HM Treasury

FINANCIAL CONDUCT AUTHORITY

FAMR

Financial Advice Market Review

Baseline report

June 2017

Contents

1.
Executive summary

1.1 Background

The Financial Advice Market Review (FAMR) was launched jointly by the FCA and HM Treasury in August 2015 with the aim of identifying ways to make the UK's financial advice market work better for consumers. FAMR 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, particularly those who do not have significant wealth or income.

The FAMR report, published in March 2016, made a series of recommendations aimed at stimulating the development of a market that provides affordable and accessible financial advice. The recommendations made were designed to tackle barriers to consumers accessing and engaging with financial advice, with a focus on saving into a pension, taking income in retirement and investing. The report also recommended measures intended to help the industry to develop new and more cost-effective ways of delivering advice and guidance to consumers, in particular, through improved use of technology.

One of the recommendations was that the FCA and HM Treasury should work together over the first 12 months after the publication of the report to develop an appropriate baseline and indicators to monitor the development of the financial advice market. These should then be tracked on an annual basis and published on the FCA's website. These indicators would also serve as a benchmark for measuring the impact of FAMR against its 'success factors' set out in the final report. Some sources of the indicators are already available on a regular basis, such as the FCA's Retail Mediation and Activities Return (RMAR), complaints data and the FCA's Financial Lives Survey.[1] Other sources, such as qualitative research, will be rerun on an ad hoc basis.

1.2 FAMR success factors

FAMR considered that progress in achieving its vision should be judged against a number of success factors:

- 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.
- There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice.

1 This is a large scale consumer survey conducted by the FCA involving around 13,000 respondents. Please see Section 2 Methodology for more details.

- 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.

- Consumers are engaged with their own financial affairs and so seeking out the advice and guidance they need.

1.3 Our approach

We have identified a range of indicators which have been designed to give us a snapshot of the market for financial advice and establish a baseline, allowing us to monitor developments and assess at a high level the impact of the FAMR recommendations, when conducting a review of the outcomes of FAMR, planned for 2019.

While FAMR is intended to create the right conditions to make the market for financial advice work better for consumers, its recommendations were made to several organisations as well as the FCA. There are also a number of external factors that are likely to impact the advice market including regulatory changes such as the implementation of the Markets in Financial Instruments Directive (MiFID) II and the economic effects of Brexit. It may, therefore, be challenging to establish the causes of any changes in the market that become apparent.

The high-level indicators are set out in a table in Annex E to this document. These should allow us to measure the impact of the FAMR recommendations and the extent to which they have been effective in bringing about the aims outlined above. The indicators include measures of consumer use of advice and guidance (the 'demand side') along with measures relating to the provision of these services (the 'supply side'). These include:

- Demand side
  - Numbers of consumers using advice and guidance and different channels used
  - Use of workplace advice and guidance
  - Reported reasons for not taking advice
  - Consumers' willingness to pay for advice
  - Consumer levels of engagement
  - Levels of satisfaction with advice and complaints data
- Supply side
  - Number of advice firms and advisers
  - Number of independent/restricted firms
  - Minimum investment/pension pot size advised on
  - Adviser charges
  - Industry views on the clarity of the regulatory framework

- The extent to which firms are offering different types of services e.g. automated advice

We have also collected a wide-ranging body of evidence rather than solely focusing on a narrower list of measures. This is to avoid overlooking areas which are later considered to be important in monitoring the success of FAMR.

Quantitative consumer research data will be available for analysis on an annual basis and the supply-side metrics derived from FCA reporting will also be available annually. We intend to conduct the same research in two years and will compare both broad data sets to identify how the market has developed.[2]

The following central FAMR themes run through these outcomes:

- access (including consumer engagement);
- affordability; and
- quality of advice and guidance

To avoid possible repetition and make this report easier to follow, we outline some of the key indicators and the findings under these three themes in Section 3: Key Indicators.

1.4 Retail Distribution Review (RDR) Post Implementation Review (PIR)

In 2012 the Retail Distribution Review (RDR) introduced new requirements in the market for retail investments designed to address the potential for commission bias to distort consumer outcomes, improve service disclosure and increase professional standards of advisers.

At the time of RDR implementation, the FSA committed to conduct a Post-Implementation Review (PIR) in two phases, to be published in 2014 and 2020. We completed the first phase of the PIR in 2014 and, when publishing our findings, also said that we would conduct an intermediate stage PIR in 2017.

In order to allow the market time to react to the regulatory changes from FAMR and MiFID II, ease the burden on the industry and also allow us to make best use of our resources, we plan to combine the intermediate and final stage RDR PIRs into a single review, along with the post-FAMR review which is scheduled for 2019 (with the final report in early 2020).

Many of the FAMR recommendations have only recently been introduced or are still in the process of being implemented. As the market is still reacting to significant new regulatory change (alongside other interventions such as MiFID II and Insurance Distribution Directive (IDD)), we believe that a review at this stage would be of limited value.

The RDR desired outcomes, which were published shortly before the RDR was implemented, and their indicators are set out in Annex F. We will consider progress against these indicators as part of the 2019 review. In order to do this, we will be able to use much of the data that we intend to collect for the FAMR review; however, we will also have to collect specific data for the RDR review, as outlined in Annex F.

2 It should be noted that only larger shifts are likely to be identifiable as statistically significant differences.

2. Methodology

We have considered both the supply and demand side perspectives and drawn evidence from a wide range of available sources, including two specifically commissioned pieces of consumer research.

2.1 Demand side data

The first of these studies is the FCA's Financial Lives Survey 2017 which has provided extensive quantitative data. This was chiefly a large-scale online survey, supplemented by a smaller number of personal interviews to ensure that older consumers and those without internet access were included. In total, just under 13,000 UK adults, aged 18 or over, participated. The survey, amongst other things, explores:

- Consumers' engagement with their financial affairs and their perceptions relating to financial matters, including their confidence and knowledge levels
- Levels of pension and investment product ownership
- Usage of financial advice
- Experiences when trying to access advice
- Reasons for not seeking advice
- Willingness to pay for different types of advice
- Use of information or guidance services and types of information or guidance used

In making its recommendations, FAMR sought to develop "a market which delivers affordable and accessible financial advice and guidance to everyone, at all stages of their lives". To reflect the broad nature of this ambition, the quantitative research included consumers with a wide range of wealth and income levels. In respect of questions about advice, it was important to capture the views and experiences of not only respondents who had received advice, but also the views of individuals who had not. It was also necessary to ensure that questions were directed at the right audience and not to respondents whose financial situation meant that they would have been unlikely to be in a position to have a need for advice on investing, perhaps because they had no savings at all or were decades from retirement.

For the purposes of this research, the consumers represented have been segmented into the four groups set out below.

- Group 1 – Those who had received regulated financial advice[3] 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.

Segmenting consumers in this way allows us to focus on the characteristics of people who might have a greater need to take advice, but have not done so. While there is no definitive threshold of the level of investable assets at which financial advice should be sought, we consider £10,000 to be a reasonable proxy for our research. Data from the FAMR call for input[4] showed that 33% of the population had £10,000 or more in savings and investments. Only 22% of the population had £25,000 or more in savings and investments. Given FAMR's desire to improve access to advice for the mass market, we chose to focus on individuals with relatively low levels of investable assets.[5]

The main focus of the Financial Lives Survey is on the last 12 months, to capture the participants' best recall of their experiences. They were, however, also asked about their earlier advice experiences.

The Financial Lives Survey is a tracking study. Our ability to report changes in consumers' use and views on advice between the 2017 and subsequent waves of the survey is dependent not only on sample sizes but also on the extent of actual changes. Some changes will be too small to show up as statistically significant differences; reporting in those cases will simply compare, for example, a 10% and a 13% result, without being able to conclude, statistically, that the result has shown an increase.

We have also conducted qualitative research[6], including face-to-face interviews with 40 consumers who had engaged with the pensions and/or investment markets. These interviews explored the various aspects of the consumer advice journey, including drivers and barriers, the choices of advice and guidance sources and decision-making processes. In addition, focused telephone interviews were conducted with 20 consumers who had not engaged with these markets to explore their experiences.

3 In this report, where we talk about regulated financial advice, we mean regulated advice about investments, saving into a pension or retirement planning. This report has not considered regulated advice on other financial products, for example mortgages, general insurance or consumer credit.

4 Pg 12 https://www.fca.org.uk/publication/call-for-input/famr-cfi.pdf

5 In addition, ONS data show that median income in the UK in 2015/16 was £26,300 which equates to approximately £1,750, net of tax, a month. The Money Advice Service (MAS) suggests an emergency fund of three months' outgoings, which means an emergency fund of up to around £5,000 for a median earner. Therefore having £10,000 of investible assets might mean that an individual has an emergency fund of roughly £5,000 plus a further £5,000 potentially available to invest.

6 Conducted by NMG Consulting Ltd

2.2 Supply side data

We have used a number of sources of data to establish the supply side for the baseline, including both FCA internal data and independent external sources such as:

- FCA's RMAR which is the core regulatory return submitted by firms who provide advice and other intermediary services such as arranging to retail clients in relation to investments
- FCA's survey of firms conducted in late 2015 to inform FAMR's final report
- FCA's complaints data
- FCA's Assessing Suitability Review[7] (ASR)
- Association of Professional Financial Advisers (APFA) reports[8]
- NMG Financial Adviser Census: Business Trends Report[9]

These sources provide data such as the number of adviser firms, adviser charges, firms' regulatory costs and use of technology, amongst others. From these data we aim to explore the availability of adviser firms, how much they are charging consumers and the costs of regulation to them. We should also find out how firms are using technology in the advice market. The supply side data are set out in Section 3 and Annex C of this report.

Economic context to the baseline

In Annex D we provide a brief overview of the economic environment and factors which could impact on advice and guidance issues in relation to investment and pensions/retirement planning, providing important context to our findings.

7 This review was initiated in April 2016 to assess a statistically robust sample of advice files that allows us to draw conclusions on the suitability of advice and quality of disclosure in the sector as a whole https://www.fca.org.uk/publication/multi-firm-reviews/assessing-suitability-review.pdf.

8 Together the Wealth Management Association (WMA) and APFA became PIMFA (Personal Investment Management & Financial Advice Assocation) effective 1 June 2017.

9 NMG Consulting (Q3 2016), "Financial adviser census – business trends report".

3. Key Indicators

In this section we have picked out some of the key points which we consider will be important when monitoring the development of the market. They are set out by the three main FAMR themes of accessibility, affordability and quality of advice and guidance. Within each theme we include indicators of both the consumer demand and industry supply sides.

3.1 Accessibility

3.1.1 Demand side

Increased access to advice and guidance for all consumers was a main theme of the FAMR recommendations. The report found that people often do not seek help with important financial decisions because of a range of factors, such as limited confidence and engagement in their financial affairs, combined with a lack of trust stemming from historic mis-selling or a sense that financial advice is 'not for them'. Respondents to the FAMR Call for Input[10] also highlighted concerns both about declining adviser numbers and advisers targeting their services at clients with significant levels of wealth, making it harder for 'mass market' consumers to find advice.

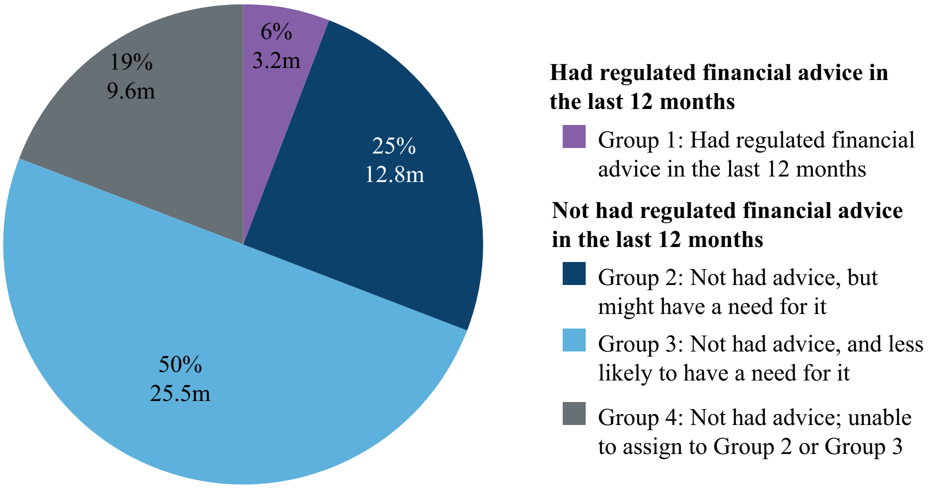
Numbers of consumers receiving advice and guidance

Advice

Our quantitative research shows that 6% of UK adults (or 3.2 million people) received financial advice on investments in the last 12 months. These consumers make up Group 1 in the research findings. A quarter of all adults fell into Group 2, half into Group 3 and the remainder into Group 4.

10 https://www.fca.org.uk/publication/call-for-input/famr-cfi.pdf

Figure 3.1 Number of UK adults that have had regulated financial advice in the last 12 months compared to those that have not had advice (All UK Adults)



Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)[11]

Previous advice usage

Just under half (45%) of those who have not received advice in the last 12 months report that they have had regulated financial advice related to investments, saving into a pension or retirement planning in the past. This breaks down as 65% of Group 2 and more than 43% of Group 3. However, these figures may not represent the true number that have received advice in the past, due to respondents' imperfect recall and limited understanding of regulated investment advice which result in a risk of overestimation.

Guidance

FAMR saw guidance and information as having an important role to play in giving consumers the confidence to make their own financial decisions. Guidance was defined in the final FAMR report as being services which provide information, generic advice and/or a general recommendation supporting customers in making their own investment decisions which do not involve a personal recommendation. Where we talk about information, we mean material that is purely factual.

The quantitative research suggests that guidance and other information is widely available from a variety of sources, including the literature provided by firms, websites of consumer groups, charities and the private sector, the media, and family, friends and colleagues.

The Financial Lives Survey and the qualitative research each explored consumers' use of guidance and information. The former found that 26% of all UK adults used at least one form of guidance or information in relation to investments, saving into a pension and/or retirement planning in the last 12 months. This equates to almost half of those in Group 1. Around a quarter of consumers who had not received advice had used guidance or information to help with similar financial decisions, including two-fifths of Group 2 and one-fifth of Group 3.

Most people using information or guidance were doing so in relation to investments, with 14% purchasing an investment with a lump sum as a result of the information or guidance they received, 9% starting or increasing monthly payments into an investment, and 9% changing the funds or assets in an investment.

11 The survey was designed and implemented by Kantar Public; weighted data tables were produced by Critical Research, and final reporting was conducted by Ignition House together with the FCA's market research lead for this research. All references to Ignition House are in effect shorthand for this much wider team.

Of those aged over 55 and planning to retire in the next two years, under half (44%) had used at least one form of guidance or information, although only 10% used the Pension Advisory Service (TPAS) and only 7% used Pension Wise. In March 2017 the Government announced that TPAS and Pension Wise would be merged to create a single pensions guidance body, so going forward we will track the use of the new government sponsored guidance.

The most used sources of information and guidance were websites and other literature from banks, building societies, insurers and investment providers (10%), private sector money advice websites (9%) and the media or newspapers and their websites (9%).

Barriers to seeking support with their financial affairs

The Financial Lives Survey explores barriers to people seeking advice and guidance. It asks consumers who have not sought advice why not, and questions them about their own experiences and attitudes towards advice, for example whether they consider it is too expensive for them.

The main reasons given for not taking advice was not having a need for it, or deciding to make decisions on their own, rather than any explicit issues with accessibility. Half of respondents in Group 2 said they had no need to use an adviser during this time and 28% felt able to make their own decisions. Far fewer said that they had issues accessing financial advice. For example, 9% were concerned they would not be able to afford to pay the adviser's charges and only 0.5% said they were unable to find an adviser willing or able to offer them advice.

We might expect that as the FAMR recommendations take effect, there may be more consumers reporting that their reasons for not receiving advice are due to feeling they are able to make their own decisions, rather than not being able to find an adviser or the costs being too high.

Table 3.2 Reasons for not taking regulated financial advice in the last 12 months (All UK Adults in Group 2)

	Group 2 All UK adults who have not had advice, but might have a need for it (column percentages)
I had no need for using an adviser over the last 12 months	50
I decided I could make any decisions on my own	28
I didn't think about it	13
I have little confidence in the quality of financial advice	11
Not got round to it yet	10
I do not trust financial advisers	9
I couldn't afford/didn't want to pay the adviser's fees	9
I am not confident about finding the right adviser for me	7
I took advice from someone else	7
I didn't know how to find a suitable adviser	5
I couldn't find a suitable adviser	1
I couldn't find an adviser willing or able to offer me advice	1

	Group 2 All UK adults who have not had advice, but might have a need for it (column percentages)
There was no flexibility from advisers in how I would have to pay their fees	0
Other	1
Don't know	3
ADV_E2. Which of the following reasons describe why you have not used a regulated financial adviser over the last 12 months. **Base:** All UK adults who have not had advice, but might have a need for it (2,941). **Note:** Multiple answers allowed.	

Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)

Use of automated online advice

The Financial Lives Survey shows that 3% of those in Group 1 had received automated online advice. This is a low figure and is to be expected given the embryonic nature of the market. Although small sample sizes mean that it is difficult to make any definitive statements about those who are using this particular channel, there is an early indication that 18-34 year olds are likely to be the early adopters.

Workplace advice and guidance

FAMR highlighted the opportunity for more people to access financial guidance and advice in the workplace. As part of the qualitative research, consumers were asked for their attitudes towards this. The research found only muted interest in the concept of advice in the workplace, mainly on the grounds of the possible cost and confidentiality, but identified a greater interest in workplace information and guidance. The Financial Lives Survey found that respondents were generally positive about the information and guidance they obtained through the workplace. Of the 5% of adults that received information or guidance through the workplace, 23% said it helped a lot, and a further 64% said it helped a little.

Consumer engagement with financial matters

One of the FAMR outcomes relates to consumers being engaged with their own financial affairs and so seeking out the advice and guidance they need. In determining appropriate indicators, we have been conscious of using not only consumers' assessment of their own levels of engagement, but also measures which take account of their actual behaviours and actions. For the former, we have taken findings from the Financial Lives Survey and for the latter we are using search engine statistics as a proxy for consumer action.

Consumers' own perception of engagement levels

The table below is taken from the Financial Lives Survey; the first three rows show consumers' views of their own confidence, knowledge and how 'savvy' they are with financial matters. As can be seen, the numbers reporting high levels of confidence in managing money and 'savvyness' are higher than those reporting high levels of knowledge.

Groups 1 and 2 have similar levels of confidence in managing their money, knowledge about financial matters and in how they view themselves as confident and savvy when it comes to financial products and services, suggesting that these are not key factors in determining why one group would pay for regulated financial advice in the last 12 months and the other would not.

There are, however, marked differences between Groups 1 and 2 on the one hand, and Group 3 on the other. For example, 64% of Group 1 and 61% of Group 2 rate themselves highly as confident and savvy, whereas the same holds true for just under half (46%) of Group 3.

Table 3.3 Attitudinal profile of the four groups: (All UK adults)

		All UK adults (column percentages)				
		Total	Group 1 Had advice in the last 12 months	Group 2 Not had advice, but might have a need for it	Group 3 Not had advice, and less likely to have a need for it	Group 4 Not had advice; unable to assign to Group 2 or 3
Confidence in managing money[1]	High	37	45	45	30	42
	Moderate	39	44	39	39	36
	Low and not at all	24	12	16	31	22
Knowledge about financial matters[2]	High	16	22	20	13	17
	Moderate	38	49	46	32	39
	Low and not at all	46	29	34	55	44
Savvy consumer – level of agreement[3]	High	52	64	61	46	53
	Moderate	22	14	16	24	27
	Low and not at all	26	21	23	30	20

Respondents were asked whether they agreed with the statement that they 'would not know where to start to look for an adviser'. Unsurprisingly, the vast majority (79%) of adults in Group 1 disagree with the statement. However, that figure was lower for the other groups, with 55% and 38% of Groups 2 and 3 respectively disagreeing.

Don't know where to start to look for an adviser – level of agreement[4]	High	34	13	28	40	34
	Moderate	20	8	17	22	25
	Low and not at all	46	79	55	38	41

Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)

[1] Findings rebased to exclude 'Don't know' responses (111)

[2] Findings rebased to exclude 'Don't know' responses (165)

[3] Findings rebased to exclude 'Don't know' responses (281)

[4] Findings rebased to exclude 'Don't know' responses (682)

Looking at the different groups' attitudes to retirement planning, as shown in the table below, there are some marked differences. Sixty percent of those in Group 1 who have not yet retired have thought a great deal about how they are going to manage financially when they retire, compared to just 40% of non-retirees in Group 2, and 15% of the non-retirees in Group 3.

Table 3.4 Thought given to how they are going to manage financially when they come to retire, for all four groups (All UK adults who have not retired)

	All UK adults who have not retired (column percentages)				
	Total	Group 1 Had advice in the last 12 months	Group 2 Not had advice, but might have a need for it	Group 3 Not had advice, and less likely to have a need for it	Group 4 Not had advice; unable to assign to Group 2 or 3
Yes I have given it a great deal of thought	25	60	40	15	28
Yes, I have thought about it a little	40	34	44	39	37
No, I have no really thought about it	35	6	16	46	35

Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)

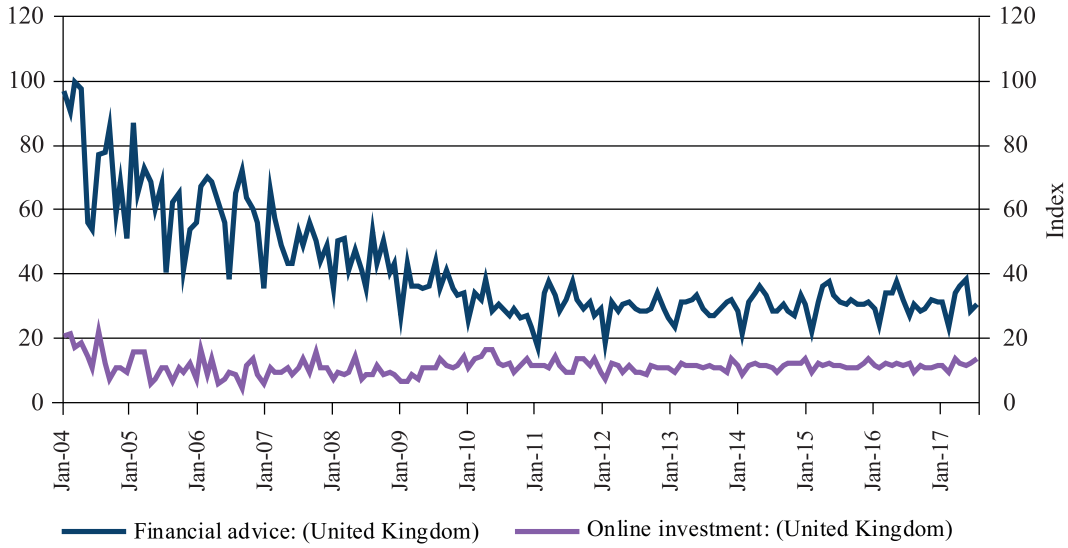
Search Engine Statistics

As described above, we believe that it is important to track consumer actions in this area, rather than just consumers self-assessed levels of engagement from surveys. This is so as to capture actual changes in behaviour. One aspect of this is tracking consumers' investment product purchases via platforms and direct from providers (see section 3.2.1 in this report). For this purpose, we can also track consumers' use of particular terms when searching online, as a proxy of interest in a particular product or service and as a broad indicator of engagement in their financial affairs.

The chart below shows searches for the terms 'financial advice' and 'online investments', going back to 2004.[12]

Searches for 'financial advice' have been consistently higher than for 'online investments' over the entire period shown. However searches for the former fell significantly in the period from 2004 to approximately 2011 and has been relatively stable since.

Figure 3.5 Online searches for 'financial advice' and 'online investments'



Source: Google Trends, (accessed 30 May 2017)

3.1.2 Supply side

In this section we look at the factors which contribute to the supply of advice and the different ways that it is being offered.

The number and different types of advice firms/advisers in the market

One of the key indicators of the accessibility of advice is the number of firms and advisers in the market. RMAR returns show that the number of staff who advised on retail investment products at end of December 2016 was approximately 34,600.[13] The number of advisers is slightly higher in 2016 than in recent years[14], but it should be noted that the method of collecting data on adviser numbers changed in 2016 and so caution should be exercised when comparing these figures with earlier data (e.g. 31,150 in October 2014).

12 Please note that the lines are indexed from January 2004 (shown as 100 on the y axis) rather than displaying the actual numbers of searches.

13 Source: number of firms and number of staff who advise on retail investment products as reported by firms on RMAR – latest section G returns for calendar year 2016 from all firms on the FCA register as at 31 December 2016. The RMAR data counts the number of 'posts' so individuals who work at more than one firm may be counted under both firms' returns.

14 See section 5.3.3 for previous adviser data https://www.fca.org.uk/publication/research/rdr-post-implementation-review-europe-economics.pdf

The table below sets out an overview of the number of firms and staff who advise on retail investments according to their firm category as at the end of 2016.

Table 3.6 Number of firms and staff who advise on retail investments according to their firm category as at the end of 2016

Type of firm	Number of firms	Staff who advise on Retail Investments
Financial Adviser	5,218	25,611
Bank & Building Societies	38	3,525
Investment Managers	209	1,980
Stockbrokers	40	1,839
Other firms	345	1,629
Total	**5,850**	**34,584**

Source: Number of firms and staff who advise on retail investment products as reported by firms on RMAR – latest section G returns for calendar year 2016 from all firms on the FCA register as at 31 December 2016.

We will continue to monitor the number of advisers in the market, however rises and falls in the absolute numbers do not necessarily mean a corresponding increase or decrease in the supply of advice. For example, if the number of advisers falls but more consumers are serviced by online models, or advisers are able to look after more clients due to technology efficiencies, then the supply of advice will not necessarily have reduced.

Firm profiles

As can be seen from the chart below, the advice sector consists of a high number of smaller sized firms – 87%[15] of firms have five or fewer advisers. At the same time, only 1% of firms have over 50 advisers but yet these larger firms employ around 50% of the advisers in the industry.

15 Please note that this figure is slightly different from that presented in the FCA Data Bulletin Number 9 since this analysis also includes other types of firms such as banks.

Figure 3.7 Number of firms providing advice on retail investments split by type of firm and size

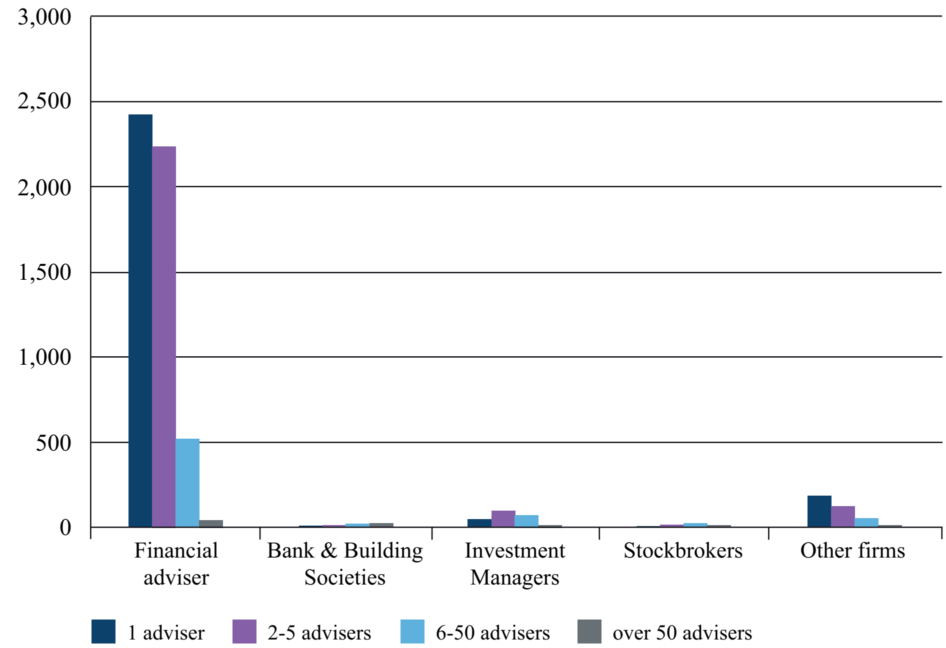
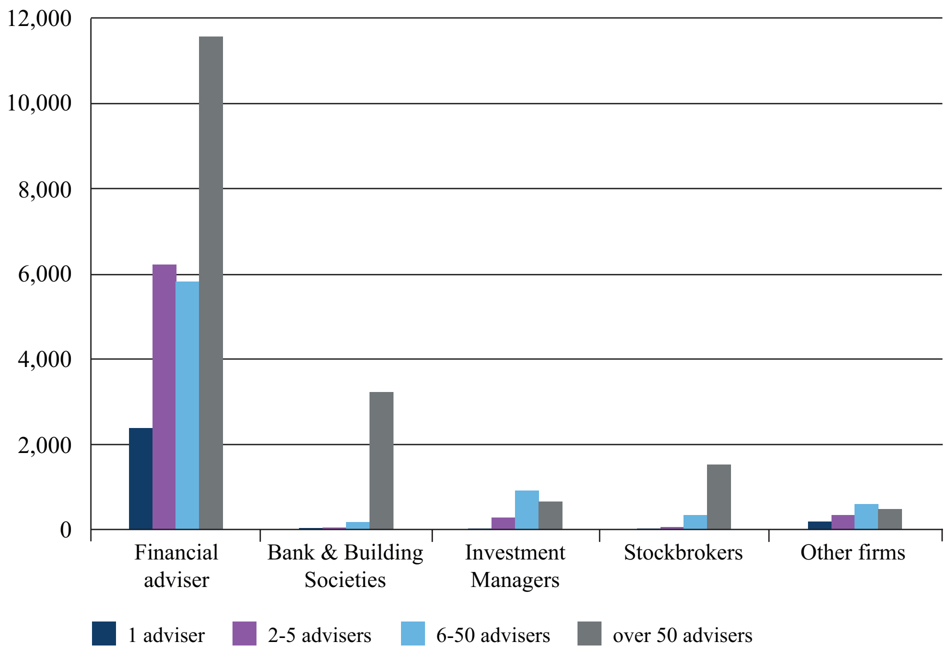


Figure 3.8 Number of staff advising on retail investments split by type and size of firm



Type of advice

Independent financial advice[16] makes up the majority of the advice on offer in the sector in 2016 with 83% of firms providing independent advice versus only 15% providing restricted advice.[17]

Table 3.9 Adviser firm numbers by independent and restricted

	Number of firms	%
Independent	4,758	83%
Restricted	848	15%
Both	140	2%
	5,746	**100%**

Source: FCA RMAR returns (2016)

However, while only 15% of firms offer restricted advice, it formed almost 40% of adviser charge revenue in 2016. This is due to some of the largest firms in the market offering restricted advice while many of the smaller firms offer independent advice.

Table 3.10 Adviser firm charges by independent and restricted

	%
Independent	61%
Restricted	39%
Total	**100%**

Source: FCA RMAR returns (2016)

Delivery mechanism employed – automated advice

Since its launch in 2014, the FCA's Project Innovate has been supporting new and established firms to introduce innovative financial products and services to the market. It has seen an increasing number of firms applying for support and looking to make use of the Regulatory Sandbox. The FCA's Advice Unit has been working with 10 firms that are developing automated advice models since it was set up in June 2016. The Unit has now started work with a second cohort of a further 7 firms and expanded the scope of the Unit. During 2017 the Advice Unit will continue to publish tools and resources, informed by its experiences to date.

The automated advice market is currently very small relative to the overall retail investment market. Based on their analysis of the leading UK players, Ignition House estimate the total assets under management AUM for the automated advice market as around $500m/£390m (August 2016) while more recent accounts estimate that the market has grown to approximately £1bn.[18] Both estimates are less than a 1% total retail investment market share.[19] However there is widespread interest and reports of further development and future launches in this channel. Our intelligence suggests that there are approximately 100 'robo models' either already launched or in development across a broad spectrum of services ranging from simple budgeting, non-advised investment, discretionary investment management and online personalised recommendations.

16 Independent advice is where personal recommendations given by a firm are based on a comprehensive and fair analysis of the relevant market and are free from bias.

17 Restricted advice is where the personal recommendations provided do not meet the standards of independence, for example because the advice firm only recommends the products of one provider.

18 Boring Money http://www.boringmoney.co.uk/Investments/robo-adviser/ Pg 99 Ignition House - Robo Advice: Evolution or Revolution? August 2016

19 Estimates may also vary due to differences in classifying the services provided by different models.

Size of investment/pension amount advised on

During the course of the FAMR review, concern was expressed that the minimum level of investable assets required to access advice has risen over recent years. It was suggested that customers may need investable assets of £50,000 to £100,000 to obtain advice.

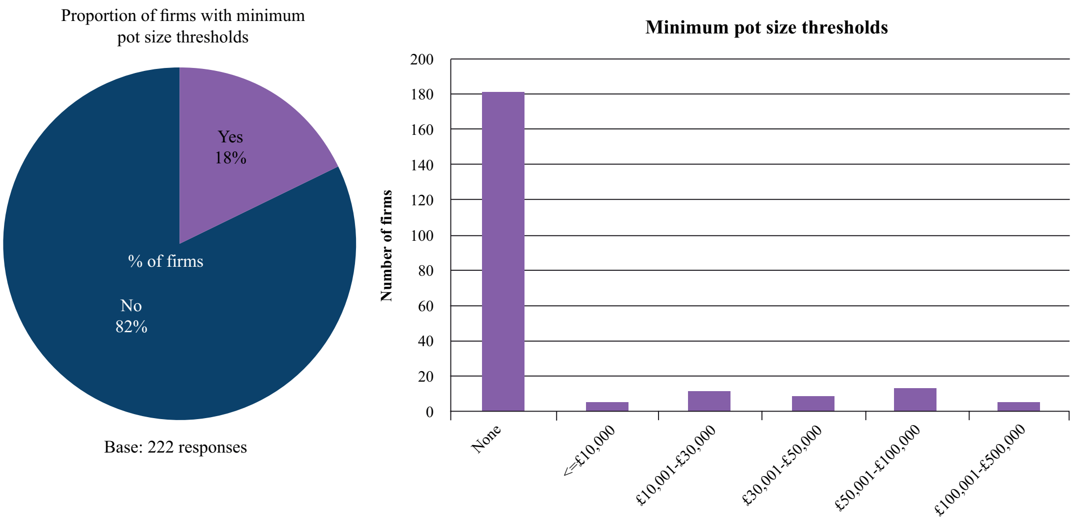
We conducted a survey of advisers to inform the final FAMR recommendations (late 2015) and asked firms whether they were using minimum investment/pension pot size thresholds for determining whether to offer advice on:

- Retirement income
- Pension accumulation
- Investments

Minimum pot thresholds for retirement income advice

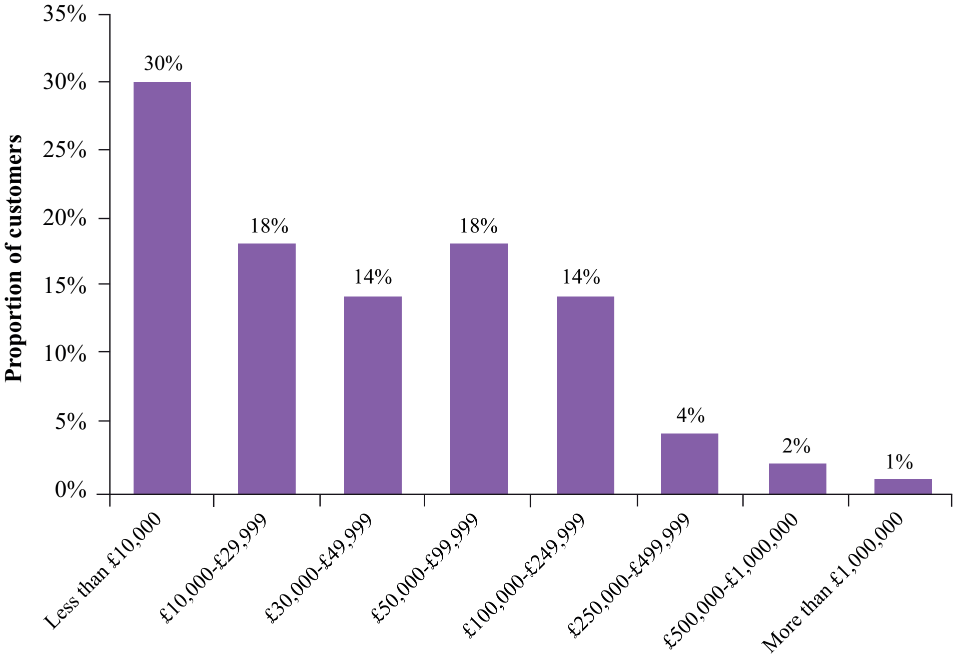
In respect of retirement income advice the majority of firms in the sample (82%) said that they did not use minimum pot size thresholds. Of the 38 firms that reported the minimum pot size thresholds for retirement income advice that they used, 21 had thresholds of £50,000 or less, and 15 of £30,000 or less.

Figure 3.11 Firms' minimum pot size thresholds



For pensions accumulation advice, 62% of customers advised by the firms in the sample had investable assets of less than £50,000; 48% had less than £30,000; and 30% had less than £10,000. Firms were asked to report the pension accumulation assets advised on in the most recent 12 months for which they had data. Both new and existing customers were included in the data provided by firms.

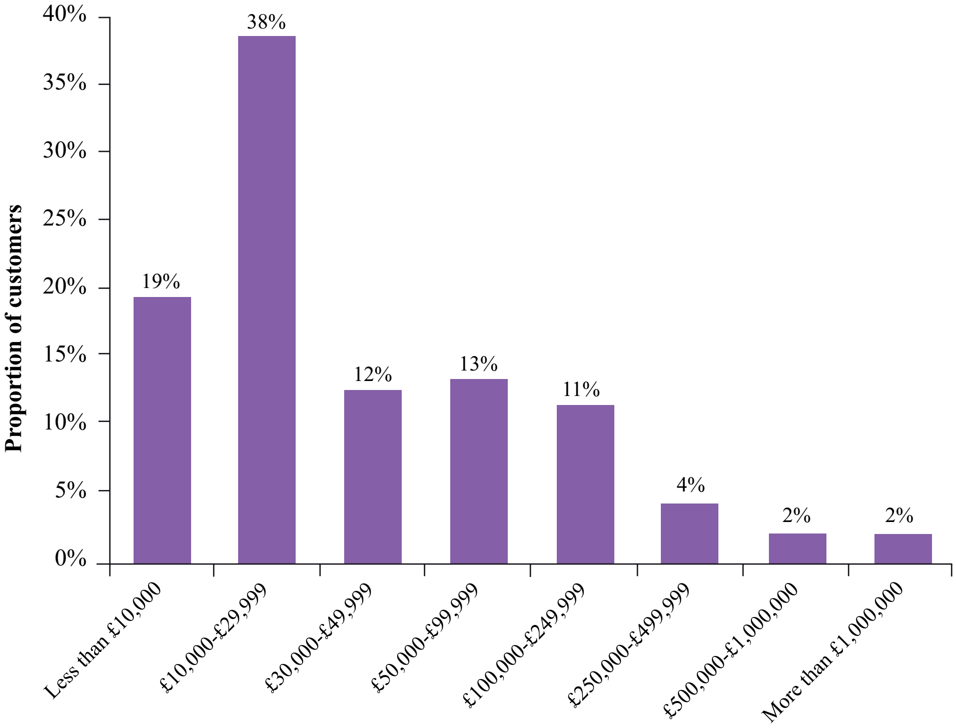
Figure 3.12 Pensions Accumulation advice by investable assets



Base: 201 responses. 'Report the number of customers advised on pensions by the following investable pension assets bands, in the 12 months to 30 September 2015 (or the most recent 12 months for which you have data).'

Similarly, 69% of (new and existing) customers advised on investments had investable assets of less than £50,000; 57% had less than £30,000; and 19% had less than £10,000. This is likely to capture customers' investments in the most recent 12 months and not necessarily customers' overall assets.

Figure 3.13 Investment advice customers by investable assets



Base 208 responses. 'Report the number of customers advised on investments by the following investable asset bands, in the 12 months to 30 September 2015 (or the most recent 12 months for which you have data).'

The evidence presented in this section suggests that the majority of consumers with smaller investment/pot sizes are able to obtain advice. As the FAMR recommendations are embedded, we might expect this picture to improve further.

Industry's views on the barriers to offering mass market advice

The FAMR firm survey asked firms for their views on what constituted the biggest barriers to offering mass market advice. The table below shows the relative importance of the barriers associated with regulatory clarity and with fees and levies.

Table 3.14 Industry's views on the barriers to offering mass market advice

	Very important	Important
Fees and levies	63%	25%
Uncertainty around present and future regulatory requirements	37%	29%
A lack of regulatory clarity around what constitutes regulated advice/personal recommendation	21%	26%

A number of the FAMR recommendations were designed to improve clarity for firms, including the change to the definition of advice[20], and the publication of a number of pieces of guidance for the industry.[21] We might expect there to be some improvement in the industry's views when we next come to measure this. However, we may need to disentangle firms' views about the clarity of the FCA's expectations of them and firms' own risk appetites which may be preventing them from adopting new models, even though the regulatory environment may be more certain.

Range of channels

One of the FAMR aims was that there should be a wide range of channels available for consumers to access financial products and services. In its final report, FAMR acknowledged the different requirements of consumers according to their own financial circumstances and preferences. In particular, it recognised a need for a 'simple and clear way to provide regulated advice for customers with less wealth or simpler needs'. Some of the recommendations made by FAMR were therefore specifically intended to foster a market where innovating firms offer streamlined advisory services that are commercially viable and provide appropriate consumer protection.

The overall D2C[22] market was £469.9bn AUA[23] as at 30 September 2016. This represents an increase of 3.3% on the previous year.[24] The table below shows how this breaks down between platforms, wealth managers, fund managers, banks and insurers/pension providers.

20 https://www.fca.org.uk/firms/financial-advice-market-review-famr/changes-regulated-activities-order

21 Outlined in FAMR Progress Report https://www.fca.org.uk/publication/corporate/famr-progress-report.pdf

22 Direct to consumer

23 Assets under administration

24 Pg 13 UK D2C guide: Market size and structure. Platforum (February 2017)

Table 3.15 D2C Distribution channels by assets held

Distribution channel	September 2016 AUA (£bn)
Direct platforms	170.3
Execution-only with wealth managers	52.0
Direct with fund managers	23.6
Direct with retail banks (limited investment propositions)	7.2
Direct with pension and insurance providers	216.8
Total	**469.9**

Source: Platforum, February 2017

The biggest share was held with pension and insurance providers (46.1%), followed by 36.2% held on direct platforms.

Looking at platforms specifically, they have seen a significant increase in growth over the past decade (from just under £50bn in 2008 to around £170bn in 2016). Although the Assets under Administration figure has increased by almost 18%, the total number of clients has only increased by 0.5% (to just over 4.7m).[25]

3.2 Affordability

The FAMR report set out how a number of factors combine so that not all consumers can currently afford to access advice at a price they are willing or able to pay. The costs of supplying traditional face-to-face advice can be significant; the process can be lengthy and involve a considerable time investment by the adviser. This means most firms are unable to provide advice at a price many consumers would consider reasonable. FAMR considered that new technologies and automation could play a major role in driving down the costs of supplying advice and enabling firms to engage with consumers more effectively.

3.2.1 Demand side

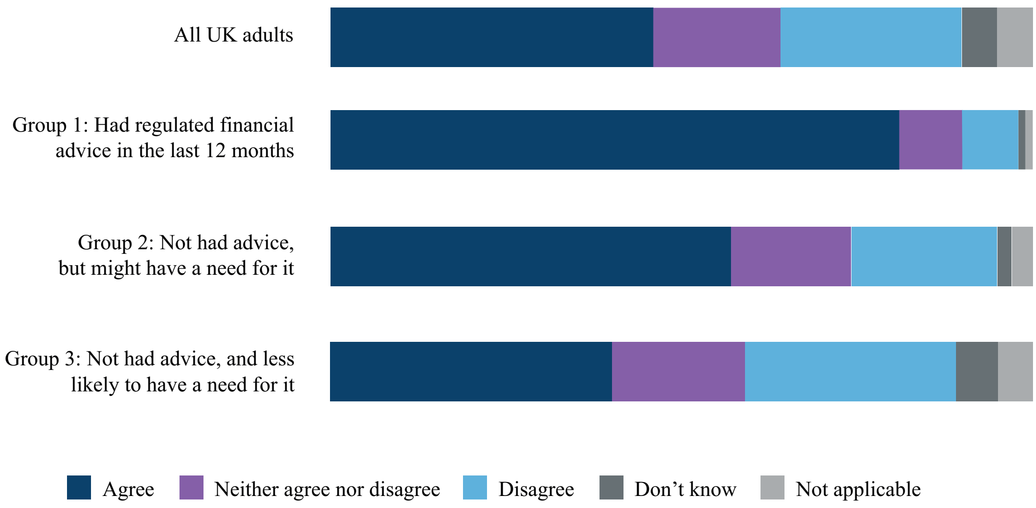
Consumer willingness to pay for advice

The Financial Lives survey explored the extent to which consumers said that they are willing to pay for advice (including automated advice).

The results show that just under half (46%) of UK adults would be willing to pay for regulated financial advice if the costs were 'reasonable'. As we might expect, a large majority (81%) of those in Group 1 (who had received advice in the previous 12 months) were willing to pay for advice whereas this figure fell amongst Groups 2 and 3 who had not received advice (58% and 40% respectively). The full results are shown in the table below.

25 Platforum, February 2017.

Figure 3.16 Willingness to pay for financial advice if the costs were reasonable (all UK adults)



Source: Quantitative research to inform the FAMR baseline, Ignition House (June 2017)

When asked to think about acceptable price points, half (51%) of the consumers in Group 2 said they would not be prepared to pay for advice at any price. Of those in Group 2 who would pay, less than a fifth would be willing to pay more than £500. The average and median advice charges indicated by the data collected within the ASR are greater than £500 (see section 3.2.1 below for further details). It is worth noting that the majority (72%) of those in Group 1 thought the fee they had paid for advice was about right, whilst 21% thought it was too expensive.

Paying for automated online advice

This is an area of the market where it is possible to offer lower-cost and more accessible advice options that may be attractive to those who do not currently seek traditional financial advice. The Financial Lives Survey asked consumers a range of questions about the use of automated online advice and their willingness to pay for it, and the detailed results are set out in Table 3.16, below. These findings are set against a backdrop of low awareness of automated advice amongst consumers; the survey found that 10% had heard of at least one firm providing it.[26]

More than eighty per cent (83%) of Group 1 would not pay for automated online investment advice, although this drops to 76% for Group 2. Table 3.16 suggests that the group least likely to feel comfortable paying for automated online investment advice are those 65 and over, where just 11% of Group 1 and 15% of Group 2 would be open to paying for this type of advice. Contrast this to the 44-54 year olds, where 25% of 44-54 year olds in Group 1 and 30% in Group 2 are willing to pay.

26 This estimate may be an overestimate of the awareness in the market due to various research effects and should be treated with caution (this is described in section 10.4 of Annex A Financial Advice and Guidance: Quantitative research to inform the Financial Advice Market Review (FAMR) baseline

Table 3.17 Willingness to pay for automated online investment advice (All UK adults in Group 1 who have not used automated online advice and say that they "would pay for automated online advice" and all in Groups 2, 3 and 4 who say they "would pay for automated online advice")

[x] denotes percentages based on 20 to 49 unweighted observations

Proportion of UK adults who would pay for automated online advice (row percentages)

		Group 1	Group 2			Group 1	Group 2
Total		17	24				
Gender	Male	20	28	Annual gross household income	Less than £15,000	[15]	18
	Female	13	19		£15,000-£29,999	10	23
Age	18-34	[33]	37		£30,000-£49,999	18	22
	35-44	[25]	34		£50,000+	23	28
	45-54	25	30	Personal income	Less than £15,000	10	20
	55-64	12	20		£15,000-£29,999	15	20
	65+	11	15		£30,000-£49,999	18	29
Couple status	In couple	19	23		£50,000+	27	30
	Not in couple	14	27	Investible assets	Less than £10,000	21	*
Working status	Employed	23	31		£10,000-£19,999	[24]	24
	Self-employed	22	26		£20,000-£49,999	21	26
	Unemployed	*	[33]		£50,000+	18	23
	Retired	10	14	Tax bracket	No tax	10	22
	Other	9	24		Basic	14	22
Life stage	Not retired 18-44	28	36		Higher/additional	27	30
	Not retired 45-54	26	30	Knowledgeable about financial matters	High	15	23
	Not retired 55+	13	21		Moderate	19	25
	Retired	10	14		Low or not at all	16	24
Education levels	Postgrad/degree	21	29	Internet ability	Excellent	24	29
	A level/diploma	14	23		Good/fair	14	24
	GCSE/trade	13	24		Poor/bad	*	14
	Other	[15]	17		Do not use internet	*	[13]
	No qualifications	[14]	17				

D23a_cmbd and adv_E9a. Please think about how much you might be willing to pay, in the forseeable future, for online automated advice, about how you might invest [£10,000/£25,000/£50,000]. Automated advice is personalised advice which usually incurs a charge, where you input your financial information and objectives and this information is used to generate investment and/or pension recommendations suitable for you (automated). Not to be confused with simple online tools and calculators, online automated advice usually incurs a charge. 2. At what price would the advice be too expensive and you would not pay it?

Base. All UK adults who have had regulated financial advice in the last 12 months, but not automated advice (757), All UK adults who have not had advice, but might have a need for it and have not used automated advice (2,936).

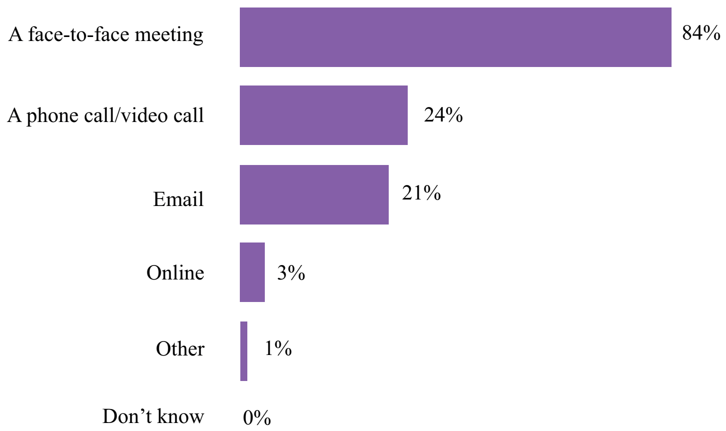
Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)

Usage of different delivery channels

The way in which advice is delivered can be a key determinant of how much it costs to provide. The chart below from the Financial Lives Survey shows that 84% of advice provided in the last 12 months was delivered in face-to-face meetings. For a quarter of cases, phone or video calls were used, followed closely by email. Online advice accounted for only 3% of cases.

As technology is more widely adopted and consumers grow ever more used to conducting their affairs using the latest technology, we will observe the degree to which the delivery channels employed change.

Figure 3.18 Delivery channel for the most recent advice session (Group 1)



Source: Quantitative research to inform the FAMR Baseline, Ignition House (June 2017)

3.2.2 Supply side

In this section we detail the types and levels of adviser charges made by firms as well as their operational costs.

Types of charging structure adopted by firms

Our RMAR data show that the most common method of adviser charging offered is a percentage fee based on the size of investment. This is the case both in terms of charges for the initial advice and also any ongoing charges for advice services subsequently provided.

Table 3.19 Adviser charging

Type of charge	Number of firms	
	Initial charge	On-going charge
Time charged at an hourly rate	1,663	1,259
Percentage of investment amount charged	4,130	4,362
Fixed fee charged, regardless of amount invested	1,971	1,215
Combination of different types of charge	905	799

Source: FCA RMAR returns (2016)

It should be noted that some firms offer more than one type of charging structure so the totals will add up to more than the total number of firms in the advice firm population.

The data also show that in 2016, 79% of adviser charges were facilitated[27] by the provider.

Levels of adviser charges

This section looks at the charges which advisers have made for their advice, both in terms of ongoing and initial advice provided.

Table 3.20 Average advice charges by type of charge and adviser

Fee Type	Restricted advice[28]	Independent advice[29]	All advisers
Initial	3.57%	2.81%	3.12%
Ongoing	0.63%	0.72%	0.69%

Source: Data gathered for the ASR[30]

Overall, percentage charges were on average just over 3% for initial advice and almost 0.7% for ongoing services. Restricted advisers recorded slightly higher initial charges but slightly lower ongoing charges than independent advisers over the period.

Charges according to the amount invested break down as shown in the table below. Seventy percent were in respect of advice on amounts below £50,000 and 86% below £100,000.[31]

Table 3.21 Adviser charges by investment amount

Amount	Initial charge	Ongoing charge	Percentage of sample[32]	Average amount	Illustrative initial charge
Less than £50,000	3.4%	0.71%	70%	18,500	£629
£50,000>£99,999	3%	0.68%	16%	69,000	£2,070
£100,000>£149,999	2.2%	0.64%	6%	115,000	£2,530
£150,000>£199,999	1.5%	0.76%	2%	173,000	£2,595
£200,000+	2.1%	0.66%	5%	401,500	£8,431.50

From the data, the mean average initial charge was 3.12% and the median average initial charge was 3%. The mean average investment amount was £90,000 whilst the median investment amount was £24,000. For illustration purposes, this would equate to a mean average initial charge of £2,808 and a median average initial charge of £720.[33]

27 The RDR rules allow clients to agree to the payment of adviser charges directly from the investment (known as 'adviser charging facilitation'). An adviser charge can be deducted from the investment as a lump sum or, if an ongoing service is provided or the product is a regular payment one, as a series of regular payments.

28 Restricted advice is defined as (a) a personal recommendation to a retail client in relation to a retail investment product which is not independent advice; or (b) basic advice

29 Independent advice must be based on a fair and comprehensive analysis of those products that are capable of meeting the client's stated investment objectives and needs

30 These figures are market-weighted and are based on a sub-set (comprising approx. 700 files) of the sector-representative data set gathered during the course of the FCA Assessing Suitability Review (based on advice given in 2015).

31 These figures are market-weighted and are based on a sub-set (comprising approx. 590 files) of the sector-representative data set gathered during the course of the FCA Assessing Suitability Review.

32 These figures are based on a sub-set of the sector-representative data set (comprising approx. 590 files) gathered during the course of the FCA Assessing Suitability Review.

33 These figures are based on a sub-set of the sector-representative data set (comprising approx. 590 files) gathered during the course of the FCA Assessing Suitability Review.

Adviser firm costs

The costs of providing advice include the costs of marketing expenditure, 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.

Findings in respect of firms' overall costs, regulatory costs and use of technology when providing advice are detailed in Annex C. However, some notable indicators are set out below.

Regulatory costs

During the course of FAMR, the issue of costs (particularly regulatory costs) to firms was highlighted along with the potential impact they may have on the level of advice charges. APFA research[34] (November 2016) found that on average, small to mid-sized firms are spending 11% of their income on regulatory costs, including both direct (fees and levies) and indirect regulatory costs (such as compliance staff/support). Of this, 3% is spent on direct fees and levies, and 8% on indirect costs such as the cost of employing internal compliance staff/external compliance support.

The proportion of income spent on direct fees was the same as over the previous two years while for indirect costs it had fallen from 9% in both 2013/2014 and 2014/15. However, in absolute terms, for all businesses with revenue of less than £1m, average direct charges went up from £6k to £9k. It should be noted that these figures refer to the costs only of advice firms; other firms, such as providers and banks can and do provide advice.

The Financial Inclusion Centre has suggested that these regulatory costs be seen as the true cost of doing business well[35]; in other words, firms ensuring that they meet their legal obligations to their clients. By way of context, the profitability of financial adviser firms has risen over recent years, with average pre-tax profits increasing from approximately £95,000 in 2009 to approximately £170,000 in 2015.[36]

3.3 Quality

The final FAMR report stated that the UK's financial advice market can be made to work better to deliver high-quality, affordable advice and guidance for all consumers. This section includes indicators which can be tracked to monitor the quality of advice and guidance as the market develops.

3.3.1 Demand side

Overall, the Financial Lives Survey showed that most people were satisfied with the advice they received with only 15% giving a low score, or saying they are not satisfied at all. The qualitative research also found that most participants were satisfied with their advice experience.

It is not clear how closely this positive experience relates to investment outcomes, and how it might differ in times of more volatile market performance.[37] It is also worth noting that the participants' comments are likely to have been made shortly after receiving advice but before there had been adequate time to evaluate its effect.

34 http://www.apfa.net/documents/Publications/APFA-cost-of-regulation-november-2016.pdf
APFA and WMA merged on 1 June 2017 http://www.apfa.net/APFA/News/Press_Items/WMA_APFA_unveil_proposal_to_create_trade_association_for_UK_investment_management_financial_advice.aspx

35 http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2016/08/Financial-Inclusion-Centre-policy-and-risk-outlook-2016-final.pdf

36 http://www.apfa.net/documents/publications/financial-adviser-market/apfa-the-financial-adviser-market-in-numbers-v5.0.pdf

37 Measuring any change in this respect could take a very long time and given that it depends on consumers' perceptions may not be possible at all.

Personal interaction, particularly face-to-face, was highly valued, especially where larger sums were being invested. Participants felt that forming a relationship with an adviser provided valuable reassurance and established trust.

On the whole, consumers also appeared to be satisfied with the information and guidance available. When asked about their use of information or guidance in the last 12 months, 34% of consumers who had received information or guidance from family and friends said ‘it had helped a lot’ (no other source of information or guidance was rated this highly by its users).

Both the survey and the qualitative research showed that those who had accessed such services in the workplace were generally positive about the experience, with 23% of those that use information or guidance through the workplace rating it as ‘helping a lot’ and a further 64% rating it as ‘helping a little’. Although only a minority had accessed the government websites (e.g. TPAS, Money Advice Service (MAS), Pension Wise), they praised them for the amount of information and guidance given. The content had helped them proceed with their journey, typically either directly on to product providers or to regulated advice. The financial press and private sector financial websites were also used, often in combination with other sources.

3.3.2 Supply side

For the purposes of the FAMR baseline indicators, we consider that monitoring compliance with our suitability requirements is a helpful proxy for the quality of advice. The ASR can be used for this purpose.[38]

The ASR assessed over 1,100 individual pieces of advice given by 656 firms against the suitability and disclosure rules in the Conduct of Business sourcebook (COBS). It concluded the following in terms of suitability:

- In 93.1% of cases, the sector provides suitable advice
- In 4.3% of cases, the sector provides unsuitable advice
- In 2.5% of cases, the sector provides unclear advice[39]

The findings suggest that overall the market is delivering advice which meets our standards.

Please see Annex C for more granular data on the suitability of advice and also for complaints data.

38 The purpose of the review was to assess a statistically robust sample of advice files to draw conclusions on the suitability of advice and quality of disclosure in the sector as a whole. https://www.fca.org.uk/publications/multi-firm-reviews/assessing-suitability-review

39 The results are rounded to the nearest one decimal point, therefore they do not add up to exactly 100%.

4.
Next steps

This document has set out a number of different indicators which will be tracked on an annual basis and the results will be published on the FCA website. The baseline findings will also be used as a benchmark against which to assess the outcomes of FAMR when conducting the review in 2019.

The quantitative analysis and supply-side metrics derived from FCA reporting will also be available annually. Although the qualitative analysis will not usually be conducted annually, this work will be replicated in 2019 when we conduct the planned review to identify how the market has developed and the outcomes of FAMR.

Having identified what measures of success are likely to feature in subsequent analysis, we recognise that FAMR is a package of proposals. So when we evaluate the outcomes of FAMR in 2019, we will be looking at the overall picture presented by the indicators, rather than at the specific measures in isolation. However, some of the FAMR recommendations are still being implemented and it may be some time before any effects from these measures are apparent in the market.

While FAMR is intended to create the right conditions to make the market for financial advice work better for consumers, its success depends on the actions of a number of different organisations, including the FCA, HM Treasury, the Financial Ombudsman Service and the financial services industry, and their continued cooperation and commitment. The success of FAMR also depends on the financial services industry taking up the opportunities provided by the measures taken. In addition, the consumer research findings indicate a significant lack of engagement with financial advice amongst consumers which developments in the industry may not necessarily address. It may also be difficult to attribute the causes of changes in the market, especially in the light of the significant environmental changes expected over the coming years (such as MiFID II implementation and Brexit).

Annex A
Financial Advice and Guidance: Quantitative research to inform the Financial Advice Market Review (FAMR) Baseline

Published alongside this report https://www.fca.org.uk/publication/research/famr-quantitative-research.pdf

Annex B
Financial Advice and Guidance: Qualitative research to inform the Financial Advice Market Review (FAMR) Baseline

Published alongside this report https://www.fca.org.uk/publication/research/famr-consumer-research-nmg-consulting.pdf

Annex C
Supply side indicators

This Annex provides additional supply side indicators across the three FAMR themes of accessibility, affordability and quality of advice and guidance. It draws on a range of different sources as set out in Section 3 above.

Accessibility

Number of clients being advised

The number of firms/advisers on their own does not tell the whole story in relation to the supply of advice, since the issue is not solely the number of advisers, but the number of clients those advisers service (plus the number of consumers served by automated advice) which determines capacity in the market.

Greater use of technology by advisers and also the use of paraplanners (staff who undertake much of the research/report writing on behalf of an adviser) have been credited for increasing efficiencies in the sector which mean that individual advisers are able to service more clients.[40]

In Q3 2016, the average number of active clients per adviser was 121.[41] This figure is reported to be stable compared with previous recent quarters.

Affordability

Adviser costs

Costs of providing advice

The costs of providing advice include the costs of marketing expenditure, staff costs, insurance costs and regulatory costs and fees. In the survey of firms to inform the FAMR recommendations, we asked firms to rate the importance of various potential barriers to offering affordable advice propositions for the less affluent and the mass market. Most firms rated regulatory costs as the most important barrier to offering 'mass market' advice: 88% said fees and levies were 'very important' or 'important barriers', while 90% said cost of compliance with our rules and reporting requirements were 'very important' or 'important barriers'. Over a third (36% of firms in the medium and large segment rated fees and levies as a 'very important' barrier, compared to around two-thirds (68% and 67% respectively) of firms in the small and very small segments.

A large percentage (82%) of firms said that the risk and costs of potential liability or redress were 'very important' or 'important barriers'.

40 https://www.fca.org.uk/publication/research/rdr-post-implementation-review-europe-economics.pdf

41 Source NMG Financial Adviser Census: Business Trends Report (Q3 2106)

The operational costs of providing advice (cost of the advice process, administration and remuneration of advisers) were viewed as a significant barrier to providing mass market advice with at least 78% of firms reporting these factors to be a 'very important' or 'important' barrier. Overall, larger firms view them as less of a barrier.

Findings in respect of firms' overall costs, regulatory costs and use of technology when providing advice are set out below.

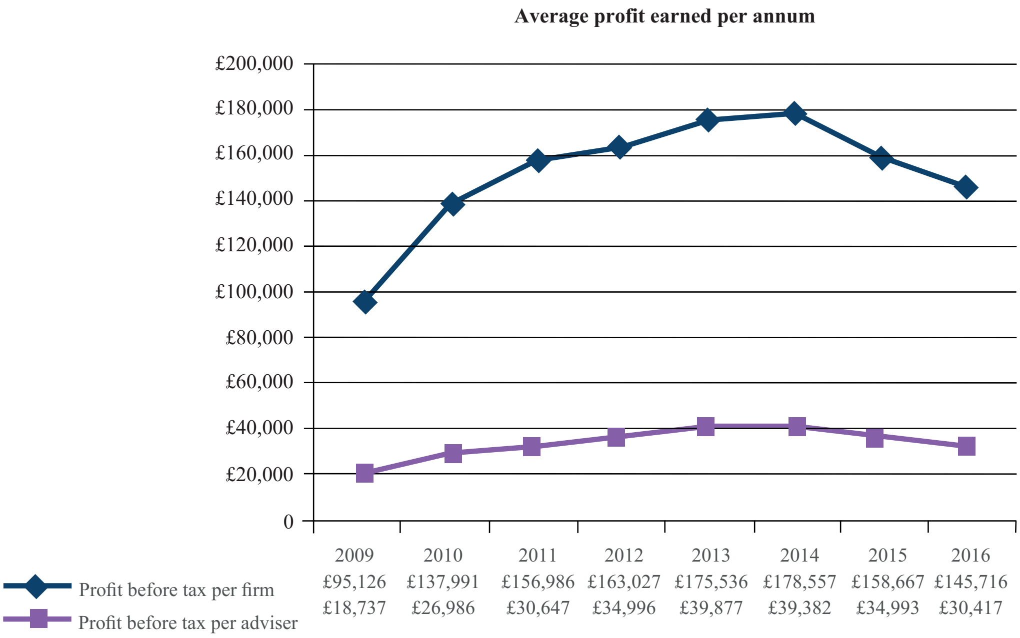
Table C1 Firms' costs

	Average total expenditure per firm (£)	Average expenditure per adviser (£)
1 adviser	97,220	97,220
2-5 advisers	346,601	124,703
6-50 advisers	1,531,182	147,841
Over 50 advisers	65,972,496	182,361

Source: FCA RMAR returns (2016)

To provide additional context, the chart below is from RMAR analysis published in APFA's Advice market in Numbers report 2016.[42] As can be seen from the chart, firms' profitability rose steadily from 2009 to 2014, falling slightly thereafter.

Figure C2 Firms' average profit per annum



Adviser firm use of technology/other efficiencies

Given the concern about the costs associated with providing advice outlined above, technology has been indicated as a way of potentially driving them down. In the FAMR survey (November 2015), we asked firms about their current and future use of different technology when delivering

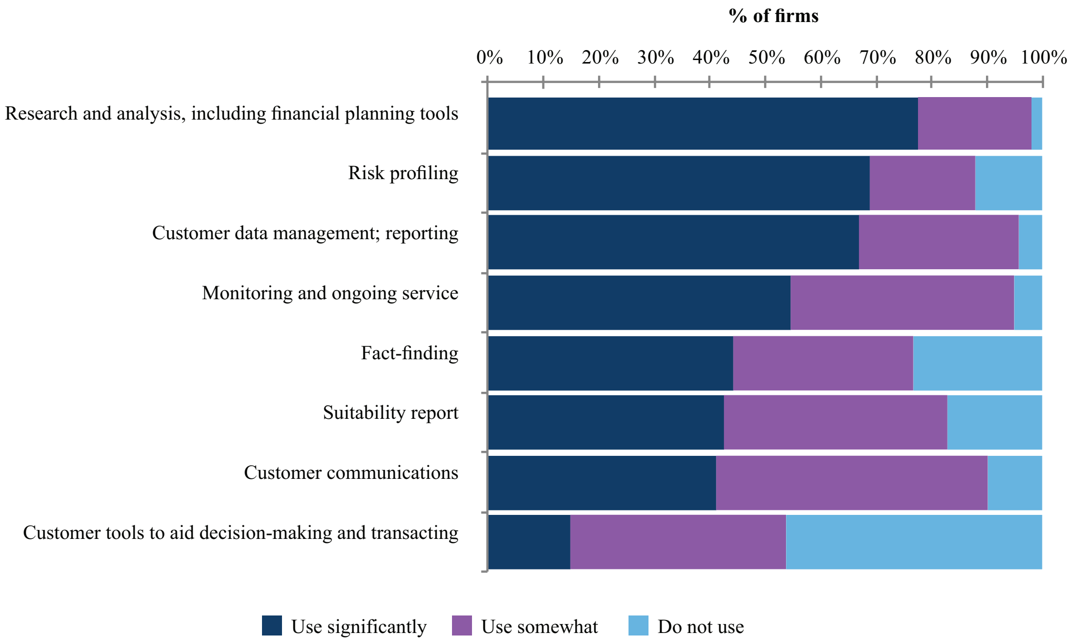
42 http://www.apfa.net/documents/publications/financial-adviser-market/apfa-the-financial-adviser-market-in-numbers-v4.0.pdf

advice. The majority (94%) of investment advice by value (average across firms) was delivered using face-to-face meetings and a small fraction (6%) was delivered via telephone. Only four firms in the sample (less than 1%) said they used 'automated advice'. The large majority of firms (94%) did not consider that their use of the different channels would change in one year's time.

However, the picture was different in relation to the use of technology and automation as part of their 'back office' advice processes. For example, the majority of firms reported that they used technology to a significant degree for research and analysis (78%), risk profiling (69%), customer data management and reporting (67%) and monitoring and on-going advice services (55%).

Just 15% of firms said they used technology to a significant degree for providing customers with tools to aid decision-making and transacting, and 46% of firms said they did not used technology at all for these purposes.

Figure C3 Use of technology by adviser firms



Base: 233 responses. 'Indicate areas where your firm currently uses technology or automation tools as part of the advice process in order to improve efficiency and/or reduce the costs of the advice process and/or improve customer service, and to what extent. Please focus on the provision of advice in relation to retail investments in your response.'

Details of the way in which our Advice Unit is supporting firms in their development of automated advice models is contained in Section 3.1.2, above.

Quality

Meeting industry standards

For the purposes of the FAMR baseline indicators, we consider that monitoring compliance with our suitability requirements is a helpful proxy for the quality of advice. We have recently completed a large scale review of suitability (the Assessing Suitability Review (ASR)[43]) which can be used for this purpose.

43 https://www.fca.org.uk/publications/multi-firm-reviews/assessing-suitability-review

The review assessed over 1,100 individual pieces of advice given by 656 firms against the suitability and disclosure rules in the Conduct of Business sourcebook (COBS). It concluded the following in terms of suitability:

- In 93.1% of cases, the sector provides suitable advice
- In 4.3% of cases, the sector provides unsuitable advice
- In 2.5% of cases, the sector provides unclear advice[44]

Suitability findings by sector

We identified the following statistically significant differences in respect of delivering suitable advice for different types of advice (i.e. statistically speaking we are confident that the observed differences are real differences and not due to chance):

- Investment advice (94.8%) vs pension accumulation advice (89.6%)
- Investment advice (94.8%) vs retirement income advice (90.9%)
- Firms part of a network (97.2%) vs directly authorised firms (91.4%)
- Independent (90.8%) vs restricted (97.0%)
- Firms with 1-2 advisers (91.8%) vs firms with 25 or more advisers (96.2%)
- Firms with 3-24 advisers (89.3%) vs firms with 25 or more advisers (96.2%)

Given the relatively high level of suitable advice overall, and the comparatively small differences between the above categories, we are not concerned by the differences identified. We plan to repeat the ASR in 2019 and will compare the results at that time against these results to help identify any trends. This second review will also inform the FAMR post implementation review due in 2019.

Complaints data

Complaints data can be an indication of the quality of support that firms are giving their customers and how well they are treating them. We collect complaints data from firms in respect of a number of products and publish them every six months. The data below include the second half (H2) of 2016 (for firm returns with a half-year period ending between 1 July to 31 December 2016).

Complaints about pensions and decumulation

Looking specifically at complaints relating to advising, selling and arranging, non-workplace personal pensions, which includes self-invested personal pensions (SIPPs), stakeholder pensions and personal pension plans, were the subject of more than 2,934 complaints in H2 2016, which is the greatest number of complaints in this product category. Annuities recorded the next largest number of complaints in relation to advising, selling and arranging with 877. The product breakdown is shown below:

44 The results are rounded to the nearest one decimal point, therefore they do not add up to exactly 100%.

Table C4 Complaints in H2 2016 by product type

Product	Complaints opened
Annuities (including enhanced and impaired)	877
Drawdown and UFPLS	67
Non-workplace personal pensions (e.g. SIPPs, SHPs, PPPs)	2,934
Trust based pensions (e.g. Occupational and Defined Benefit)	167
Workplace personal pensions	197

Source: FCA complaints data (only those product categories registering more than 50 complaints in H2 2016 are shown here)

Investments

In respect of investments, endowments received the most complaints in H2 2016 in relation to advising, selling and arranging, followed by ISAs and investment bonds. The full details are shown in the table below.

Table C5 Complaints about investments in H2 2016 by product type

Product	Complaints opened
Discretionary management services	320
Endowments	8,416
FX/CFD/Spreadbetting	231
Investment Bonds	1,934
ISAs	2,087
Non-discretionary management services	107
Other investment products/funds	839
Platforms	102
Structured products	1,156
Unit trusts/OEICs	1,123

Source: FCA complaints data (only those product categories registering more than 50 complaints in H2 2016 are shown here)

The Financial Ombudsman Service publishes data on the complaints that it has received. In the financial year 2016-17, 4.5% (total 14,471) of the complaints received were in respect of investments and pensions.[45]

45 http://www.financial-ombudsman.org.uk/publications/annual-review-2017/pdf/Datamoredepth-AR2016-17.pdf

Annex D
Socio-economic context to the baseline

This Annex captures a number of socio-economic trends which are likely to interact and influence consumer demand for financial advice and guidance: either impacting the quantity of demand or type of services demanded in relation to retail investments and pensions and retirement income.

1. Brexit and UK political situation: Following the triggering of Article 50 on 29 March 2017, there is ongoing economic and political uncertainty pending the outcome of the EU withdrawal negotiations. On the supply side, the uncertainty regarding the EU negotiations could influence firms' decision making and strategies with respect to the UK market, while on the demand side the uncertainty may impact consumer confidence, which may in turn impact on demand.

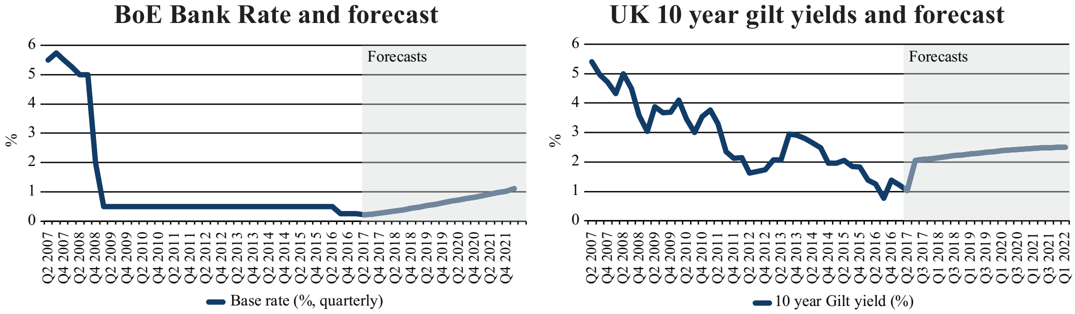
2. The low returns environment expected to persist: The UK has experienced a period of ultra-low interest rates since 2009, and extensive monetary policy stimulus (including quantitative easing). This has supported high valuations across asset classes while rates of return on safer investment assets such as government bonds have fallen, contributing to a low returns environment. The Office for Budget Responsibility's latest (March 2017) outlook[46] shows that the Bank of England base rate is expected to rise slowly from 0.25% to 1.1% in 2022, while gilt yields are also projected to rise slowly from their historically low level along the same time horizon.

The low returns environment may impact consumer demand for advice and guidance. In this low return environment, consumers may consider that seeking support in relation to purchasing investments is less worthwhile and thus could constrain demand. Alternatively, demand could be positively impacted should consumers seek advice or guidance to generate higher returns from investments.

46 (OBR, Economic and Fiscal Outlook, March 2017)

The UK's low interest rate environment is expected to persist and gilt yields are forecast to rise modestly from their low level. In this low return environment, consumers may be less likely to see a benefit in seeking advice or guidance in respect of purchasing investments.

Figure D1 Forecast of interest rates and gilt yields



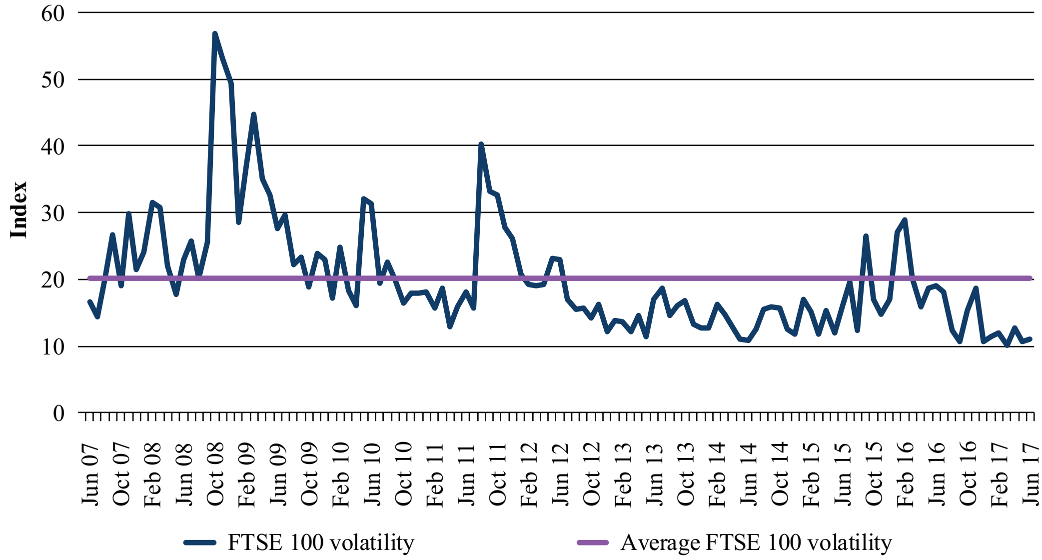
Source: BoE, OBR

Source: Thomson Reuters, OBR

3. Positive recent stock market performance: The relatively strong performance of the FTSE 100, in particular over the course of 2016 is likely to be a factor influencing not only demand for advice, but the satisfaction levels in the advice received reported by consumers and also advice complaints data.

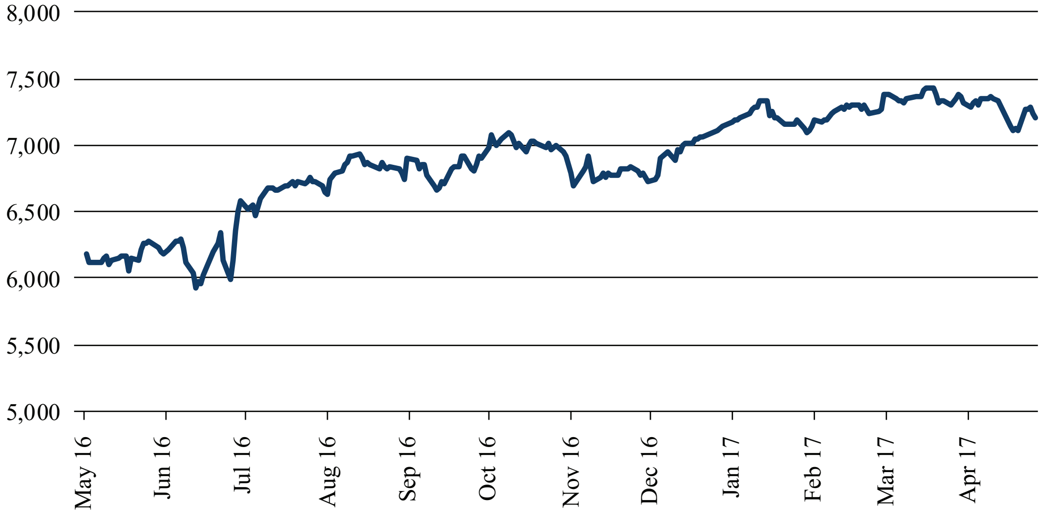
Given the low level of financial market volatility during a period of heightened global political uncertainty, there is the potential that the market has not priced in downside risk effectively. If this holds true, markets and consumers could be exposed to future shocks and associated impacts (likely falls) on asset valuations, hence impacting demand.

Figure D2 FTSE 100 volatility (10 years to May 2017)



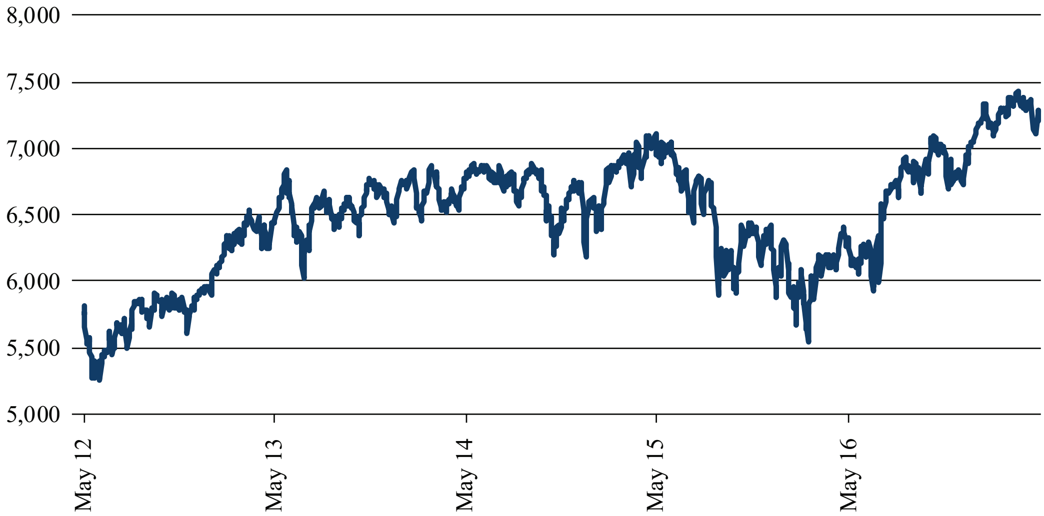
Source: FTSE

Figure D3 FTSE 100 index (12 months to end April 2017)



Source: Bloomberg Data

Figure D4 FTSE 100 index (5 years to end April 2017)



Source: Bloomberg Data

4. Weak real household income growth and a decline in the savings ratio: Whilst headline UK economic performance (GDP[47] growth) has been stronger than forecast since the EU referendum and the headline unemployment story is positive, macro-economic fundamentals remain weak. Household indebtedness is high and has been on a rising trend since 2015, while the savings ratio has continued to fall. Productivity growth is poor which constrains prospects for real earnings growth, and inflation has increased from 0% in 2015 to reach 2.3% in March 2017.

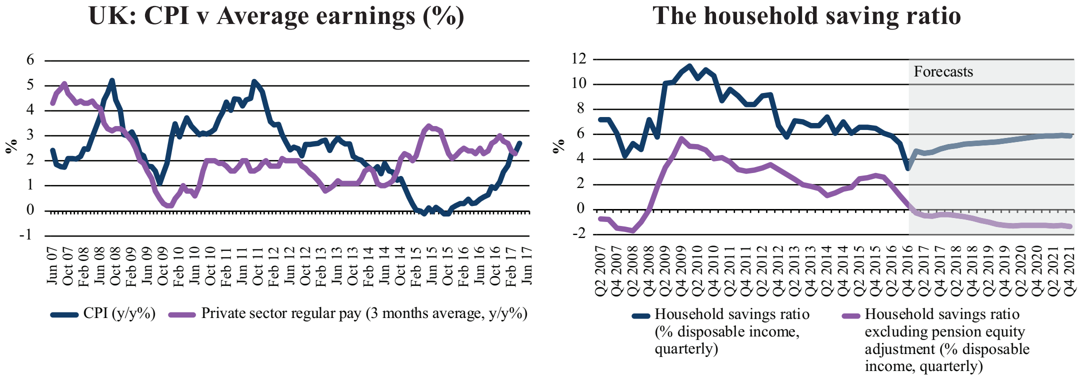
These factors combine to restrict the ability of consumers to participate in investments and pensions by putting increasing pressure on household budgets and limiting the amounts that can

47 Gross Domestic Product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly

be saved. These pressures are also likely to stem/reduce the demand for advice and guidance or may shift demand to lower cost channels such as automated-advice.

Low real household income growth and a decline in the savings ratio is likely to limit the ability of households to participate in investment and pensions, potentially limiting the demand for advice.

Figure D5 Household income growth and savings ratio



Source: ONS

Source: ONS, OBR

Unemployment has fallen consistently since 2012, to reach 4.7% – its lowest point since mid-2005

Figure D6 Unemployment rates since 2000

Source: ONS

5. Increased wealth inequality and deteriorating housing affordability: Wealth in Great Britain is unequally distributed and this inequality has risen over the ONS's last two Wealth and Assets Survey Waves (2010 to 2012 and 2012 to 2014).[48] Between these two survey periods, the median value of wealth for those in the lowest three income deciles fell, whilst the median value of household total wealth increased across all other income bands.

The persistence of wealth inequality and its rise in recent years, as well as the deterioration of house price affordability in both England and Wales is likely to influence the average consumers' longer term financial prospects, including their ability to save for retirement, make investments and fund house purchase.

Whilst half of households saw their net total wealth rise between 2010 and 2014, the wealthiest of households in Great Britain (decile 10) have seen their net total wealth rise at the fastest rate. This

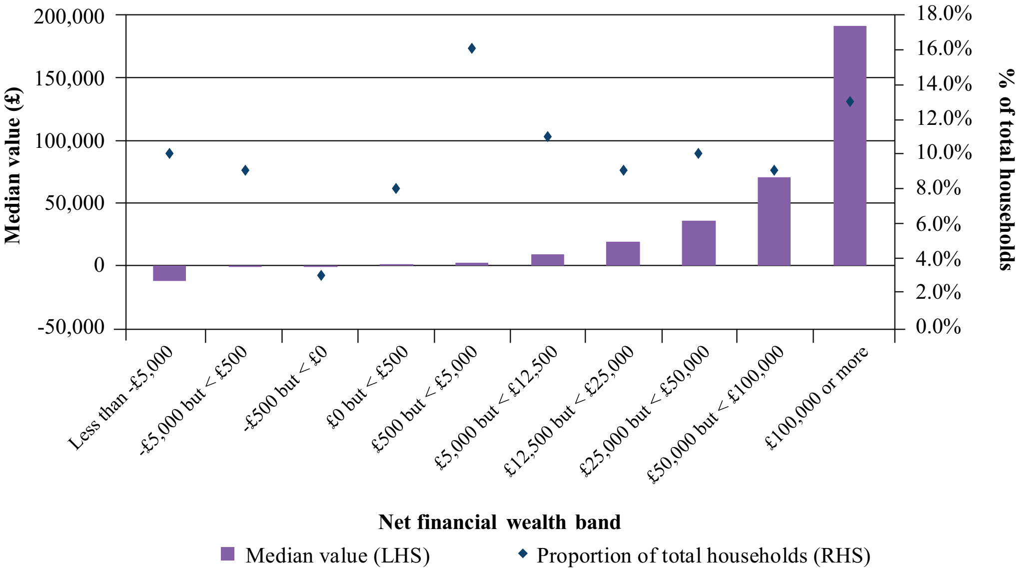
48 Office of National Statistics: (ONS, Wealth and Assets Survey Wave 3, 2010-2012) (ONS, Wealth and Assets Survey Wave 4, 2012-2014).

may indicate that this group of households may be increasingly able to participate in the long term savings and investment sector.

Like other economic trends above, these factors can be expected to influence the demand for advice/guidance.

Increased wealth inequality and the deterioration of housing affordability influences consumers' longer term financial prospects, including the ability to save for retirement and fund house purchase. This impacts the demand for advice/guidance.

Figure D7 Household net financial wealth by banding (2012 to 2014)



Source: Wealth and Assets Survey, ONS

6. Projected increase in the proportion of the population aged over 65: Individual life expectancy is rising and this trend is expected to continue; a male reaching age 65 in 1989 was expected to live a further 15 years, to age 80. By 2014, a male reaching age 65 was expected to live a further 21 years, to age 86. As people live longer and larger cohorts such as the baby boomers age, it is projected that the proportion of the population who are over 65 will rise: standing at 19.2% in 2014 and rising to 22.2% in 2039. The UK's ageing population (demography) is likely to impact the demand for advice, and in particular pension advice with the associated shift in demand towards wealth decumulation.

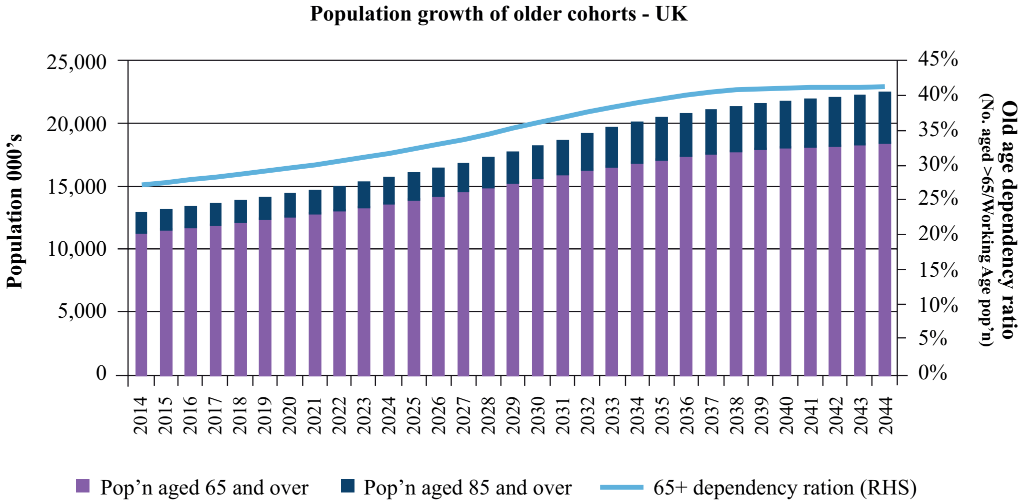
The ability to accumulate wealth over the long term may be constrained by the low returns environment and pressure on household incomes (as discussed above). Along with this pressure, consumers may make insufficient future financial provision due to the complexity of decision making given key areas of uncertainty, such as life expectancy, investment and inflation risk.

By constraining the amounts that consumers invest, these factors could mean consumers are increasingly likely to seek low cost guidance and advice, rather than traditional more expensive options (such as face-to-face regulated advice).

Figure D8 Increasing life expectancy and the rising proportion of the population aged 65 and over is likely to impact the demand for advice/guidance.

Life expectancy at age 65 …			
….. in …	1989	2014	2039
Males	80.3	86.2	89.0
Females	83.9	88.5	91.1

Source: ONS



Source: ONS Population Projections

Annex E
Financial Advice Market Review (FAMR) success outcomes and key indicators

FAMR Outcome 1: Good availability of affordable, high quality advice and guidance, which consumers at all stages of their lives are able to access to help them with their particular needs.		
Access	**Demand:**	• Numbers of consumers receiving advice • Numbers of consumers using information or guidance • Numbers of consumers acting without advice • Reported reasons for not seeking advice
	Supply:	• Number of advice firms • Number of advisers • Number of independent/restricted advice firms • Minimum investment/pension pot size advised on
Affordability	**Demand:**	• Consumer willingness to pay for advice • Number of consumers using different channels
	Supply:	• Adviser regulatory costs • Adviser charges
Quality	**Demand:**	• Levels of satisfaction with advice received
	Supply:	• Levels of compliance with FCA's suitability standards (proxy for quality)
FAMR Outcome 2: There is greater innovation in the interests of consumers, encouraged by a flexible and well understood regulatory framework for advice.		
Access	**Demand:**	• Level of consumer awareness of automated services • Level of consumer use of automated services
	Supply:	• The extent to which firms are offering different types of services e.g. automated advice • Assets under management of automated services • Usage of technology by advisers • Industry views on the clarity of the regulatory framework around provision of services for the mass market
Affordability	**Demand:**	• Levels of adviser charges

FAMR Outcome 3: A range of channels through which consumers are able to access advice and guidance, including in the workplace, and appropriate flexibility in the way consumers are able to pay for advice.		
Access	**Demand:**	• Use by consumers of workplace advice & guidance • Use by consumers of support from platforms
	Supply:	• Number of advisers/advice firms • Different types of advice firms and profiles including independent/restricted split • The extent to which firms are offering different types of services e.g. automated advice (as above)
Affordability	**Demand:**	• Consumer willingness to pay for advice and cost levels • Use of workplace advice/guidance and other channels
	Supply:	• Common adviser charging structures
FAMR Outcome 4: Consumers engaged with their own financial affairs and so seeking out the advice and guidance they need.		
Access	**Demand:**	• Consumer self-reported levels of engagement • Proportion of UK adults who do not know where to start to look for an adviser

Annex F
Retail Distribution Review (RDR) desired outcomes and indicators of success

In November 2011, approximately a year before the RDR rules came into force, the Financial Services Authority (FSA) published the framework for how the impacts of the RDR would be measured.[49]

The table below shows the outcomes which the RDR was intended to achieve, and the indicators of success, which would show that the RDR was on track to deliver them.

These indicators, along with a wide ranging body of evidence were used for the first stage of the RDR PIR, published in 2014.[50]

RDR Desired Outcomes	Indicators of success	Measures for 2019 Review
	Short term	
1. An industry that engages with consumers in a way that delivers more clarity for them on products and services.	• Consumers understand the difference between different types of advice (independent advice, restricted advice)	• Consumer survey such as Financial Lives
2. A market that allows more consumers to have their needs and wants addressed.	• Firms adhere to the new landscape, e.g. describe their advice services appropriately as independent or restricted	• Adherence to rules measured in 2014
3. Standards of professionalism that inspire consumer confidence and build trust.	• Advisers meet required standards of professionalism	• RMAR data
4. Remuneration arrangements that allow competitive forces to work in favour of consumers.	**Long term**	
5. An industry where firms are sufficiently viable to deliver on their longer-term commitments and where they treat their customers fairly.	• 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	• Update analysis produced for 2014 review on investment bonds, trackers and investment companies
6. A regulatory framework that can support delivery of all these aspirations and which does not inhibit future innovation where this benefits consumers.	• Consumer engagement in the market, caused by improved perception of the quality of services	• Update findings in 2014 review and baseline via Financial Lives
	• Fewer unsuitable sales	• Compare assessing suitability review 2019 with 2017
	• Improved product persistency	• Update of persistency data from 2011 baseline and 2014 review
	• Firms' solvency increases along with cyclically adjusted profitability	• Update of RMAR data used in 2011 baseline and 2014 review
	• Unintended consequences of the RDR do not materialise or are mitigated appropriately	• Areas identified by phase 1 review

49 http://www.fsa.gov.uk/pubs/RDR-baseline-measures.pdf

50 https://www.fca.org.uk/publication/research/rdr-post-implementation-review-europe-economics.pdf

PUB REF: 005477

25 The North Colonnade Canary Wharf
London E14 5HS
Telephone: +44 (0)20 7066 1000
Website: www.fca.org.uk