especially during the initial onboarding process, to make sure they are not making mistakes. This is particularly the case among consumers aged over 40, probably because they are beginning to consider more complex financial decisions about pensions, where their mistakes could affect their retirement income. We have seen hybrid models emerge, in an attempt to tackle this issue.
- Our research found that many consumers do not feel comfortable using a service that relies on algorithms rather than a professional considering their individual circumstances.
- Although there is more awareness of automated advice services, rising from 10% of adults in 2017 to 19% in 2020, lack of brand awareness is still a barrier for consumers. People are aware of financial scams and are wary of investing their money with companies that they have not heard of before. Our research showed that respondents were concerned that unknown brands might not survive in the market, or that they would have less robust security than the larger established firms.

3.15 There are signs of progress in this market, though. Firms with automated advice propositions reported that the financial year 2019/2020 was their strongest to date. Investors providing funding for automated advice propositions also believe there is scope for growth in this market and continue to provide funding to automated advice firms that are yet to make a profit. It should also be noted that the pandemic has accelerated behavioural changes in this area (eg firms have been forced to operate remotely, and consumers have been forced to do things online that they did not do previously), although it is too early to be certain about how much of this changed behaviour will continue in the longer term.

3.16 Established retail banks have also started to enter the automated advice market in recent years, and it is expected that all the major retail banks will have an automated advice proposition within the next few years. Given their existing client base, retail banks will be able to market their services directly to their existing customers. Consumers may be more inclined to trust an established brand and the entry of retail banks into the market may attract more first-time investors. As awareness of automated advice increases, and more consumers access their services, consumers who have not invested before may have more confidence in using their services.

3.17 Some firms with automated advice services have started to offer hybrid models. These have a combination of streamlined digital advice and human support. Firms continue to be app or web-based, which keeps their operational costs low, but also provide clients with human support. We think it is likely that hybrid models will continue to dominate the sector. They should allow consumers with less complex financial needs to access a form of automated advice that also provides reassuring support.

3.18 We have also seen automated advice firms expanding from solely focusing on more straightforward investments, into the provision of advice on personal pensions and retirement planning, and we expect this diversification will help automated advice services to attract a wider range of clients.

3.19 The potential development of Open Finance and other online account platforms might also help to increase use of automated advice. Open Finance could extend the data sharing principles that underpin Open Banking to give consumers and small businesses greater control over, and access to, their data. It could simplify the onboarding process, allowing consumers to auto-fill parts of the application. By providing consumers with a holistic view of their investments, Open Finance could allow services to develop that improve consumer engagement with their finances. The data sharing principles could also allow financial advice firms to design innovative and tailored services, which would engage more consumers and widen access to both advice and guidance.

3.20 Our research also indicates that demand for automated advice may grow in the future. While only 1.3% of UK adults have used an automated online investment or pension service in the last 12 months, 32% of consumers with £20,000 or more in investible assets have indicated they would take digital advice in the future.

3.21 We will continue to support the development of automated advice through the FCA Advice Unit, our work on Open Finance, and will consider this as part of our next steps in response to the recent Call for Input.

Holistic financial advice

3.22 Holistic advice is where an adviser considers a consumer's overall financial circumstances and objectives and makes recommendations to meet them. This usually involves face-to-face meetings with clients to understand their risk appetite, financial objectives, and investigate their current financial position (fact-finding). Though harder to quantify, the client-adviser relationship is generally viewed as a critical aspect, providing consumers with trust and reassurance.

3.23 For investments and pensions, holistic advice is the standard offering. We estimate it accounts for 90-95% of the advised market and, as evidenced by our consumer research among advised consumers, satisfaction remains high. In the past year there have been relatively few investment-related complaints made against financial advisers.

Adviser charges and ongoing advice services

3.24 Advisers usually charge a percentage-based fee on the value of assets invested. Our research shows the average charges are 2.4% of the amount invested for the initial advice and 0.8% per annum for ongoing advice. This does not include underlying product and portfolio charges, like custody and fund management. Charges can have a significant impact on investment growth.

3.25 Underlying investment portfolio charges averaged 1.1%, but ranged from 0.4% to 2.0%. We found no evidence that high adviser charges were balanced with lower-charging portfolios. Taking into account both advice and portfolio charges, customers pay, on average, 1.9% in charges each year.

3.26 Where firms offer both one-off and ongoing services, more than 90% of new customers are placed in arrangements for ongoing advice. FCA returns data indicate that ongoing advice has increased from 60% of revenue in 2016 to 70% in 2019.

3.27 Most firms told us it was the customer's own decision to use an ongoing service. Others suggested that a typical consumer needed ongoing assistance to account for changes in financial markets and personal circumstances. However, we are concerned that so many new customers are placed in ongoing advice arrangements, suggesting that this may be a default option rather than always justified by the consumer's circumstances. This concerns us because some customers might be paying for a service they do not need.

3.28 Once consumers are in an ongoing service, they tend to remain there. Our survey of firms found that advisers believed their clients to be loyal and not price-sensitive, expecting most to stay in their ongoing services for over 10 years. Most firms said they lose less than 5% of their regular clients per year to rival firms. Firms do not generally compete on price – less than a quarter strongly agreed that competitive pricing was key to acquiring and retaining clients. Instead, our consumer research found that consumers value quality and service factors.

3.29 If consumers are receiving fair value, they should be confident that they are getting appropriate quality and service for the price they pay, and have the information to assess this. The evidence from our consumer research suggests that consumers who get financial advice do not always have a clear understanding of what financial advice costs. The consumer research shows that advised consumers think advice provides value for money. However, many were unaware how much they were paying and assessed its value by looking at the performance of their investments (which is distinct from the charges they are paying to have been placed in them). The research suggests that consumer perception of value may not always be accurate and they are not exerting competitive pressure on adviser charges.

3.30 In a well-functioning market, we would normally expect there to be a broad distribution of charges, reflecting factors like different service levels, underlying costs to advice firms, and incentives for firms to compete on price. However, our analysis found significant clustering of adviser charges. As consumers do not appear to prioritise price over service quality, this might be a response by firms to demand, reflecting a simple charging model.

3.31 More than 80% of ongoing advice services had ongoing adviser charges set at only 3, round, price points, as shown in Figure 3.2 below. One-off advice was slightly less concentrated, with 50% set at just 3 price points, including 38% of one-off services charging 3% of the portfolio value.

Figure 3.2: Ongoing holistic advice – annual charges

Source: RDR/FAMR Review firm survey 2019

3.32 Price clustering can reflect a healthy market where competition drives advice services to specific price/quality points. However, our analysis indicates that ongoing services with a 1.0% annual adviser charge did not have noticeably different features to those charging 0.5% annually. This was also the case for one-off advice, where those services charging 3% did not have noticeably different features to those charging 2% or less. Nor were the charges explained by economies of scale, with little indication that firms with more clients, or more affluent clients, had lower adviser charges.

The use of technology by firms

3.33 There are certain fixed costs that technology does not yet help to reduce, and we were told that technological advances are not yet able to target the highest costs faced by advice firms. In particular, firms said the initial onboarding and fact-finding for new customers remains a lengthy, manual process with fixed costs of around £1,000 – by far the biggest cost to advisers.

3.34 While not all costs can be reduced, we feel there is significant scope for technology to further assist firms when providing advice to consumers and help reduce the costs involved, making it more affordable, or to deliver other support services to meet consumer needs. Some firms told us there is extensive technology readily available to automate the advice process. One firm told us that used properly technology could reduce the preparation time for an ongoing review from 6 hours to 45 minutes. Another provided evidence that advisers fully adopting technology took in twice as much revenue. These solutions are often already included within software advisers have access to. They include:

- asset allocation tools, to help advisers recommend a suitable investment portfolio, tailored to their customer's needs, and
- automated suitability reports, which set out in writing the adviser's recommendations to a customer and the reasons for making the recommendation (firms told us that writing suitability reports is one of the most expensive regulatory requirements they face in providing advice)

3.35 Despite this, many firms do not appear to take advantage of these solutions. This suggests a lack of competitive pressure on firms to innovate, even where this could have significant benefits to their existing customer base. However, it should be noted that the pandemic may have accelerated changes in the way firms operate and consumers engage with advice – eg we are aware that some advisers have moved away from face-to-face meetings to more virtual channels to provide advice.

Services not widely offered that would help customers

3.36 We identified support services that are not currently widely available, or widely used, but which we think would help the customers who are not using support services to help them make their financial decisions. In broad terms, these fall into 2 categories:

- Guidance that is more personalised to the specific needs of a customer but which does not amount to regulated financial advice. While at present firms provide generic information covering most aspects of financial planning, it is often the case that customers must find the information for themselves and consider how to apply it to their own circumstances. Providing a clearer steer to customers is likely to help them feel better equipped to make their own decisions (or even to realise that they need an advised service).

- For consumers who want an advised service, streamlined advice services provide straightforward, one-off advice to customers with less complex needs. Unlike holistic advice services, streamlined advice (also known as focused or simplified advice) provides a personal recommendation limited to one or more of a customer's needs. As this is a simpler service, charges for customers should be lower, making it more affordable.

Potential barriers to the introduction of new services

3.37 We have investigated the barriers to the development of new support services, specifically streamlined advice services and more personalised guidance.

Streamlined advice

3.38 We found that a significant number of firms considered offering streamlined services, but decided that they are not commercially viable. The following reasons were given:

- Fixed costs per client, particularly for onboarding of new customers, remained significant whether the advice service was holistic or streamlined.
- Many firms see little incentive to cater to the often less complicated needs of less affluent consumers, when they have a steady supply of affluent, and more profitable, customers looking for holistic advice. Where firms charge customers a percentage of the amount invested, as most firms do, serving 1 wealthy customer with £250,000 would result in the same revenues as serving 10 customers with £25,000 each, if the firm charged the same rate to all customers.
- Some firms which introduced streamlined advice stopped offering the service due to low consumer demand.

Personalised guidance and the advice/guidance boundary

3.39 During our review, some firms raised concerns about understanding the point at which more general forms of consumer support become regulated advice, suggesting that this limits their ability to help consumers by innovating. Some firms are reluctant to offer potentially less expensive support to consumers in the form of helpful guidance, for fear of straying into the provision of advice.

3.40 This was one of the issues raised in the original FAMR work. As a result, the Treasury amended the definition of regulated advice in the Regulated Activities Order (RAO), distinguishing regulated advice between advice that is a personal recommendation and non-personalised advice. The FCA published perimeter guidance to help firms understand the boundary between these two forms of advice. We have also published materials to highlight the differences between advice and guidance on investments. It is clear, however, that some concerns remain and that some firms are still finding it difficult to develop new services to meet the needs of consumers.

3.41 Over the course of our work on this review, we worked with firms to explore these issues further. We wanted to understand their concerns in more detail and to discuss options for how they could provide more personalised guidance within the current regulatory framework. We will continue to look into this issue, including with firms, and exploring consumer needs further, potentially through consumer research and testing.

International experiences

3.42 In Q1 2020 we looked at 4 countries as useful comparators: the USA, the Netherlands, Australia and Switzerland. The scope of the research focused on the support needs of non-advised and advised consumers, and market reactions to those needs. Key themes are summarised below:

- The USA: new forms of tools and guidance services have allowed more personalised understanding of investments and increased consumer engagement.
- The Netherlands: has a more confident self-investing consumer base, with less potential harm from lack of access to support. However, self-investment has been made easier through innovations in customer journeys, including online tools and use of apps.
- Australia and Switzerland: looking at these markets together, which have very different levels of regulation (Australia is more heavily regulated), there is evidence that lack of transparency can lead to high levels of adviser charging, particularly where regulated advice is the predominant form of support. Interventions have increased transparency of charges and ongoing services, to increase demand-side engagement, and placed a greater focus on promoting the value proposition on the supply-side.

4 Conclusions and next steps

4.1 Both the FCA and HM Treasury are strongly committed to a competitive and innovative market that works well for both consumers and firms. Social and demographic changes such as our ageing population, changes in the housing market, and new and evolving employment patterns, are making the decisions people face about their finances ever more complex and varied. High quality support, including financial advice and guidance, should be accessible to everyone at all stages of their lives, so people can take the decisions that are right for them and make the most of the money they have - now and in the future.

4.2 Both the RDR and FAMR were significant milestones in improving the market - firms have provided more clarity over pricing and the types of services they offer. FAMR also recognised the significant role technology can play in driving down the cost of advice and enabling firms to support people more effectively. Following the review we set up a dedicated team (the FCA Advice Unit) to help firms develop mass-market automated advice models and we have seen some innovation in this space.

4.3 However, we also recognise that we need to go further. While those on high incomes generally have access to advice, those with more moderate incomes are not served as well by the market and may be missing out on opportunities to make their money work better for them in the longer term by investing it. Our ambition is to facilitate a market that is more innovative and serves a greater number of consumers who will benefit from support at different stages in their lives, and will be empowered to make their own decisions and choices. In practice, this is likely to mean a market that provides a wider range of services, including one-off advice models that are available and easily accessible, and where firms compete on the value of the services they offer.

4.4 A combination of factors has led to this situation, including demand-side engagement, supply-side dynamics, and regulatory issues, and we need to explore urgently and in more detail the range of potential ways to tackle this. During the review, we've worked with firms to explore how we can support them to do more within the current regulatory framework, and encourage developments that are beneficial for consumers. We have seen some early success from this, for example, we have already seen one firm starting to roll out nudges designed to prompt customers into taking action in relation to their finances.

4.5 We now want to supplement the evidence from this review with feedback from the Consumer Investments Call for Input (which is open for comment until 15 December 2020). The Call for Input is a wide-ranging document, seeking to focus on our priorities in the investments market for the next 3 years. Linking the two pieces of work is the key question of how we can help the market develop services for consumers with straightforward investment needs. We will draw all of this feedback and evidence together and use it to decide what further work we need to do to achieve the outcomes we want to see from the future market.

4.6 This could include (but not necessarily be limited to): looking at how we can help more firms within the existing regulatory framework, using the existing support network such as the FCA Advice Unit; and considering whether existing rules can be changed to facilitate innovation that benefits consumers. Looking at these options will involve considering a range of issues, including the balance to be struck between promoting access to a wider range of services that encourage consumers to engage, and ensuring those services have appropriate consumer protections.

4.7 As a first step, we would like stakeholders to engage with these potential next steps through the questions in the Call for Input process. We will then consider what further work we need to do in light of that feedback, and how that fits within the other objectives of the wider strategic priority. We expect to carry out this work during the first half of next year, and will provide a further update at that point.

Annex 1
Summary of data relevant to the FAMR Baseline and RDR outcome indicators

Background

1. Both the RDR and FAMR initiatives published desired outcomes and success indicators in order to, in time, measure their effectiveness. Over the course of 2019 and 2020, we conducted research to assess outcomes in the market today, and whether consumer needs are being met. In this annex, we summarise data relating to the various historical desired outcomes/indicators, and their impact on the market, to the extent that they remain relevant.

2. This annex summarises the latest data available that is relevant to the RDR and FAMR outcomes and indicators. Given the scope of those previous initiatives, this annex is inevitably focused mainly on data relating to advice services. The main report is focused on support services more generally, and assessing whether the wider market meets the needs of consumers now and in the future.

3. Both the RDR and FAMR sought to improve the market in various ways. Our overall assessment is that most metrics indicate the advice market is moving in the right direction, albeit slowly. In the main report, we have explained the areas where we are looking for different ways to make the market work better for all consumers.

4. The data and fieldwork used in this report was completed before the coronavirus pandemic caused the UK to enter lockdown in March 2020. Any resulting changes to firms' business models and finances, the economy, and consumer attitudes towards savings and investments, will not have been captured in our data or findings. Any longer-term changes arising from Covid will need to be considered as part of the development of any future work.

Methodology

5. In undertaking our wider review of the market, we have considered both supply and demand-side perspectives and drawn evidence from several sources. Where appropriate, we have also used this evidence base to update against RDR and FAMR indicators. The full range of demand and supply-side data sources referenced in this document are summarised below.

Demand-side data

6. The Financial Lives Survey (FLS) is the FCA's headline consumer survey. There are now results available for both 2017 and 2020. In total, nearly 13,000 UK adults participated in the 2017 survey and over 16,000 UK adults participated in the 2020 survey.

7. The majority (just over 95%) of interviews that informed the 2017 survey were conducted between 13 December 2016 to 3 April 2017. Therefore, we refer to this survey as the Financial Lives 2017 survey. The 2020 survey was conducted between late August 2019 and mid-February 2020. The majority (71%) of the interviews were conducted in 2020 – hence we can refer to the survey as the Financial Lives 2020 survey.

8. Further detail about what the FLS covers can be found in the Ignition House consumer research report (published alongside this report).

9. Data from the FLS split consumers into four groups:

- **Group 1:** Those who had received regulated financial advice in the last 12 months related to investments, saving into a pension or retirement planning.
- **Group 2:** Those who had not received regulated financial advice in the last 12 months, but whose circumstances suggest there might be a need for financial advice: these are people who have at least £10,000 in savings and/or investments, or at least £10,000 in a defined contribution (DC) pension and are planning to retire or access a DC pension in the next two years.
- **Group 3:** Those who had not received regulated financial advice in the last 12 months, and whose circumstances suggest that a need for advice is less likely: these are people who have less than £10,000 in savings and/or investments, and do not have £10,000 or more in a DC pension and are not planning to retire or to access a DC pension in the next two years.
- **Group 4:** Those who had not received regulated financial advice in the last 12 months, but who cannot be allocated to Group 2 or 3 because insufficient information was provided about their financial situation.

10. For the purposes of this Annex, we focus on the consumers in Groups 1 and 2.

11. We also conducted bespoke qualitative consumer research as part of the RDR/FAMR review. This consisted of 70 one hour-long interviews with adults across the UK that further explored consumer needs, retirement income, utilisation of digital services and the perceived value of advice. Where relevant, we use insights from this research to add detail to the commentary relating to quantitative measures.

Supply-side data

12. To look at the supply-side, we used four main data sources:

- **Retail Mediation Activities Return (RMAR):** The FCA gathers information from the firms it regulates in a regular data submission known as the RMAR. We used information from this for firms that provide advice, and other intermediary services, in relation to retail investments. Relevant data includes firm-level information on revenue, profits, adviser charges, advisers employed, customer numbers and advice services offered.
- **2019 firm survey:** We conducted a voluntary survey of firms in 2019 as part of the RDR/FAMR review. The survey was completed by 311 firms, representing approximately 25% of advised customers in the UK (approximately 750,000

people). The questions focused on business models, target customers, total amount of assets under management of advice firms, use of technology, fees and charges and perceptions of competition.

- **Financial Ombudsman Service complaints data:** The Financial Ombudsman Service publishes annual data on the complaints that it has received, with more granular data provided to the FCA. We used data on complaints in respect of investments and pensions advice to aid our assessment of the market.
- **Prudential Regulation Authority (PRA) persistency data:** The PRA gathers information from firms to understand product persistency rates.

Annex structure

13. In this annex, we have followed the structure used in FAMR, which split its expected outcomes into three core themes, with several indicators under each:

- Access
- Affordability
- Quality

14. We have used these themes to report updated data relating to both RDR and FAMR outcomes/indicators. This is because there is an overlap between some of the RDR and FAMR measures, so combining them avoids repetition and streamlines our analysis. We have also referred to the main report regarding discussion of some indicators, so as to avoid unnecessary duplication. The combined list of both RDR and FAMR outcomes and indicators is set out in the table below (Table 1.1).

Table 1.1:FAMR and RDR indicators of success

Access
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.
RDR Outcome 2: A market that allows more consumers to have their needs and wants addressed.
Numbers of consumers receiving advice
Numbers of consumers using information or guidance
Numbers of consumers acting without advice
Reported reasons for not seeking advice
Number of advice firms
Number of advisers
Number of independent/restricted advice firms
Minimum investment/pension pot size advised on
FAMR Outcome 2: There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice.
RDR outcome 6: A regulatory framework that can support delivery of all these aspirations and which does not inhibit future innovation where this benefits consumers.
Level of consumer awareness of automated services
Level of consumer use of automated services

	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
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.	
RDR Outcome 1: An industry that engages with consumers in a way that delivers more clarity for them on products and services.	
RDR Outcome 2: A market that allows more consumers to have their needs and wants addressed.	
	Use by consumers of workplace advice & guidance
	Use by consumers of support from platforms
	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)
FAMR Outcome 4: Consumers engaged with their own financial affairs and so seeking out the advice and guidance they need.	
RDR outcome 2: A market that allows more consumers to have their needs and wants addressed.	
	Consumer self-reported levels of engagement
	Proportion of UK adults who do not know where to start to look for an adviser
Affordability	
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.	
RDR outcome 4: Remuneration arrangements that allow competitive forces to work in favour of consumers.	
	Consumer willingness to pay for advice
	Number of consumers using different channels
	Adviser regulatory costs
	Adviser charges
FAMR Outcome 2: There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice.	
	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.	
	Consumer willingness to pay for advice and cost levels
	Use of workplace advice/guidance and other channels
	Common adviser charging structures
Quality	
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.	
RDR outcome 1: An industry that engages with consumers in a way that delivers more clarity for them on products and services.	
RDR outcome 3: Standards of professionalism that inspire consumer confidence and build trust.	

RDR outcome 5: An industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly.
Levels of satisfaction with advice received
Levels of compliance with FCA's suitability standards (proxy for quality), including complaints related to advice
Consumer engagement in the market, caused by improved perception of the quality of services
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 cheaper/lower charging products
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
Advisers meet required standards of professionalism
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

Data headlines

15. The key data results relevant to the previous RDR and FAMR outcomes and indicators are summarised below.

Table 1.2: Areas showing progress against published RDR and FAMR outcomes and indicators

Access	Affordability	Quality
More consumers are accessing financial advice The FLS 2020 found that approximately 8% of all UK adults have received financial advice in the last 12 months, an increase from 6% in 2017. While this indicates an improving trend, there are groups of consumers not accessing the support they need (this is discussed further in the main report). **There are more financial advice firms and advisers** RMAR data indicates that the number of advice firms and advisers has increased since 2017. However, we consider that the market is not providing the full range of services that some consumers would benefit from (this is discussed further in the main report). **There has been positive development in the provision of automated advice services, but this is still a small part of the market** Estimated assets under automated advice services have grown from £0.4bn to 2016 to £3.2bn by 2019.	**People who take advice perceive charges as satisfactory** The majority (72%) of consumers who had received advice in the past 12 months report being satisfied with the charges paid according to FLS 2020. This has remained consistent with findings in 2017.	**More consumers report being satisfied with the advice that they receive** The FLS 2020 found that 56% of consumers report being satisfied with the advice they receive, an increase from 48% in 2017. **Trust in advisers has risen** FLS 2020 data showed that 66% of adults who had received regulated advice in the past 12 months trust that advisors act in the best interests of their clients, compared to 58% in 2017. **Advice firms revenue flows have increased** Since 2016, average revenue per adviser has increased by 21% and total revenue per firm has increased by 37%. **New complaints against advisers have decreased** Complaints data from the Financial Ombudsman Service shows that new cases against advisers have reduced from 2197 in 2016/17, to 1635 in 2019/20. **Advisers are appropriately qualified** RMAR data shows that nearly all advisers (97.9%) meet the required standards of professionalism.

Table 1.3: Areas with scope for improvement against published RDR and FAMR outcomes and indicators

Access	Affordability	Quality
Access to advice remains an issue for some consumers The FLS found that more consumers are now reporting not accessing advice, for reasons such as: • not being confident about finding the right adviser for them • not knowing enough about financial advisers and what they can offer • not knowing how to find a suitable adviser **Access to advice remains an issue for some consumers** 40% of firms have formal pot size thresholds for new customers.	**People who do not currently take advice would probably not be willing to pay current adviser fees, based on their perceptions of what they consider reasonable a reasonable price** Consumers who hadn't received advice, but may benefit from support, would prefer to pay less than 1% of investible assets for advice.	**Product persistency remains unchanged** PRA data indicates that product persistency rates have not changed much since the introduction of RDR, excluding pensions (explained by the introduction of pension freedoms). **The quality of advice in some areas remains a concern** Findings from our targeted supervisory work, looking at the advice firms have given to those seeking to transfer out of a Defined Benefit (DB) pension scheme found that there has been an improvement in the suitability of advice given over time, with the suitability of advice rising from a low point of 47% in previous years to 60% in 2018. However, the number of files where the advice appeared unsuitable was 17% and this remains unacceptably high. Although the results of this work were based on targeted work and are therefore not representative of the whole market, this suggests there are problems in this market.

Access

One of the key aims of FAMR was to explore how government, industry and regulators can take individual and joint steps to help develop a market that provides accessible financial advice and guidance to consumers. The RDR had a similar aim, looking to develop a market capable of serving more consumers.

More consumers are receiving financial support

Approximately 8% of UK adults received regulated financial advice in the last 12 months, according to the Financial Lives 2020 survey, an increase from 6% in 2017. The number of UK adults accessing information/guidance has also risen from 26% in 2017 to 28% in 2020.

Number of advice firms and advisers has increased

Since 2017, both the number of firms and advisers in the market has increased. The number of advice firms has risen by 1%, and the number of advisers by 5%.

Indicators of issues accessing advice

Approximately 15% of adults who had not received advice but may need it reported that access issues stopped them from doing so. Since 2017, there have been small increases in the proportion of adults who reported not being confident about finding the right adviser for them, not knowing enough about financial advisers and what they can offer, and not knowing how to find a suitable adviser.

Financial advice remains more accessible to those with greater assets

Our firm survey shows that even firms without a formal minimum threshold generally have high average pot sizes among their current customers. This indicates that access to advice is, in practice, limited for consumers with smaller pots.

Provision of automated advice is growing, but slowly

There have been positive developments in the market for automated advice, which has grown, albeit slowly. More consumers are using automated advice services than before. Awareness of automated advice services has nearly doubled since 2017, with 19% of UK adults now recognising at least one automated advice service. Assets Under Advice (AUA) of automated advice services reached £3.2bn, an increase of £1.9bn since 2017.

Consumer self-reported engagement has risen

Our FLS 2020 data indicates that consumer self-assessment of their level of engagement with their financial affairs has increased:

- 78% said that they were moderate to highly confident at managing money (up from 76% in 2017).
- 62% reported being moderate to highly knowledgeable of financial matters (up from 54% in 2017).
- 61% saw themselves 'confident and savvy' consumers 'when it comes to financial services and products' (up from 52% in 2017).

FAMR Outcome 1: Good availability of affordable, high quality advice and guidance

RDR Outcome 2: A market that allows more consumers to have their needs and wants addressed

16. We looked at data on: the use of support services, such as the number of consumers receiving financial advice and guidance services; the number of consumers acting without advice and the reported reasons for not using advice; the number of firms and advisers in the market; and the minimum investment/pension pot size on which firms would consider providing advice.

Number of consumers receiving advice

17. The number of consumers receiving financial advice is a key metric in understanding how access to financial advice has changed. FLS 2020 suggests 8% of UK adults (c.4m people) received regulated financial advice on investments, saving into a pension or retirement planning in the last 12 months. This is an increase from 2017, when the figure was 6% (over 3m people).

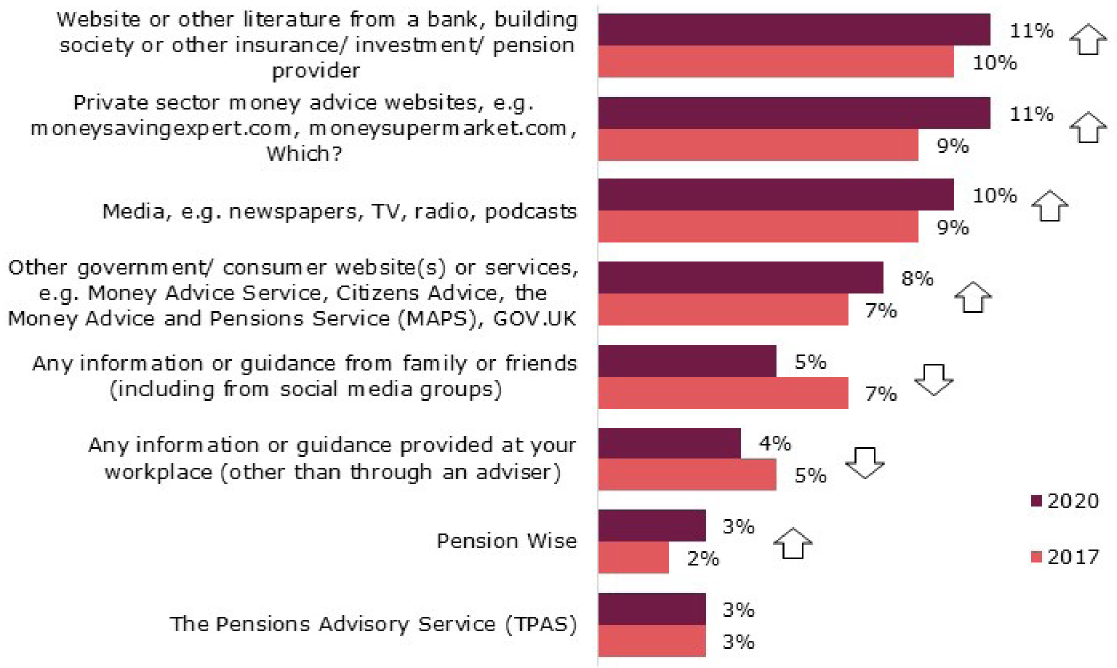
Number of consumers using information and guidance

18. The Ignition House consumer research report (published alongside this report) explains in more detail what is meant by the terms 'information' and 'guidance'. Where we talk about 'guidance' or 'information or guidance', we mean information or guidance related to investments, saving into a pension or retirement planning. This covers a broad range of types of support, including more formal guidance services such as: Pension Wise, TPAS, MAS/MaPS, Citizens Advice and gov.uk; private sector advice websites such as Which? and MoneySavingsExpert.com; and information or guidance provided through the workplace. We also include information or guidance provided by the media (e.g. newspapers, TV, radio, or podcasts), and from friends and family.

19. Our findings suggest that there has been an increase in the use of information and guidance by UK consumers, although it remains low overall. 28% of all UK adults used at least one form of guidance or information in the past 12 months, an increase from 26% in 2017.

20. The most popular sources of guidance were: websites or other literature from a bank, building society or other insurance/ investment/ pension provider (11%); private sector money advice websites (11%); and media (10%). Government-sponsored support and guidance plays an important role: 11% of UK adults having used one or more of the various services available: the Pensions Advisory Service (TPAS) and Pension Wise were each cited by 3% of consumers (it should be noted that only consumers aged 50+ with DC pensions are eligible for Pensions Wise guidance), with other government services used by 8% of consumers who had used information or guidance over the past 12 months.

Figure 2.1: Proportion of UK adults who have used information or guidance in the last 12 months by source, 2017 vs 2020



Source: Financial Lives Survey

Base: All UK adults (2017:12,865/2020: 16,190)

Note: Arrows donate a statistically significant difference in the 2020 results, compared with 2017

Number of consumers acting without advice

21. The FLS 2020 found that almost 8% of UK adults purchased an investment product, set up a non-workplace pension, or decumulated a DC pension in the last 12 months without taking advice.

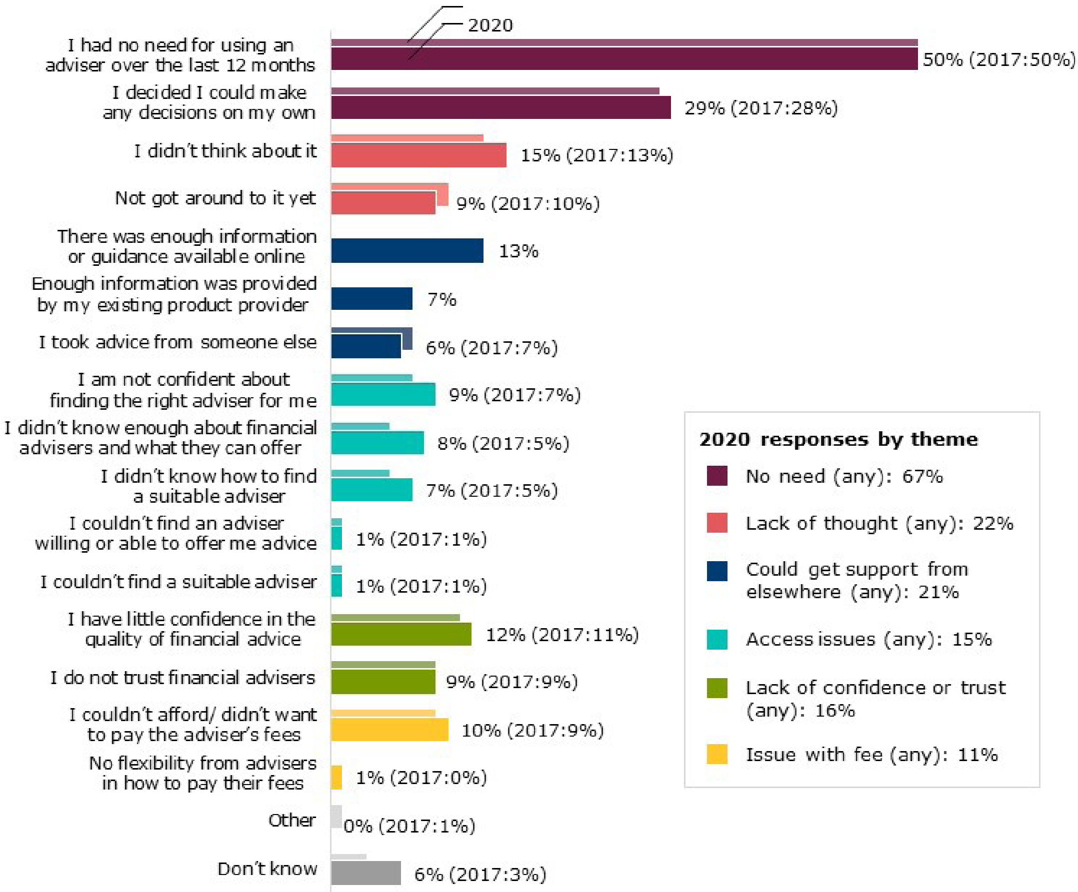
22. However, 62% of these non-advised decision-makers reported receiving some kind of support in making their decision.

Reported reasons for not seeking advice

23. The FLS asked consumers in Group 2 (who have not received financial advice but may have a need for support) why they hadn't chosen to get financial advice, and additional questions about their own experiences and attitudes towards advice.

24. Most respondents said that they hadn't sought out advice because it was not needed, or that they felt they could make these decisions themselves (66%) and 22% had simply not thought about it. The Ignition House consumer research report (published alongside this report) provides more detail on the reasons why some consumers were not seeking out advice.

Figure 2.2: Reasons given for not taking regulated advice in the last 12 months by adults who have not had advice but might have a need for support, 2017 vs. 2020



Source: Financial Lives Survey

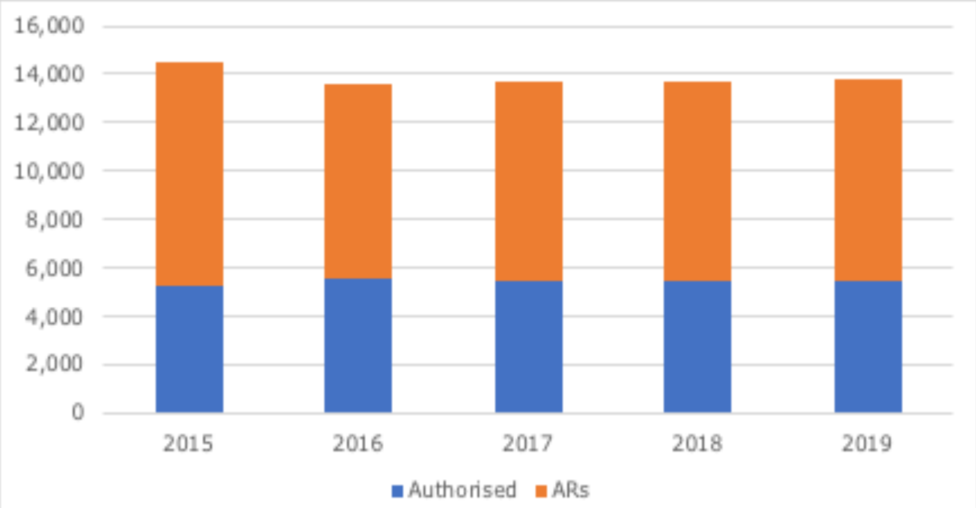
Base: All UK adults (2017:12,865/2020: 16,190)

25. Nearly one in six adults who had not received advice in the last 12 months, but might have a need for it, reported that access issues stopped them from doing so. Consumers reported not being confident about finding the right adviser for them (9% in 2020 vs 7% in 2017), not knowing enough about financial advisers and what they can offer (8% in 2020 vs 5% in 2017), and not knowing how to find a suitable adviser (7% in 2020 vs 5% in 2017).

The number of advice firms

26. The number of advice firms in the market provides important information on market supply. RMAR returns show that the number of adviser firms in the market has remained relatively stable during the period 2017 - 2020. Table 2.1 shows a breakdown of adviser numbers by sector.

Figure 2.3: Number of advisory firms between 2015 and 2019



Source: FCA register, primary category: financial adviser

Table 2.1: Number of firms who advise on retail investments according to their firm category

Type of firm	2017	2019
Financial adviser	5,218	5,236
Bank and building society	38	32
Investment manager	209	224
Stockbroker	40	31
Other firms	345	270
Total	**5,850**	5,793

Source: RMAR

The number of advisers

27. In 2012, we estimated that there were approximately 35,000 advisers in the market. RMAR returns show that the number of staff who advised on retail investment products at the end of December 2019 was approximately 36,400, a 4% increase.

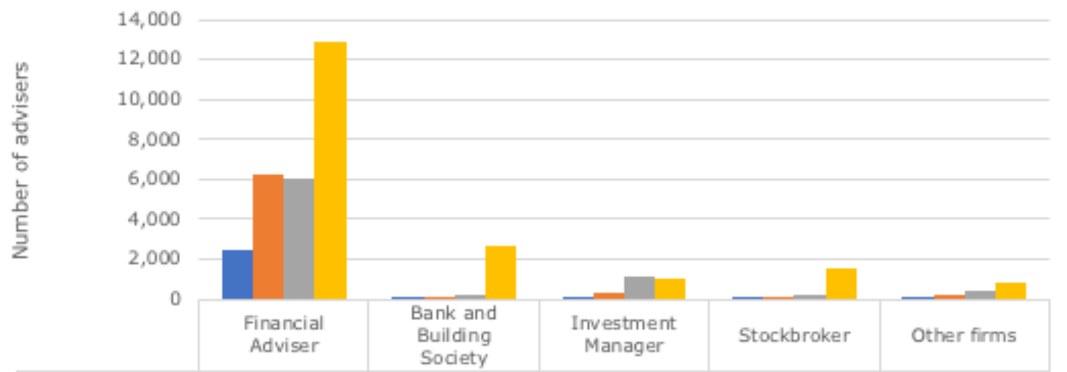
Table 2.2: Number of staff who advise on retail investments according to their firm category

Type of firm	2017	2019
Financial adviser	25,611	27,557
Bank and building society	3,525	2,928
Investment manager	1,980	2,519
Stockbroker	1,839	1,761
Other firms	1,629	1,636
Total	34,584	36,401

Source: RMAR

28. The advice sector consists of a high number of smaller firms: 89% of firms have five or fewer advisers (87% in 2017). Although forming less than 1% by number of the firms in the market, firms with 50 or more advisers employ approximately 52% (50% in 2017) of all advisers in the market.

Figure 2.4: Number of staff advising on retail investments split by type and size of firm



	Financial Adviser	Bank and Building Society	Investment Manager	Stockbroker	Other firms
1 adviser	2,448	3	39	1	132
2-5 advisers	6,194	5	301	44	259
6-50 advisers	6,029	209	1,119	186	449
Over 50 advisers	12,886	2,711	1,060	1,530	796

Source: RMAR

29. An independent advice firm must assess a sufficient range of relevant products available on the market to ensure that the client's investment objectives can be suitably met. Restricted advice firms are limited in the types of products an adviser or firm can recommend, the provider they can recommend, or both. Our rules allow firms to offer both independent and restricted advice (and they must be clear about which).

Table 2.3: Type of financial advice offered

	2016	2017	2018	2019
Independent	83%	84%	84%	85%
Restricted	15%	14%	14%	13%
Both	2%	2%	2%	2%

Source: RMAR

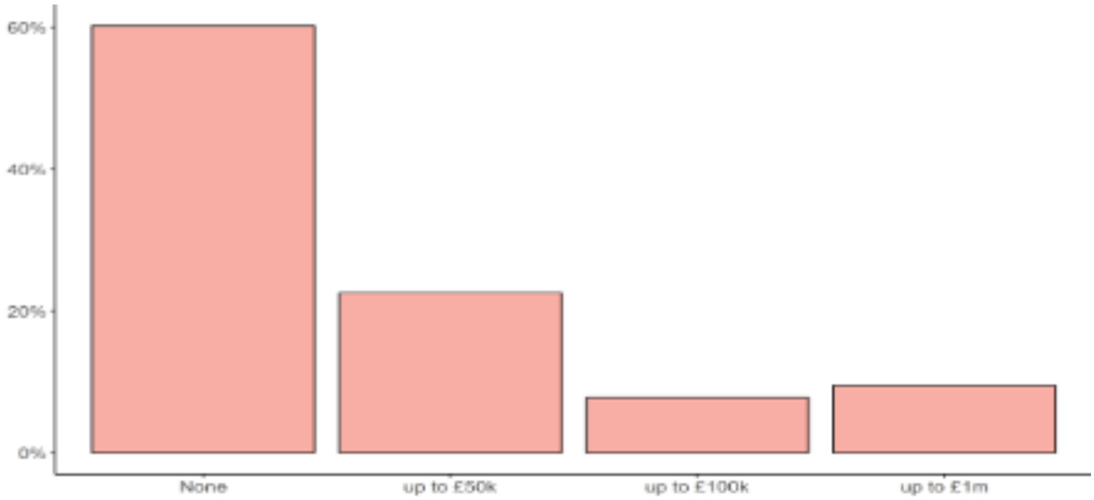
30. RMAR returns show that the majority (85%) of firms provide independent advice as their primary offering. This proportion has increased slightly from 83% in 2016.

31. While only 13% of firms offer restricted advice, this form of advice constituted almost 40% of adviser charge revenues in 2019. These figures have not changed significantly since 2016.

Minimum investment/pension pot size for advice

32. Our 2019 firm survey found that 40% of firms declared having formal pot size thresholds for new customers.

Figure 2.5: Percentage of firms with minimum pot thresholds



Source: RDR and FAMR firm survey 2019

33. Though the majority do not have a formal threshold, outside of a small number of robo-advisers, there was no indication that firms without formal thresholds on average targeted, or served, less affluent customers.

34. Certain types of advice are complex and involve a great deal of analysis. This can mean that the fees charged – particularly if they are fixed fees or if minimums apply – can be high. For example, advice on a defined benefit pension transfer could have a fee of £3,500 or £4,500. Where the advice charge is significant relative to the investment value, it may be that taking advice at this cost is not in the customer's interests.

35. It is not possible to compare pot minimum pot size thresholds between our 2017 and 2019 firm surveys because the questions were phrased differently.

FAMR Outcome 2: There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice

RDR Outcome 6: A regulatory framework that can support delivery of all these aspirations and which does not inhibit future innovation where this benefits consumers

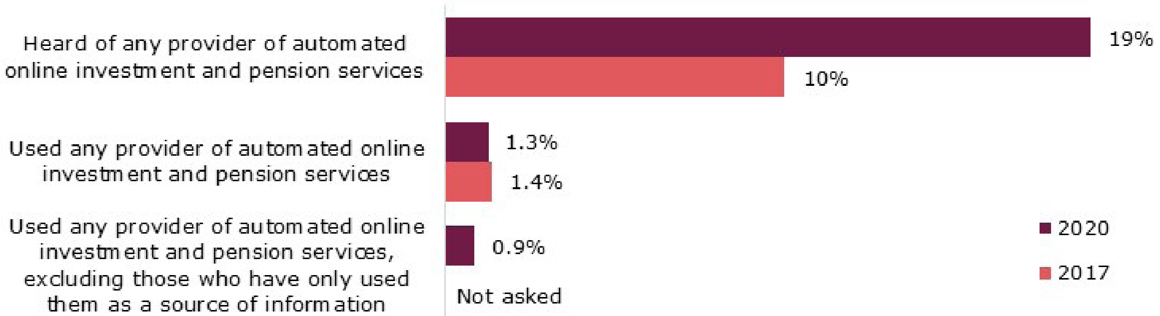
36. In this section, we summarise the data available on the use of automated advice services, as well as the provision and growth of automated advice services.

Level of consumer use of automated advice services

37. The 2020 FLS found that usage for automated advice services has remained stable since 2017 (1.3% of UK adults in 2020 and 1.4% in 2017).

38. The qualitative consumer research found that respondents who were already investing without advice were the most open to testing automated advice as a lower-cost alternative to their existing solutions.

Figure 2.6: Proportion of adults who are aware of or have used any provider of automated online investment and pension service in the last 12 months, 2017 vs. 2020



Source: Financial Lives Survey

Base: All UK adults (2017:12,865/2020: 16,190)

Level of consumer awareness of automated advice services

39. Awareness of automated advice services has nearly doubled since 2017. The 2020 FLS found that 19% of all UK adults are aware of at least one of the automated advice services, compared to 10% in 2017.

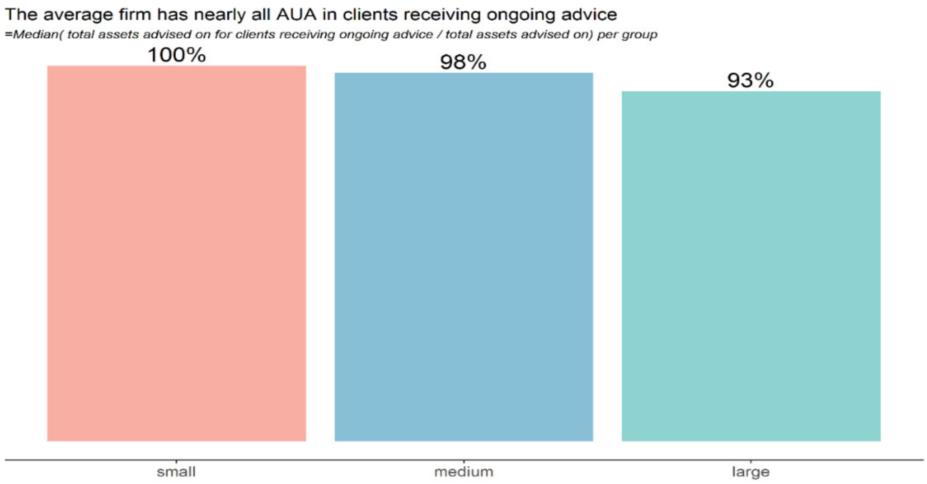
The extent to which firms are offering different types of services, eg automated advice

40. Our firm survey asked firms to report the types of service that they offer to their clients. Figure 2.7 shows the advice service levels offered by firms in our survey. Although many firms have considered streamlined advice (an umbrella term which covers both simplified and focused advice) or automated services for clients with smaller pots, only a few offered them. Most firms offer one-off advice and ongoing advice. Moreover, as shown in Figure 2.8, for the year 2018/2019, nearly all new clients for the average firm receive ongoing advice.

Figure 2.7: Advice service level

Source: RDR and FAMR firm survey 2019

Figure 2.8: Clients receiving ongoing advice by firm size



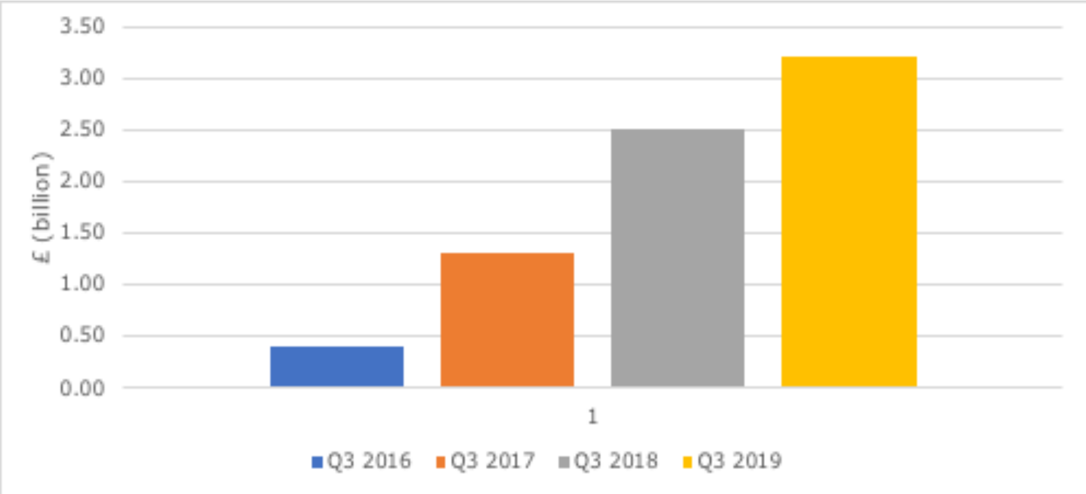
Source: RDR and FAMR firm survey 2019

As noted in the main report, a number of larger firms, such as retail banks, have been re-entering the market, offering a wider variety of technology-based advice and guidance services to those with a lower amount to invest. Additionally, more firms are seeking support in launching automated advice services. Since inception, the FCA's advice unit has received 135 applications with 65 applications accepted.

Assets under Advice (AUA) of automated services

41. Growth in automated services is an indication of innovation within the market. Platforum estimate the automated advice market at approximately £3.2 billion[1] in Q3 2019. Although this is a substantial increase on the £0.4bn assets under advice estimated in the 2016, the assets under management account for less than 0.5% of the retail investment market.

Figure 2.9: Assets Under Advice, automated advice services



Note: Data aggregated from multiple sources and may not be directly comparable between periods

Source: FAMR Baseline, Internal reports and Platforum

42. As detailed in the main report, despite lower customer numbers, the increase in assets under automated services may be explained by an increase in their use by confident and affluent consumers with over £10,000 in investible assets..

1 Platforum UK D2C Market overview 2020

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.

RDR Outcome 1: An industry that engages with consumers in a way that delivers more clarity for them on products and services

RDR Outcome 2: A market that allows more consumers to have their needs and wants addressed

43. We looked at data on consumer use of workplace advice and guidance as part of the indicators set out under FAMR. We also looked at consumer use of support from platforms.

Use by consumers of workplace advice and guidance

44. The FLS found that 4% of all UK adults received information or guidance through the workplace. Of those who received information and guidance through their workplace, 84% said that it did help make a decision even if that decision was to do nothing.

Consumers use of support from platforms

45. A platform distributes retail investment products which are offered to retail clients by more than one product provider. According to data[2] from Platforum, a research firm, active investors (which are those who hold at least 2 accounts and use at least 1 online investing service) use support from platforms most often for news and analysis (48%), followed by obtaining a list of recommended funds hand-picked by experts (26%).

Table 2.4: guidance tools used from platforms

Fund and shares news and analysis	48%
A list of recommended funds hand picked by experts	26%
Fund ratings from third party providers e.g. Morningstar	21%
Ready-made investment portfolios	15%
A tool which allows you to compare costs of underlying investments	13%
An investment screener tool to help you narrow down funds and other investments based on specific criteria	10%
A list of most frequently purchased investments by other customers	8%
A list of most frequently viewed investments	5%
None of these	25%

Source: Platforum

Base: Survey conducted in November 2018 of 252 active private investors (which are those who hold at least 2 accounts and use at least 1 online investing service)

2 UK Fund Distribution: D2C Distribution Dynamics (March 2019)

FAMR Outcome 4: Consumers engaged with their own financial affairs and so seeking out the advice and guidance they need

RDR Outcome 2: A market that allows more consumers to have their needs and wants addressed

46. We looked at data on consumers' self-reported levels of engagement, and the number of consumers who reported that they did not know where to start looking for an adviser.

Consumer self-reported levels of engagement

47. The FLS asked for consumers' views of their own confidence, knowledge and how 'savvy' they are with financial matters. Across each metric of engagement, Table 2.5 shows rising levels of engagement amongst UK adults.

Table 2.5: Proportion of UK adults by various engagement metrics, 2017 vs. 2020

	2017	2020
Confidence managing money		
High: 9-10	37%	41%
Moderate: 7-8	39%	37%
Low: 0-6	24%	22%
Knowledge about financial matters		
High: 9-10	16%	20%
Moderate: 7-8	38%	42%
Low: 0-6	46%	38%
Savvy consumer - level of agreement		
Agree	52%	61%
Neither agree nor disagree	22%	21%
Disagree	26%	19%

Source: Financial Lives Survey

AT1A REBASED EXCL DK: How confident do you feel managing your money?

AT5 REBASED EXCL DK: How knowledgeable would you say you are about financial matters?

AT1C_CONFID REBASED EXCL DK: How much do you agree or disagree that statements? When it comes to financial services and products, I would consider myself to be a confident and savvy consumer

Base: AT1A, AT5, AT1C: All UK adults (2017: 12,865/ 2020: 16,190) excluding 'don't know' responses

Proportion of UK adults who do not know where to look for an adviser

48. Consumer perception of how easy it is for them to find an adviser is another measure of access to advice. Our findings suggest that consumers still find it difficult to find an adviser. The FLS 2020 found that 37% of UK adults did not know where to start looking for an adviser, an increase from 34% in 2017.

Affordability

A key objective of FAMR was to see good availability of affordable financial advice and guidance. The RDR, similarly, sought to develop a market where remuneration arrangements for advice allow competitive forces to work in favour of consumers.

People who take advice say the charges represent good value

The majority of advised consumers thought that the fee they paid for advice was good value/about right (72% both in 2017 and 2020). However, many are not aware of how much they are paying (only 24% of all adults who have received regulated advice in the last 12 months strongly agree that they have a good understanding of what financial advice costs, and 4% have very little idea).

Our consumer research found that people taking advice also focus on non-price elements of the services offered, eg quality of their adviser, and service levels. This may indicate that price isn't always the primary focus for those taking advice.

People who do not currently take advice would not want to pay charges as high as advisers generally charge for advice

FLS 2020 data shows that of those who do not currently take advice, but would be willing to pay for advice, the majority would want to pay less than 1% of the amount invested. Most would expect to pay no more than £250 regardless of the amount invested. This is less than firms generally charge for advice.

Advice charges are clustered around certain points

Our firm survey found that most advisers charge similar fees. Over 80% of ongoing advice fees were 0.5%, 0.75% or 1.00% annually. Further discussion of this subject is at paragraph 3.34 of the main report.

Automated services will generally be cheaper

Advice is primarily delivered through face-to-face interactions (87% of those who received advice had done so face-to-face), which our research shows is often more expensive than other channels. Alternative methods of advice delivery, such as automated advice, will generally be more affordable.

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

RDR Outcome 4: Remuneration arrangements that allow competitive forces to work in favour of consumers

49. We looked at data on consumers' willingness to pay for advice, advisers' regulatory costs, and adviser charges.

Consumer willingness to pay for advice

50. Willingness to pay for advice has stayed constant. The FLS 2020 found that 51% of UK adults reported being willing to pay for advice 'if the costs were reasonable'.

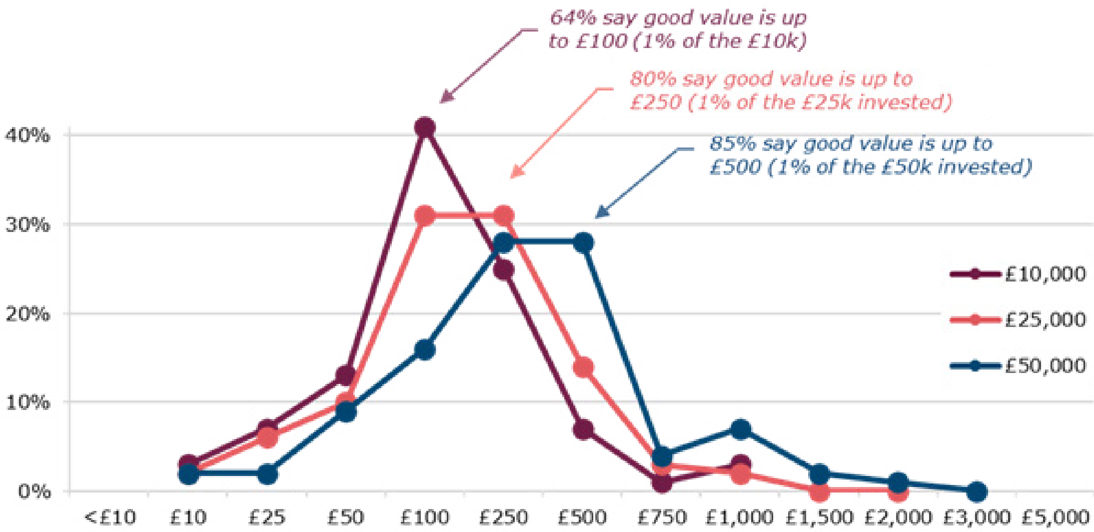
51. Consumers in Group 2 (who had not received financial advice in the past 12 months but who may have a need for it) were also asked to say at what price, if any, they would be willing to pay for advice from a regulated financial adviser, at what price point they would consider such advice to be too expensive, and at what price such advice would feel 'too cheap'.

52. To ensure that this question was equally meaningful for everyone, respondents were asked to think about how much they would pay for regulated advice on one of three different levels of investment – £10,000 invested, £25,000 invested or £50,000 invested.

53. Of those who would be willing to pay, Figure 3.1 shows that the majority would want to pay less than 1% of the value of the investible assets. In pounds and pence, this equates to no more than £100 on a £10,000 investment, £250 on a £25,000 investment and £500 on a £50,000 investment.

54. Most would expect to pay no more than £250, regardless of the amount invested. These responses on willingness to pay do not align with adviser charges generally seen in the market.

Figure 3.1: Amount of money non-advised adults who may need support would be willing to pay, and see as good value for money, for advice from a regulated adviser in the foreseeable future, 2020

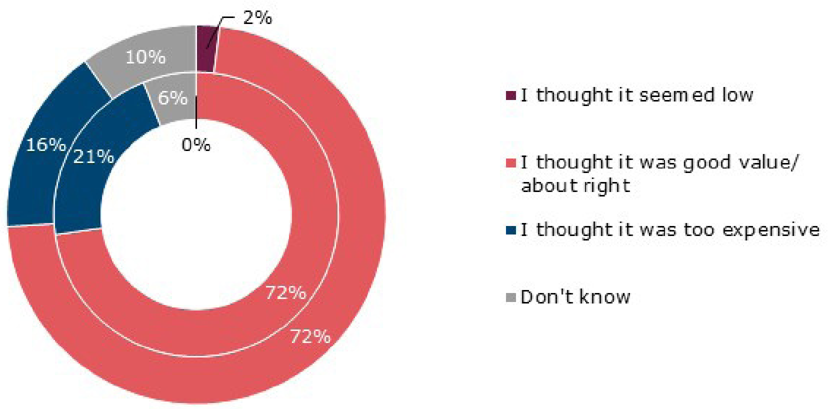


Source: Financial Lives Survey

Base: All UK adults who have not had advice in the last 12 months and may need support because they have £10,000 or more in investible assets, or have £10,000 or more in their DC pension and intend to access it/ retire in the next 2 years (2020: 2,009), excluding 'I would not pay' responses (26%).

55. The majority of advised consumers thought that the fee they paid for advice was good value/about right (72% both in 2017 and 2020).

Figure 3.2: Perception of the fee paid for advice amongst adults who paid a one-off fee or ongoing charge for their most recent advice session, 2017 (inner circle) vs 2020 (outer circle)



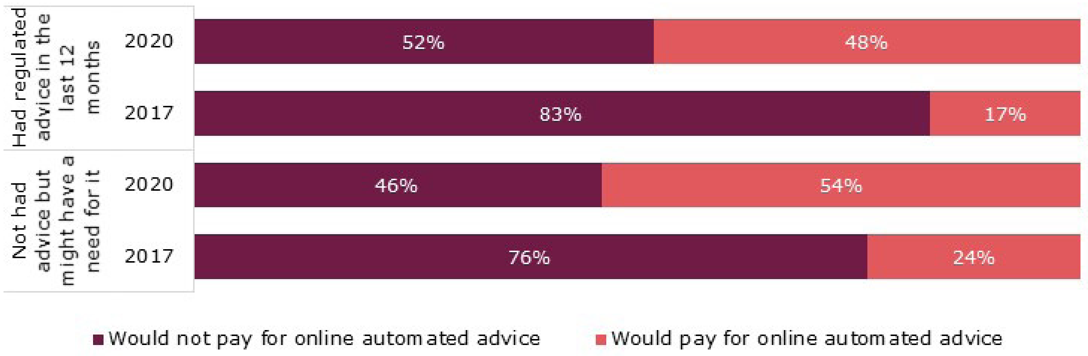
Source: Financial Lives Survey

Base: All UK adults who have received regulated advice in the last 12 months and paid a one-off fee or ongoing charge (2017:363 /2020:1,095)

Automated advice services

56. Willingness to pay for automated advice was also examined in the FLS. All UK adults who had received regulated advice in the last 12 months, but not from an automated advice provider, were asked about their willingness to pay for automated advice.

Figure 3.3: proportion who would not be willing to pay for automated online investment advice in the foreseeable future



Source: Financial Lives Survey

Base: All UK adults who have received regulated advice in the last 12 months, but not from an automated advice provider (2017: 652/ 2020: 1,328; All UK adults who have not had advice but might have a need for it (2017: 1,213/ 2020: 2,009)

57. Although there would appear to be a significant increase in the proportion of consumers who would be willing to pay for automated advice in 2020, compared to 2017, some of this change might be a result of minor changes made to the question wording in 2020 to explicitly include very low advice costs (e.g. £10, £25) in the scale.

Number of consumers using different channels

58. Providing face-to-face advice may be a key factor influencing cost and therefore affordability, as this requires more time and resource than alternative channels. The FLS found that most advice is delivered through face-to-face interactions (87%). Please note, as with all of the research citied in this report, field work was conducted prior to the onset of the coronavirus pandemic and subsequent Government measures, including lockdowns.

Adviser regulatory costs

59. The costs of providing advice include the costs of marketing, staff costs, insurance costs and regulatory costs and fees. The costs of supplying face-to-face advice can be significant but new technologies could help drive down the costs of supplying advice.

60. The 2014 RDR post implementation review looked at the compliance cost of the RDR. It found that the initial costs of complying with the RDR were high for some firms.

Table 3.1: Industry-wide incremental compliance costs (£m)

	One-off (£m)			Ongoing (£m)		
Intermediaries	109	-	152	71	-	81
Providers	355	-	625	32	-	76
Platforms	32	-	48	11	-	15
Total	**496**	**-**	**825**	**114**	**-**	**171**

Source: 2014 RDR post implementation review

61. PIMFA (formerly APFA) research on compensation costs (October 2020) looked at costs associated with the FSCS levy and Professional Indemnity Insurance (PII). The report found that 45% of firms surveyed reported FSCS levy costs rising by 100% or more over the preceding 5 years. 57.14% of firms surveyed reported that the FSCS levy accounted for up to 10% of their cost, excluding staff and accommodation. 30% of firms reported that their PII premiums had risen by 100% or more over the preceding 5 years.

62. It is unclear whether the cost increases reported by firms are linked directly to FAMR and RDR, wider regulatory interventions or non-regulatory reasons such as investment in technology or changes in market practices.

Adviser charges

63. RMAR data shows that the most common method of adviser charging offered is a percentage fee based on the size of the investment, both in terms of charges for the initial advice and any ongoing service.

Table 3.2: Adviser charges by types offered

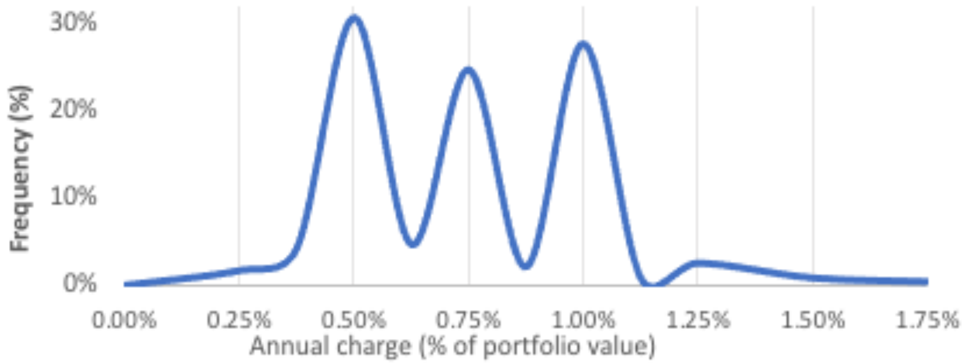
	Number of firms	
	Initial and fixed fee	**Ongoing service**
Hourly rate	1,334	994
% of investment	3,825	4,087
Fixed fee	1,825	1,089
Combination	806	704

Source: RMAR

Our firm survey found that average charges are 2.4% of the amount invested for the initial advice, and 0.8% per annum for the provision of an ongoing service in subsequent years. This does not include underlying product and portfolio charges, such as for custody and fund management.

64. More than 80% of ongoing services had charges set at only three price points, as shown in Figure 3.4 below. One-off advice was slightly less concentrated, with 50% set at just three price points, including 38% of one-off services charging 3% of the portfolio value.

Figure 3.4: ongoing services – annual charge



Source: RDR and FAMR firm survey 2019

Charges for automated advice

In the main report (Chapter 3, paragraphs 3.6 – 3.13) there is discussion about automated models, including charges.

Quality

Both the RDR and FAMR sought to improve the quality of financial advice by: raising professionalism standards for advisers; improving the quality of service received by consumers; reducing cases of redress and mis-selling; and improving perceptions of advisers amongst consumers.

Consumer satisfaction with the advice received has increased

FLS 2020 data found that 56% of consumers rated their satisfaction with the advice they received as high (up from 48% in 2017).

Trust in advisers has risen

FLS data showed that 66% of adults who had received regulated advice in the past 12 months trust that advisors act in the best interests of their clients, compared to 58% in 2017.

Advice firms revenue flows have increased

Since 2016, average revenue per adviser has increased by 21% and total revenue per firm has increased by 37%.

The quality of advice in some areas remains a concern

Findings from our targeted supervisory work, looking at the advice firms have given to those seeking to transfer out of a Defined Benefit (DB) scheme found that there has been an improvement in the suitability of advice given over time, with the suitability of advice rising from a low point of 47% in previous years to 60% in 2018. However, the number of files where the advice appeared unsuitable was 17% and this remains unacceptably high.

New mis-selling complaints against advisers have decreased

Complaints data from the Financial Ombudsman Service shows that new cases against financial advisers have reduced from 2197 in 2016/17 to 1635 in 2019/20.

Nearly all advisers are qualified at the appropriate standard

RMAR data shows that nearly all advisers meet the required standards of professionalism. RMAR data shows that in 2019, 97.9% of advisers held a valid Statement of Professional Standing (SPS), a slight increase from 97.5% in 2017.

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

RDR Outcome 1: An industry that engages with consumers in a way that delivers more clarity for them on products and services

RDR Outcome 3: Standards of professionalism that inspire consumer confidence and build trust

RDR Outcome 5: An industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly

65. We looked at various data, including information on consumer satisfaction, perceptions of quality and levels of advice suitability.

Levels of satisfaction with advice received

66. Consumer satisfaction with the advice they receive has increased. When asked, 56% of adults who received regulated advice in the last 12 months rated their satisfaction with the advice they received as high (9-10), up from 48% in 2017.

67. Ongoing advice remains the main mode of advice delivery. 92% of adults who have an ongoing advice relationship reported that they were satisfied with services they receive.

Compliance with FCA's suitability standards

68. The FCA conducted a detailed review of the suitability of advice in 2016. This found that in 93.1% of cases, firms provided suitable advice, with the remainder being either unclear, or providing unsuitable advice.

69. The FCA has also published an update to its ongoing targeted supervisory work, looking at the advice firms have given to those seeking to transfer out of a DB pension scheme. This has involved an industry-wide data collection from over 3,000 firms.

70. The FCA provided detailed feedback to over 1,600 of these firms and as a result over 700 gave up their permission to provide pension transfer advice. In addition to this, the FCA conducted in-depth reviews of the 85 most active firms in the market, who were responsible for 43% of transfers between April 2015 and September 2018. The aim of this was to identify those firms most likely to be providing unsuitable advice.

71. The FCA found that there has been an improvement in the suitability of advice given over time, with the suitability of advice rising from a low point of 47% in previous years to 60% in 2018. However, the FCA remains concerned at the number of files which either appeared to be unsuitable or where there were information gaps. The number of files where the advice appeared unsuitable was 17% and this remains unacceptably high.

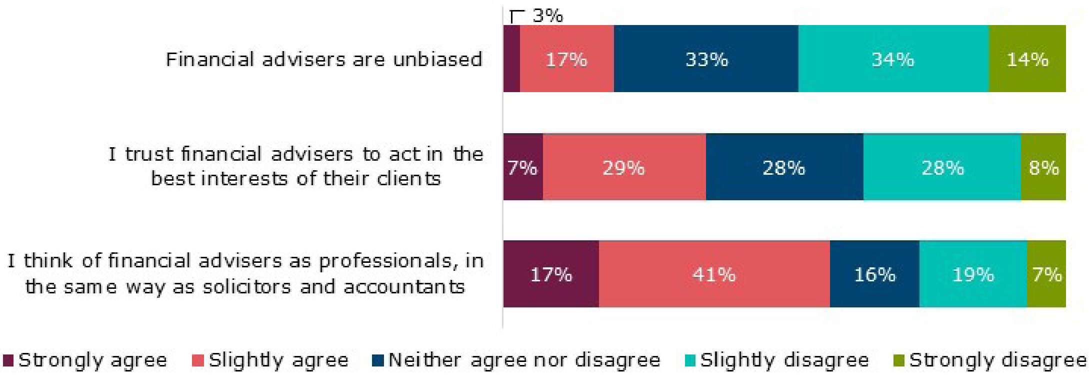
Consumer engagement in the market

72. Around six in ten (56%) of the advised population reported that they are highly satisfied with their adviser/ firm and a further one in three (32%) said they are moderately satisfied.

73. Adults who have received regulated advice in the last 12 months were asked how confident they were in the advice given in the most recent advice session, and how clear and understandable that advice was:

- 57% reported having high levels of confidence in the advice they were given and a and 31% had moderate levels of confidence[3]
- 59% reported the advice received was completely clear and understandable, while 30% said it was mostly clear and understandable[4]

Figure 4.1: Attitudes to financial advisers held by adults who have not had advice in the last 12 months but might need support, 2020



Source: Financial Lives Survey

Base: All UK adults who have not had advice but might have a need for support because they have £10,000 or more in investible assets, or have £10,000 or more in their DC pension and intend to access it/ retire in the next 2 years (2020: 2,217), excluding 'don't know' responses (A2E: 6%/ A2J:5%/ A2K:9%)

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

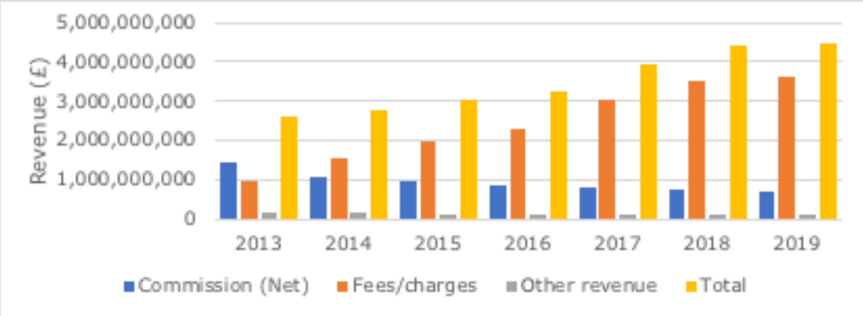
74. Total reported annual revenue from retail investment business has increased by approximately 71% between the period 2013 to 2019, with average reported revenues for firms increasing by approximately 54% during the same period.

3 **ADV_DNEWA (REBASED)**. How much confidence did you have in the advice given? Answer on a scale of 0 to 10, where 0 is 'not at all confident' and 10 is 'completely confident'. Base: All UK adults who have received regulated advice in the last 12 months (2020:1,459), excluding 'don't know' responses (3%)

4 **ADV_DNEWB (REBASED)**. To what extent would you say the advice you received was clear and understandable? Answer on a scale of 0 to 10, where 0 is 'not at all clear or understandable' and 10 is 'completely clear and understandable' Base: All UK adults who have received regulated advice in the last 12 months (2020:1,459), excluding 'don't know' responses (3%)

75. Commission has continued to decline further as a source of revenue, both as a proportion of business and total revenue. In 2019, commission accounted for 16% of revenue earned (down from 56% in 2013).

Figure 4.2: Reported revenues from retail investments



Source: RMAR

Consumer perceptions of advice quality

76. Approximately 11% of FLS respondents who had received financial advice in the last 12 months said they had been mis-sold investments in the past (not just the previous 12 months).

Figure 4.3: Historic experiences of mis-selling or bad advice from an adviser for adults who have not had advice in the last 12 months but might need support, compared to adults who have had regulated advice in the last 12 months, 2020

Source: Financial Lives Survey

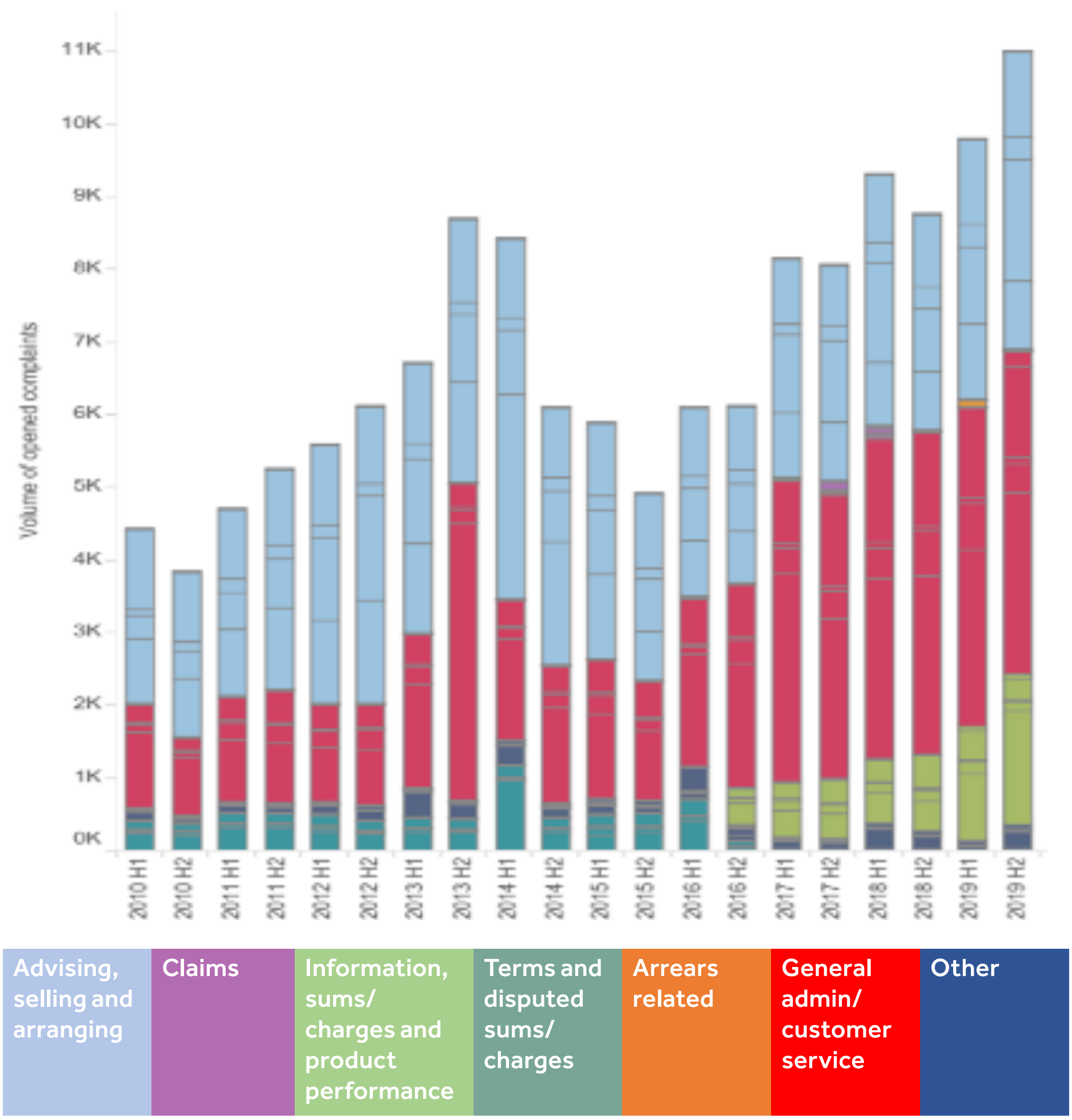
Base: All UK adults who have had regulated advice in the last 12 months (2020:1,459); All UK adults who have not had advice but might have a need for support because they have £10,000 or more in investible assets, or have £10,000 or more in their DC pension and intend to access it/ retire in the next 2 years (2020:2,037)

Complaint levels

77. We collect complaints data from firms in respect of several products and publish them every six months. The Financial Ombudsman Service also collects data on complaints it has received.

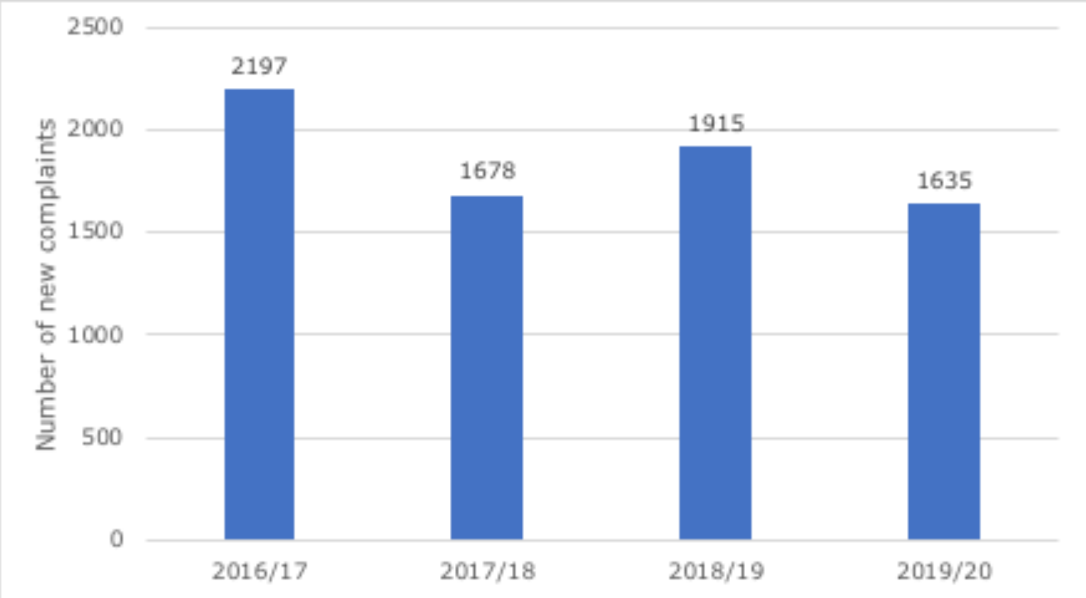
78. The FCA's complaints data indicates that the total volume of complaints received by advice firms have risen.

Figure 4.4: Complaints received by firms: FCA half-yearly complaints data against financial advisers



79.

Figure 4.5: Number of new complaints about advisers



Source: Financial Ombudsman Service

Longstop

80. FAMR considered the effect of indefinite liability on smaller firms, under which they, or their successors, may face complaints about advice provided to clients many years ago. Some stakeholders felt strongly that the risk of indefinite liability has a negative impact on financial advice businesses, including in terms of reducing investment and commercial incentives to provide certain types of advice. For this reason, some supported the introduction of a 15-year longstop limitation period for referring complaints to the Financial Ombudsman Service, in addition to the existing time limits.

81. Evidence from FAMR concluded that relatively few complaints relate to advice given by advisers 15 years ago or more. Many products are very long term and consumers cannot reasonably be expected to realise they have a cause for complaint for many years, because it can be very difficult to assess the quality of advice earlier on. As a result, FAMR ruled out recommending a 15-year longstop as this would have inappropriately limited protection for consumers on long-term products. FAMR did, however, recommend that we analyse any ongoing trends in the Financial Ombudsman Service's complaints data relating to advice on long-term products, as part of our current review.

82. Data from the Financial Ombudsman Service is summarised in table 4.1.

Table 4.1: Resolved complaints where the event being complained about happened over 15 years ago

	2019/20		2018/19	
	Complaints resolved	Upheld	Complaints resolved	Upheld
Cases resolved on merit	103	30%	121	35%
Cases we couldn't consider (for example, because of 6 + 3 time limit)	131	N/A	164	N/A
Withdrawn or abandoned by consumer	19	N/A	14	N/A
Total resolved cases	**253**	**N/A**	**299**	**N/A**

Source: Financial Ombudsman Service

83. The data indicates that relevant complaints volumes are consistent with previous analysis of this issue, so we do not consider that the data indicates a need to make any changes to the position articulated in FAMR. We will continue to monitor this issue.

Improved product persistency

84. This RDR outcome about increased product persistency was based on the view that:

- there were potential conflicts of interest created by commission, due to the risk of bias, or a perception of it, leading to low persistency which would have an impact on the long-term sustainability of the sector
- an increase in the quality of advice should lead to increased persistency and a reduction in unnecessary transaction costs

85. Data from the PRA on persistency (from large insurers) is shown in Table 4.2. This data relates to insurance products and a number of these have reduced sales volumes since RDR (e.g. investment bonds). This data only reflects a subset or products.

86. Lapse refers to instances where a customer has not paid the renewal premium for their product. For example, 'Lapse years 11+, with-profit endowments' show the percentage of with-profit endowments data, older than 11 years, where customers failed to renew the premium (2.7% in 2019).

Table 4.2: Persistency data

Category			Mean of experience		
	2018	2017	2016	2015	2014
Lapse years 11+, with-profits endowment	1.9%	2.0%	2.0%	2.2%	2.7%
Lapse years 11+, unit-linked endowment	4.4%	5.0%	4.2%	4.7%	4.5%
Lapse years 1-5, level term	9.1%	8.8%	8.1%	6.5%	5.7%
Lapse years 6-10, level term	4.8%	4.9%	4.8%	4.5%	5.0%
Lapse years 11+, level term	3.7%	3.4%	3.7%	3.8%	3.8%
Lapse years 1-5, decreasing term	8.1%	8.7%	7.9%	7.3%	8.0%
Lapse years 6-10, decreasing term	8.1%	7.7%	7.2%	7.6%	8.2%
Lapse years 11+, decreasing term	6.6%	6.4%	6.3%	6.2%	6.0%
Lapse years 1-5, investment bond	4.3%	3.8%	3.9%	3.5%	3.2%
Lapse years 6-10, investment bond	6.6%	7.1%	7.0%	7.5%	7.1%
Lapse years 11+, investment bond	4.4%	4.7%	4.6%	4.1%	4.6%
Transfer rate individual pensions	3.3%	3.9%	3.7%	3.4%	2.4%
Transfer rate group pensions	5.3%	4.8%	5.7%	5.1%	4.7%
Guaranteed annuity rate take-up	67.6%	69.8%	67.8%	72.1%	77.5%

Source: PRA

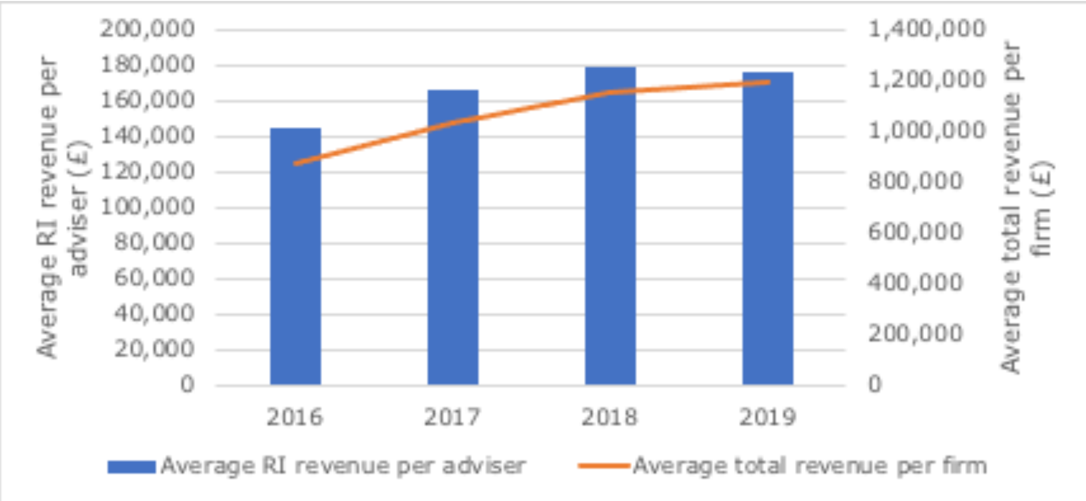
87. The data shows a fairly stable level of lapse rates from year to year within the categories shown. Policies which have been in force for a longer period of time generally experience lower lapse rates than in the early years. Data on pensions may be impacted by the advent of pension freedoms from 2015 onwards. What may look like a reduction in persistency may be the now 'normal' process of moving from accumulation to decumulation post-age 55.

88. Data from the Assessing Suitability Review (ASR1) in 2016 suggests that almost 48% of files reviewed involved instances where customers were switching money from an existing product to another. The file reviews also found that 92% of these switches were deemed as suitable (it should be noted that the suitability assessment goes wider than whether the product switch was suitable). However, where as part of ASR1 we found unsuitable advice, it was often driven by issues associated with risk profiling or where the firm recommended a product switch when there was no need to do so.

Firms' solvency increases along with cyclically adjusted profitability

89. Our analysis indicates that average revenue from retail investments for financial adviser firms has been increasing over recent years. Since 2016, average revenue per adviser has increased by 21% and total revenue per firm has increased by 37%.

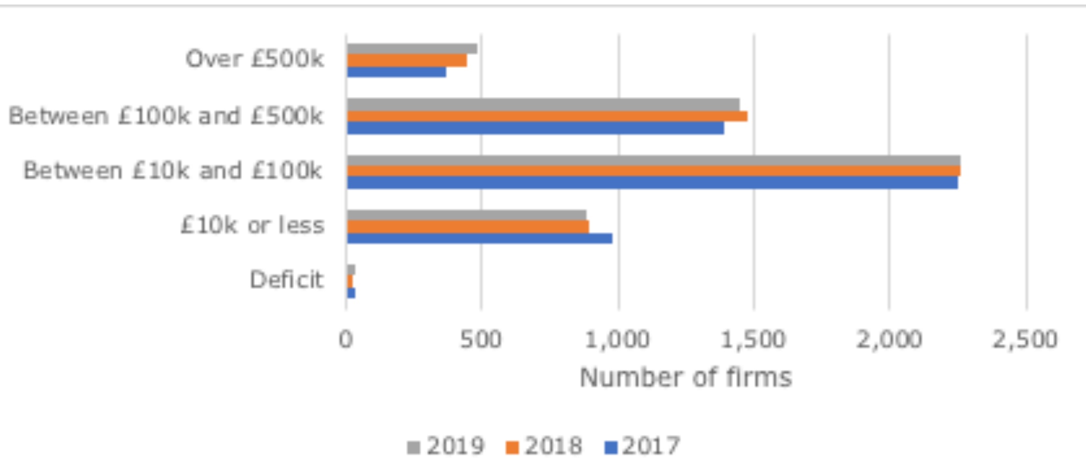
Figure 4.6: financial Adviser firm revenue



Source: RMAR

90. We require intermediary firms to hold a minimum amount of capital. This is to make sure they have sufficient resources to absorb routine losses or redress claims against them, and can make appropriate arrangements for an orderly wind-down if they leave the market. The exact requirement for each firm depends on the nature and size of its business. RMAR returns show that less than 1% of firms are holding less capital than we require.

Figure 4.7: Capital surplus over requirement



Source: RMAR

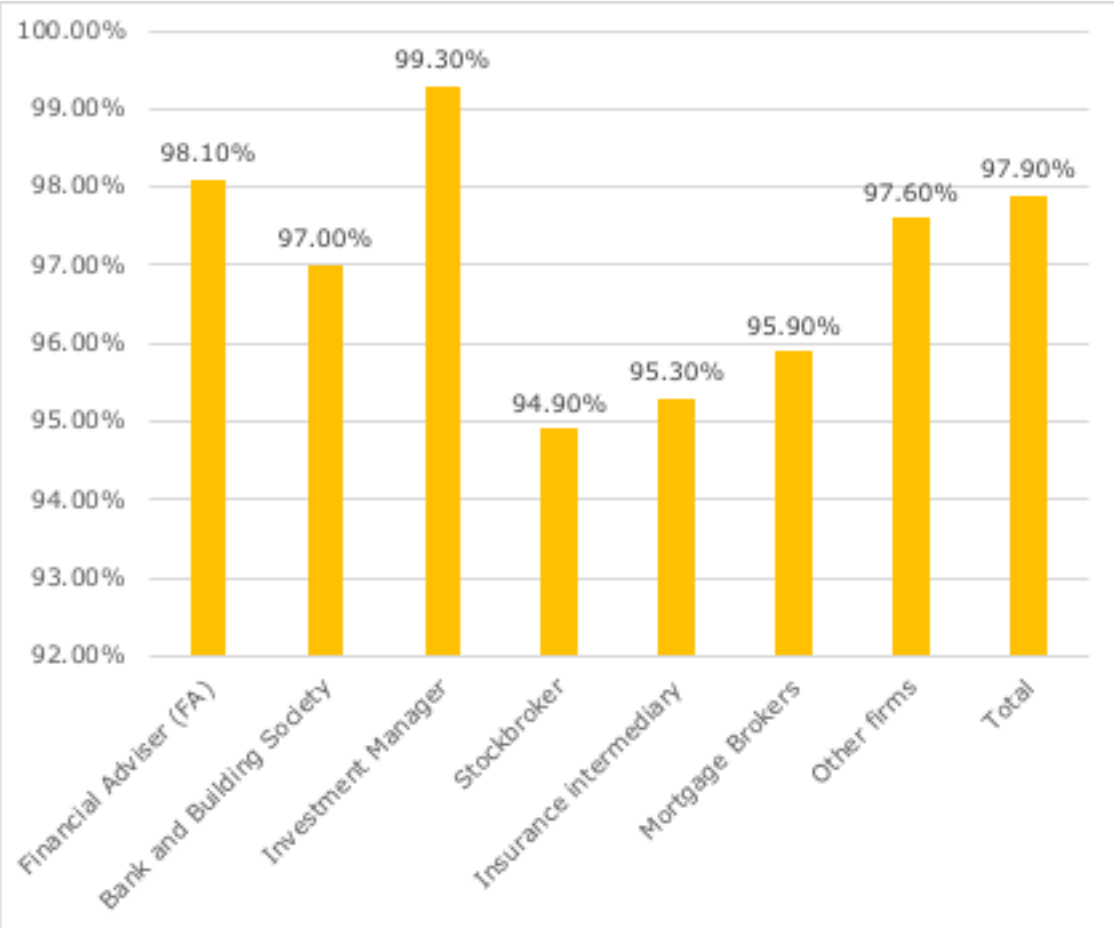
Unintended consequences of the RDR do not materialise or are mitigated appropriately

91. We have considered whether the RDR measures created regulatory barriers that led to unintended consequences. We consider that the regulatory barriers identified in our work are not linked to specific RDR provisions – they appear to relate to the boundary between advice and guidance. The main report has more detail on this issue.

Advisers meet required standards of professionalism

92. Higher standards of professionalism for advisers was a crucial requirement for improving the quality of advice received. Our data shows that nearly all advisers meet the required standards of professionalism. RMAR data shows that in 2019, 97.9% held a valid Statement of Professional Standing (SPS), a slight increase from 97.5% in 2017.

Figure 4.8: Percentage of advisers who have valid Statement of Professional Standing (SPS) by sector, 2020



Source: RAMR

Consumers understand the difference between different types of advice (independent advice, restricted advice)

93. Prior to the implementation of the RDR measures, there were concerns about the transparency of the type of financial advice services offered to consumers. Consumers who have little investment experience tend to have limited understanding of the scope of services available to them, eg whether financial advice is independent or restricted. As a result, these consumers can make poor choices about the type of advice service they use, which could lead to sub-optimal investment decisions.

94. To improve the clarity around products and services available to consumers, the RDR introduced mandatory disclosure requirements. Specifically, advisers were required to disclose their services as being either independent or restricted.

95. In 2018, an EU directive, the Markets in Financial Instruments Directive II (MiFID II), came into force. This updated the definition of independent advice.

96. This means that firms describing their advice as independent must assess a sufficient range of relevant products that are sufficiently diverse in terms of type and issuer to ensure that the client's investment objectives can be suitably met. For firms providing investment advice to retail clients in the UK, this will generally mean being in a position to advise on all types of financial instruments, structured deposits and other retail investment products. Firms that do not meet this definition are classed as restricted advisers.

97. The RDR included indicators of success relating to the clarity for consumers on the service they use:

- 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

Data from the ASR1 (2016) suggests that almost 9% of firms did not disclose in a suitable manner whether they offered independent and restricted advice. Of this cohort of firms, 80% were firms offering independent advice and 21% offered restricted advice.

Firms adhere to the new landscape, e.g. describe their advice services appropriately as independent or restricted

98. ASR1 raised concerns about issues regarding disclosure of hourly charging structures without providing an approximation of how long each service is likely to take, and firms using charging structures with a wide range.

99. ASR1 found that some advisors were disclosing their hourly charges but often failing to detail typically how long the hourly service would be needed.

Annex 2
Project Methodology

Introduction

1. This annex sets out our approach to conducting the evaluation of the impact of the Retail Distribution Review (RDR) and the Financial Advice Market Review (FAMR), and gives an overview of the data sources we have used to inform our analysis of the market (which is set out in the main report).

2. It should be noted that the fieldwork was completed before the Covid-19 pandemic caused the UK to enter lockdown in March 2020. This has clearly had a significant impact on the economy, stock markets, consumers and firms. Any resulting changes to firm business models and finances, the economy, and consumer attitudes towards savings and investments, will not have been captured in our data or findings.

3. Below, we summarise the evidence we took into account in our review.

Call for Input/stakeholder engagement

4. In May 2019, we published a Call for Input, asking for views on the issues that stakeholders thought should be considered as part of the review. We received 57 responses from a range of consumer bodies, trade bodies and firms.

5. Over summer 2019, we held a series of stakeholder events across the UK to gather further input and feedback on the Call for Input. Representatives from hundreds of organisations attended these events. We have also met with several trade bodies, firms and other interested parties.

6. In July 2019, we published an update on our website, summarising the feedback we had received, and explaining that we would be using the feedback we had received to help focus our continuing work. We explained that it would not be an efficient use of our resources to focus in this review on areas where there are other FCA projects that are either underway, or have recently been completed in these areas and that, therefore, we had decided not to include certain issues in our review, for example:

- requirements relating to defined benefit pension transfers
- changes to the award limits for the Financial Ombudsman Service, including consequential impacts on the Professional Indemnity Insurance market
- changes to how the Financial Services Compensation Scheme is funded

Fieldwork/data sources

Consumer research

7. In 2019, we commissioned an independent research consultancy, Ignition House, to conduct consumer research to inform our review. The research drew from two different sources.

   i. The FCA's Financial Lives survey (FLS), a large-scale tracking survey of over 16,000 UK adults and their finances. Ignition House analysis focused on analysing the survey modules relating to pensions, savings, investments and financial advice.
   ii. Ignition House conducted qualitative consumer research, comprised of 70 hour-long interviews with UK adults. It further explored consumer needs, retirement income, utilisation of digital services and the perceived value of advice.

8. The full Ignition House consumer research report, which includes further detail about their methodology, is published alongside this report.

9. We have also met with the Financial Services Consumer Panel throughout our review to discuss our work and developing findings.

Industry survey

10. In August 2019, we sent a survey to a sample of firms providing financial support services. The survey was completed on a voluntary basis and we received responses from 311 firms, approximately 80% of those surveyed. These responses covered approximately 25% of the advised market, when assessed by number of customers and assets under administration. This primarily included financial advisers, networks, automated advisers, banks and life insurance companies providing regulated financial advice. Additionally, this included responses from some firms which do not currently offer financial advice but do offer other financial support services.

11. Though the survey was focused primarily on firms providing retail investment advice, we also requested information relating to advice on protection and later life products. It covered information on the operations and strategy of the retail advice arms of firms, as well as requesting opinions on the future of the UK advisory market. Analysis was performed on an aggregate level with submissions of individual firms treated as confidential.

12. We also met with individual firms and their representative bodies, as well as the Practitioner Panel and the Smaller Business Practitioner Panel, to help us further understand the issues from an industry perspective.

Technology firms

13. We proactively engaged with 20 technology-focused firms to understand, from an industry perspective, how technology can provide cheaper, more accessible and better quality financial advice. This involved engagement with providers of automated advice, back-office software providers, adviser networks, large advisory firms and price comparison websites.

14. Meetings focused on how fintech was being used to streamline fact-finding, risk-profiling, asset allocation, and provide alternatives to face-to-face client meetings. Firms also provided us with supporting data.

Data relevant to the FAMR Baseline and RDR outcome indicators

15. Annex 1 to our report summarises the latest data available that is relevant to the RDR and FAMR outcomes and indicators, and their impact on the market, to the extent that they remain relevant. Given the scope of those previous initiatives, Annex 1 is inevitably mainly focused on data relating to advice services (the main report is more broadly focused on support services more generally, and assessing whether the wider market meets the needs of consumers now and in the future).

RMA Returns

16. The FCA gathers information from the firms it regulates in a regular data submission known as the Retail Mediation Activities Return (RMAR). We used relevant information in relation to retail investments. Relevant data includes firm-level information on revenue, profits, adviser charges, the number of advisers employed, customer numbers and advice services offered.

17. A summary of the RMAR 2019 analysis can be found here.

Regulatory family

18. The Financial Ombudsman Service publishes annual data on the complaints that it has received, with more granular data provided to the FCA. We used data on complaints in respect of investments and pensions advice to aid our assessment of the market.

19. We also used data the Prudential Regulation Authority (PRA) gathers from firms to understand how long clients hold investment and pension products (product persistency rates).

Annex 3
Abbreviations used in this paper

DC pension	Defined contribution pension
FAMR	Financial Advice Market Review
FCA	Financial Conduct Authority
FSA	Financial Services Authority
MaPS	Money and Pensions Service
RAO	Regulated Activities Order
RDR	Retail Distribution Review
TPAS	The Pensions Advisory Service

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