Financial Conduct Authority

FCA survey of firms providing financial advice

April 2016

Contents

Abbreviations used in this paper

CTF	Child trust fund
DB	Defined benefit
DC	Defined contribution
FAMR	Financial Advice Market Review
FOS	Financial Ombudsman Service
Insistent customers	Where the customer wishes to take a different course of action from the one you recommend and wants you to facilitate the transaction against your advice. Please see the FCA's Factsheet No.35.
Investments	For the purposes of this information request, 'investments' include retail investment products as defined in the Handbook, excluding pensions and retirement income products.
ISA	Individual Savings Account
Pensions	Financial products and pension schemes intended for the accumulation of assets to fund income during retirement. For the purposes of this information request, this includes a broad range of financial products and options available for pension accumulation.
Post-pension freedoms	Six months following 6 April 2015 (i.e. after the pension freedoms were implemented)
Pre-pension freedoms	Twelve months prior to 19 March 2014 (i.e. prior to the pension freedoms announcement by the Government)
PSD	Product Sales Data. See: www.fca.org.uk/firms/systems-reporting/product-sales-data.
Regulated advice	Advice relating to a particular investment given to a person in their capacity as an investor or potential investor (or their agent), and relating to the merits of them buying, selling, subscribing for, or underwriting (or exercising rights to acquire, dispose of, or underwrite) the investment. See the FCA's FG15/1: Retail Investment advice, p.2 and Table 1.

Retail investments	Retail investment products as defined in the Handbook: (a) a life policy (b) a unit (c) a stakeholder pension scheme (including a group stakeholder pension scheme) (d) a personal pension scheme (including a group personal pension scheme) (e) an interest in an investment trust savings scheme (f) a security in an investment trust (g) any other designated investment which offers exposure to underlying financial assets, in a packaged form which modifies that exposure when compared with a direct holding in the financial asset, or (h) a structured capital-at-risk product, whether or not any of (a) to (h) are held within an ISA or a CTF.
Retirement income	Financial products and schemes intended to provide income in retirement, such as annuities, income drawdown. For the purposes of this information request, this includes a broad range of financial products and options available to fund retirement.
Safeguarded benefits	Benefits other than money purchase benefits and cash balance benefits. Guaranteed Annuity Rates (GARs) and Guaranteed Minimum Pensions (GMPs) are examples of safeguarded benefits.
Vertical integration	Any number of combinations of manufacturer, service provider and distributor within the same group of regulated entities offering interrelated products, services and/or distribution propositions.

1. Executive summary

Purpose of this report

1.1 In November 2015, we surveyed a sample of firms providing retail investment advice, including financial advisers, networks, banks and life insurance companies to inform the Financial Advice Market Review (FAMR) and our supervisory work. This report presents the results of the survey.

1.2 Alongside questions about the firms and the advice market more generally, our data request focused on three advice areas in retail investments: retirement income, pension accumulation and investments.

1.3 The results from this survey informed the FAMR and the proposals it recommended.[1] It was used to gain a better understanding about the profile of the customers of advice firms, the barriers that firms face in expanding the provision of advice to the mass market, the use of technology in the advice process, and the advice firms' views on the future of the advice market.

1.4 Additionally, the results of this survey – in particular, insights into how firms providing advice have responded to the pension freedoms – are being used to inform the Financial Conduct Authority's (FCA's) ongoing supervisory work in this area.

Our sample of firms providing financial advice

1.5 This report is based on responses from 233 firms active in providing financial advice on retail investment products. Our sample of firms includes financial advisers, networks, appointed representatives, banks, and life insurance companies; and it is broadly representative of the population of interest in terms of firm size. These 233 firms represent around 21% of the total number of advised retail investment product sales transactions in the population of relevant firms (see Table 1). Each firm's response carries an equal weight in our analysis.

1.6 We segmented firms by the number of retail investment advisers to distinguish between medium and large firms (with at least ten advisers), small firms (with three to nine advisers), and very small firms (with one or two advisers). The segments were created solely for the purposes of analysing the survey responses, and relate to this report only.

1.7 On average, 42% of our sample firms' revenue from regulated advice services was from advice on investments; 21% was from advice on pension accumulation; 16% was from advice on retirement income; and the remainder was from other advice areas, such as protection products, mortgages, and general insurance. Of the firms in our sample, 80% had retail investments

1 www.fca.org.uk/your-fca/documents/financial-advice-market-review-final-report.

advice revenue of less than £1m in the most recent year; the largest 20 firms had at least £4m revenue; and the largest 10 firms all had revenues over £20m.

Customers of firms providing advice

1.8 Our survey asked firms to provide data on pension pot sizes and amounts of investable assets of the customers (new and existing) that they have advised for retirement income, pension accumulation and investments. For retirement income advice post-pension freedoms[2], 46% of customers had pot sizes of less than £50,000, 26% had less than £30,000, and 8% had less than £10,000.

1.9 The distribution of customers by pot size was very similar to that prior to the announcement of the pension freedoms. Compared with the smaller firms, the larger firms tended to have more of their customers in the lower pension pot size bands. In 55% of firms, customers with pots of less than £30,000 accounted for at least 5% of retirement income customers they had advised post-pension freedoms.

1.10 Of the sample, 18% said they used pension pot size minimum thresholds when considering whether to take on customers for retirement income advice; the median threshold across these firms was £50,000. Overall, firms said that pension pot size was a relatively less important factor in their considerations about whether to take on a customer seeking retirement income advice. A customer's personal circumstances and other assets and liabilities, as well as the potential for a future relationship with the customer, were the most important factors considered.

1.11 For pension accumulation advice, 48% of firms' customers were advised on less than £30,000 of investable pension assets, and 30% of customers had less than £10,000. In 81% of firms, customers with investable pension accumulation assets below £10,000 accounted for at least 5% of the customers to whom they had given pensions advice. This captures customers' investable pension accumulation assets in the most recent 12 months, and does not necessarily reflect their overall 'wealth'.

1.12 For advice on investments, 57% of firms' customers were advised on less than £30,000 of investable assets, and 19% of customers had less than £10,000. For 82% of firms, customers with investable assets below £30,000 accounted for at least 5% of the customers to whom they had given investment advice. This captures the investable assets that firms advised (new or existing) on in the most recent 12 months, and does not necessarily reflect their customers' overall 'wealth'.

Charging for advice

1.13 We asked firms a number of questions about their 'standard' advice proposition for different amounts of investable assets, for initial and ongoing advice, and for new and existing customers.[3] Around half of the respondents had tiered charging structures with different charges for different levels of investable assets. The majority of firms (at least 86%, depending

2 Given the expected impact of the pension freedoms on the advice firms, a number of questions sought responses in relation to two separate time periods: pre-pension freedoms announcement (12 months prior to 19 March 2014) and post-pension freedoms go-live (six months post 6 April 2015). We did not seek data for the dates between these periods as it was considered that for the purposes of this survey, this transition period would not be representative of either the period before or after the pension freedoms.

3 The survey did not ask firms to provide data on charges that customers actually have paid for advice.

on the advice area and the charging structure) in our sample said they did not differentiate between new and existing customers in terms of charging for advice.

1.14 The charging structures were very similar across the three advice areas. The most commonly used type of charge was a percentage fee (i.e. a percentage of investable assets advised on). For investable assets of up to £50,000, the majority of firms charged between 1% and 4.5% for initial advice on investments, with a median initial percentage fee of 3%; the percentage fee was lower for higher levels of investable assets. The median percentage fee for ongoing advice on investments was 0.5% for investable assets of £50,000 or less.

Questions specific to retirement income advice

1.15 We asked firms about their approach to dealing with insistent customers. We found that 29% of respondents would give advice and be prepared to transact against that advice for defined benefit (DB) to defined contribution (DC) transfers from new customers. For those who would not transact with insistent customers, the risk of future Financial Ombudsman Service (FOS) complaints was given as the most important reason for not transacting, with 69% of respondents rating this 'very important'.

1.16 Firms' responses to questions about requests they had received for DB to DC pension transfers indicated a more than threefold increase in enquiries from new customers for this type of business post-pension freedoms, relative to the pre-pension freedom levels. For new customers, since the pension freedoms, 10% of firms were receiving more than five requests per month, on average.

1.17 We also asked about the challenges that advisers were facing from product providers about providing retirement income advice post-pension freedoms. In response to this, 57% of firms thought that unclear disclosure of safeguarded benefits or other important information in the existing provider's documentation was a 'very important' challenge.

Advice channels and use of technology

1.18 Responses to questions about firms' advice proposition and use of technology and automation tools showed that most firms use face-to-face meetings or telephone conversations as the primary channel for delivering advice to consumers. However, the majority of firms (67% or more) reported that they tend to use technology to a significant degree in some way throughout the advice process, primarily for research, analysis and financial planning, risk profiling, customer data management and reporting. Customer-facing technology, such as tools to aid decision-making, was used to a significant degree by 15% of firms. Firms cited consistency of customer service and efficiencies as the primary reasons for using technology in the advice process.

Advice market future and barriers

1.19 We asked firms questions about their future plans and expected changes for the provision of financial advice. In response, 29% of firms said they expected to increase their use of platforms, and 32% of firms expected to grow their number of advisers over the next year (around three-quarters of firms in the large and medium segment said they planned to increase their adviser numbers). The majority of firms planned to use more technology, particularly in customer communications and to increase efficiency and reduce the costs of the advice process (again, the larger firms expected more significant increases than the smaller firms). A relatively small proportion of firms (11% or less) expected that, over the next year, they would increase their mass-market, low-cost advice proposition or the provision of generic advice.

1.20 Our survey also asked firms to rate the importance of various potential barriers to the provision of mass-market advice propositions and automated advice propositions. Of the sample, 72% of firms said that customers' preference for personal interaction with an adviser was a 'very important' or 'important' barrier to providing automated or technology-supported advice; generally, the larger firms viewed it as less of a barrier than smaller firms. The cost of technology was also an important barrier. Of the firms in the sample, 19% or less reported a lack of customer trust in automated propositions (19%), lack of customer ability to access and use online tools (10%), or customer acquisition costs for automated advice (13%) being very important barriers.

1.21 In terms of very important barriers to providing 'mass market' advice, the majority of firms (63% and 61%, respectively) stated regulatory factors, such as fees and levies, and the cost of compliance with FCA rules and reporting requirements. The risks and costs of potential liability for the advice were also regarded as a very important barrier by 52% of firms. This is predominantly driven by views from firms in the small and very small segments. Costs – such as adviser remuneration and costs of the advice process – were also viewed as an important barrier, although less so by the larger firms than smaller ones.

2.
Introduction

2.1 In November and December 2015, we surveyed a sample of firms providing retail investment advice, including financial advisers, networks, banks and life insurance companies to inform the FAMR and our supervisory work. This report presents the results of the survey.

2.2 The information that we collected includes: advice areas and relevant advice propositions, charging structures, customer numbers by investable assets, use of technology, future plans, and barriers. Alongside a number of questions about the firms and the advice market more generally, our data request focused on three advice areas within retail investments: investments, retirement income and pension accumulation.

2.3 The results from this survey informed the FAMR and the proposals it recommended.[4] They were used to gain a better understanding of the profile of the customers of advice firms, the barriers that advice firms face in expanding the provision of advice to the mass market, the use of technology in the advice process, and the advice firms' views on the future of the market.

2.4 Additionally, the results of this survey – in particular, insights into how advice firms have responded to the pension freedoms – are being used to inform the FCA's ongoing supervisory work in this area.

2.5 The remainder of this report sets out the results of this survey as follows:

- Approach to selecting a sample of firms (Chapter 3)
- Profile of customers of firms providing advice (Chapter 4)
- Charging structures and advice charges (Chapter 5)
- Advice to insistent consumers and advice on pension transfers (Chapter 6)
- Advice channels and use of technology (Chapter 7)
- Views on the future of the advice market and on barriers to advice (Chapter 8)

4 www.fca.org.uk/your-fca/documents/financial-advice-market-review-final-report.

3.
Our sample of firms

Approach to sampling

3.1 The objective of the survey was to explore the provision of financial advice for retail investment products (including investments, pension accumulation, and retirement income) across a range of firms. As such, our sample was drawn from a population of firms providing advice in these areas. We used the FCA's Product Sales Data (PSD)[5] to identify the relevant population[6], which comprised around 5,600 firms providing advice on retail investments.[7]

3.2 In the initial sample, we included the principals of the largest networks[8] and the largest financial advisory firms. We then stratified the remaining firms by size and drew a random selection of firms from each stratum. For this purpose only, we used the sum of premiums (i.e. value) for the advised sales of retail investment products as a measure of firm size.[9]

3.3 Thus, our initial sample was selected to include the relevant type and size of firms from the population of interest. Our initial sample comprised 425 firms providing financial advice on retail investment products, including financial advisers, networks, appointed representatives, banks, and life insurance companies. Our survey analysis is based on the 233 responses we received from these firms. These 233 firms represented around 21% of the total number of advised retail investment product sales transactions of the population of relevant firms (see Table 1).

3.4 We have not sought to reweight the sample back to the population proportions; each firm's response carries an equal weight in our analysis. However, we checked the distribution of the sample firms by size and found that it was broadly similar to the firm size distribution in the relevant population.[10] Therefore, while our analysis is presented based on the sample

5 For a description of the FCA's PSD data, see: www.fca.org.uk/firms/systems-reporting/product-sales-data.

6 We recognise that there are limitations in using the PSD for the selection of the sample, and that this may have had an impact on the sample selected. For example, the PSD includes sales of most retail investment products, but it does not capture products sales via nominee accounts. Therefore the PSD may under-represent some elements of an advice firm's activities, and may exclude some firms. However, given the objective of the survey and the sampling approach, we do not consider that these limitations of the PSD materially affect the outcome of the survey.

7 We excluded from our population firms below a minimum threshold of advised sales of retail investment products – less than £10,000. Also excluded were certain categories of firms, such as, but not limited to, discretionary investment managers, home finance brokers, and stockbrokers. The population included financial adviser firms, advising and arranging intermediaries, life insurers, and banks. Most appointed representatives were also excluded from the population, but their principals were included.

8 We excluded most of the appointed representatives of the largest 19 adviser firm networks, but included the principal firms in the sample.

9 Using data on premiums as a broad proxy for advice firm size has some limitations: for example, some firms may focus their activities on single-premium, high-value business (e.g. pension transfers), which may distort the measure of their size in the data. However, we considered that, on the whole, this would not materially impact the outcome of the survey. Further, as a sensitivity check, we considered the number of sales transactions in calculations shown in Table 1. See also footnote 6.

10 We used PSD data (1) on the sum of premiums and (2) on the total number sales transactions for the advised sales of retail investment products as indicators of firm size. The size distribution was broadly similar in the sample of respondents to that of the population for both measures, though our sample had a slightly smaller proportion of the very largest firms and a slightly higher proportion of the very smallest firms if compared to the population.

of respondents and should not be extrapolated directly to the population of firms providing advice or 'the advice market', the results of this survey are likely to provide a broad indication of the data and the views in the relevant advice firm population.

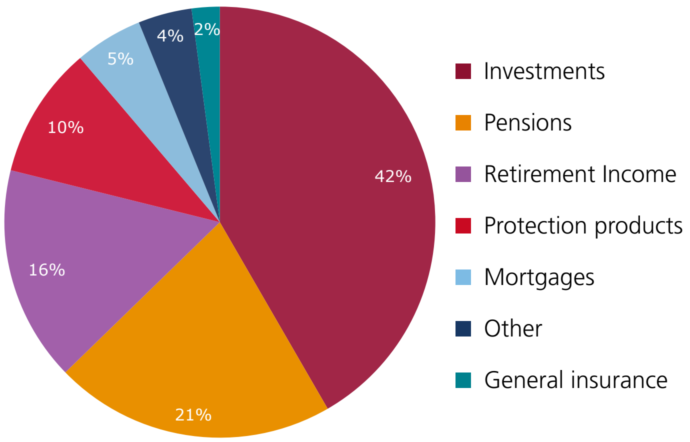
3.5 In reporting the survey results, the charts presented reference the survey questions sent out to the firms and give the number of responses (the 'base'). A range for the base (e.g. 'base: 217 – 231 responses') is indicated in instances where we combined responses to different questions or where some firms did not respond fully to all parts of a question, and where this range was relatively wide.

Advice areas

3.6 In addition to providing advice on retail investment products, 97% of firms in our sample provide advice on protection products, and around half of firms provide advice on mortgages and on general insurance products (54% and 52%, respectively). A further 71% of firms said they had advisers providing advice on pension transfers.

3.7 Firms reported that, on average, 42% of their revenue from regulated advice services was from advice on investments. A further 21% of revenue was attributed to advice on pension accumulation, and 16% to that on retirement income. The remainder of revenue was reportedly from other advice areas, such as protection products, mortgages, and general insurance.

Figure 3.1: Average revenue by advice area



Base: 205 responses. *'Please state revenue from regulated advice services for each of the following product areas, for the period of 12 months to 30 September 2015 (or for the most recent 12 months for which you have data).'*

Firm size profile

3.8 In terms of firm size, as measured by the number of advisers, 129 firms had one or two advisers. Our sample also included 55 firms with three to five advisers, and 14 firms with six to nine advisers. Our sample included 35 firms with 10 or more advisers, of which 16 had more than 100 advisers.

Figure 3.2: Firm size profile – number of retail investment advisers

Base: 233 responses. *'For each of the following product areas, state the number of your advisers that can provide advice in that area.'*

3.9 There is a large variation in revenues from regulated advice on retail investment products across firms. Of firms that provided details of their revenue for the most recent 12 months for which they had data, 80% had revenue of less than £1m, and the largest 20 firms had at least £4m revenue. The largest 10 firms all had revenues over £20m. The median firm revenue was £223,000.

3.10 We segmented the firms in the sample by the number of retail investment advisers, and distinguished between medium and large firms (with at least ten advisers), small firms (with three to nine advisers), and very small firms (with one or two advisers). These segments were created solely for the purposes of analysing the survey responses, and relate to this report only.

Table 1: Firm segmentation by size, and product sales relative to population

Size segment	Number of retail investment advisers	Number of firms in the segment	Product sales value as a % of population total*	Number of product sales as a % of population total**	Distribution of number of product sales in our sample**
Medium and large	10 or more	35	22.5%	19%	89%
Small	3 to 9	69	1.0%	1.7%	8%
Very small	1 to 2	129	0.7%	0.7%	3%
Total	-	233	24%	21%	100%

Base: 233 responses. *'For each of the following product areas, state the number of your advisers that can provide advice in that area.'*
* Based on advised sales premiums (i.e. value of the underlying retail investment products) for the 18 months from Q1 2014 to Q2 2015 recorded in the FCA's PSD. The proportion captures total sales premiums for respondents in each segment relative to the total sales premiums in the population.
** Based on the number of advised sales (i.e. number of sales transactions of the underlying investment products) for the 18 months from Q1 2014 to Q2 2015 recorded in the FCA's PSD.

4.
Customers of firms providing advice

Retirement income advice

Distribution of customers advised by pot size

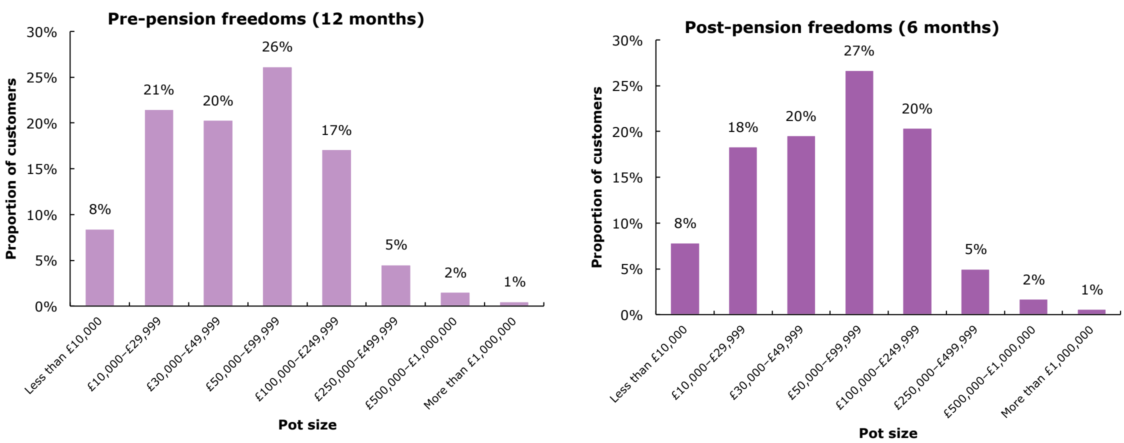
4.1 We asked firms to provide data on the number of customers (both new and existing) they had advised on retirement income by pot size bands, both pre- and post-pension freedoms. For the purposes of this survey, we defined the pre-pension freedoms period as 12 months prior to the 19 March 2014 announcement, and the post-pension freedoms period as the six months following the reforms going live on 6 April 2015.[11]

4.2 We examined the distribution of pot sizes[12] of customers advised by firms in our sample, and found that:

- For post-pension freedoms, 8% of customers advised had pension pots smaller than £10,000, and 18% had pension pots in the £10,000–£29,999 band. Overall, 46% of customers had pension pot sizes of less than £50,000.

- For post-pension freedoms, the distribution of customers' pension pots is broadly similar to the pre-pension freedoms distribution. It should be noted that only six months of the post-pension freedoms data is available, whereas the pre-pension freedoms data is based on a 12-month period. The post-pension freedoms data could also be impacted, for example, by pent-up demand.

Figure 4.1: Retirement income advice customers by pot size



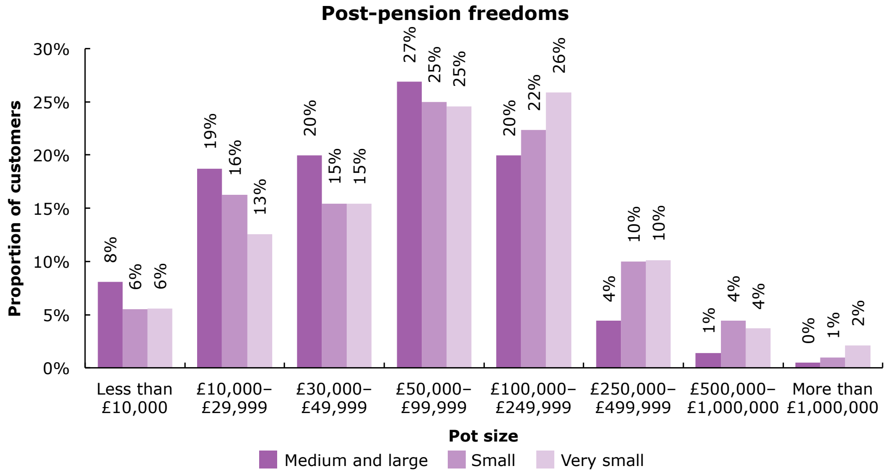
Base: 184 (pre-pension freedoms) and 189 (post-pension freedoms) responses. '*Please indicate the number of customers you have advised regarding retirement income, by pension pot size band, over the two different time periods. In instances where you have advised customers with multiple pension pots, please consider the total value.*'

11 We did not seek data for the dates between these two periods, since this period was deemed transitional.

12 We asked firms to provide the total pot size value in instances where they had advised customers with multiple pension pots.

4.3 We analysed the distribution of customer pot sizes for each of the three firm size segments. It appears that more of the larger firms' customers had smaller pot sizes than the smaller firms' customers. For example, post-pension freedoms, 27% of customers advised by firms in the medium and large segment had pot sizes below £30,000, compared to 22% of small firms' customers and 19% of very small firms' customers.

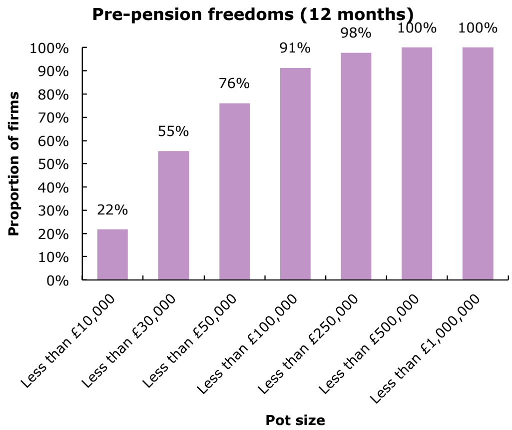
Figure 4.2: By firm size – retirement income advice customers by pot size

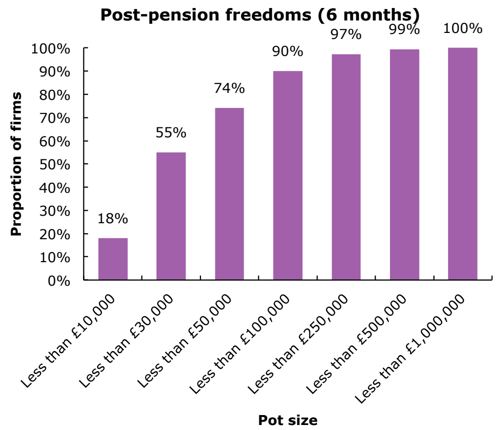


Base: 21 (Medium and large), 54 (Small) and 114 (Very small) responses. For the relevant survey question, see note to Figure 4.1.

4.4 We looked at the proportion of firms providing advice to customers with different pension pot sizes. Post-pension freedoms, in 18% of firms, customers with pots of less than £10,000 accounted for at least 5% of retirement income customers they had given advice to. This figure increased to 55% for those with pots of less than £30,000, and to 74% for those with pots of less than £50,000. The data for the pre-pension freedoms period was very similar.[13]

Figure 4.3: Number of firms advising on retirement income by customer pot size





Base: 184 (pre-pension freedoms) and 189 (post-pension freedoms) responses. For the relevant survey question, see note to Figure 4.1.
Note: The vertical axis measures the percentage of firms with at least 5% of their retirement income customers within this pot size band.

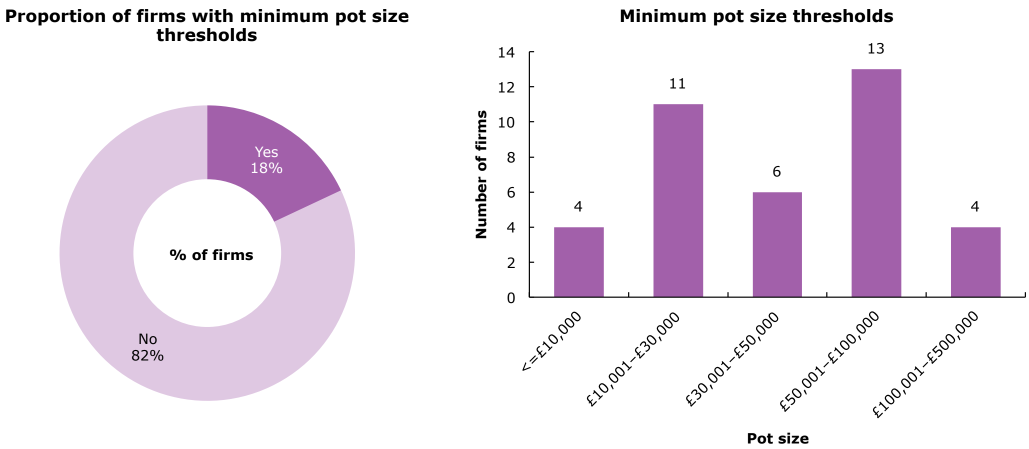
13 Note that only six months of post-pension freedoms data is available, whereas the pre-pension freedoms data is based on a 12-month period. The post-pension freedoms data could also be impacted, for example, by pent-up demand following the introduction of the pension freedoms.

Minimum pot size thresholds

4.5 We asked if firms were using minimum pension pot size thresholds for determining whether to offer 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. The median threshold (minimum pot size advised) across these firms was £50,000.

Figure 4.4: Minimum pot size thresholds for retirement income advice



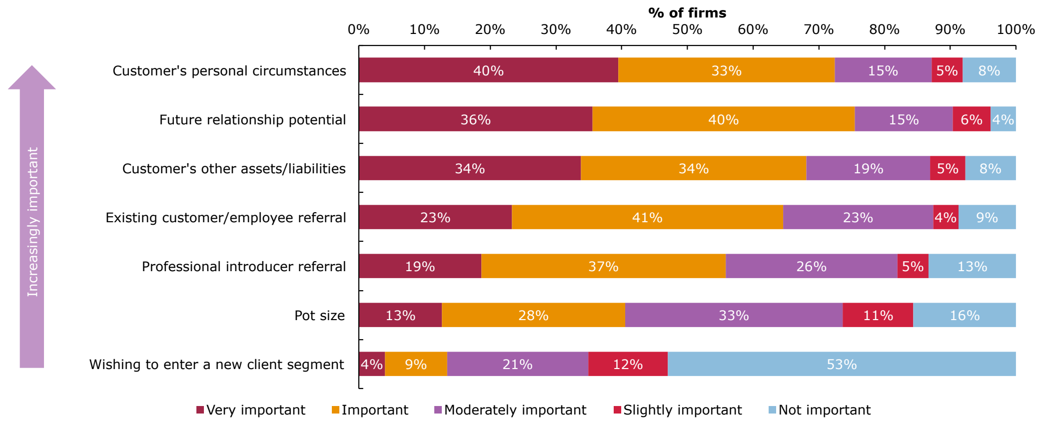
Base: 222 responses (left-hand side chart). 'Does your firm operate any minimum pension pot size thresholds for advice?'
Base: 38 responses (right-hand side chart). 'If you answered 'Yes' to the question above, please state the minimum pension pot size (rounded to the nearest £'000).'

Considerations when accepting retirement income customers

4.6 We asked firms to rate the importance of various factors when deciding whether to accept customers for retirement income advice, including factors such as pot size, future relationship potential, and referrals.

- A customer's personal circumstances and future relationship potential were rated as the two most important reasons for accepting retirement income advice customers, with 73% and 76% of firms, respectively, saying it was a 'very important' or 'important' consideration. A customer's other assets and liabilities was another important consideration, with 68% of firms saying it was 'very important' or 'important'.
- Pot size in isolation was deemed relatively less important, with 13% of firms rating it as a 'very important' consideration and a further 28% rating it as 'important'.

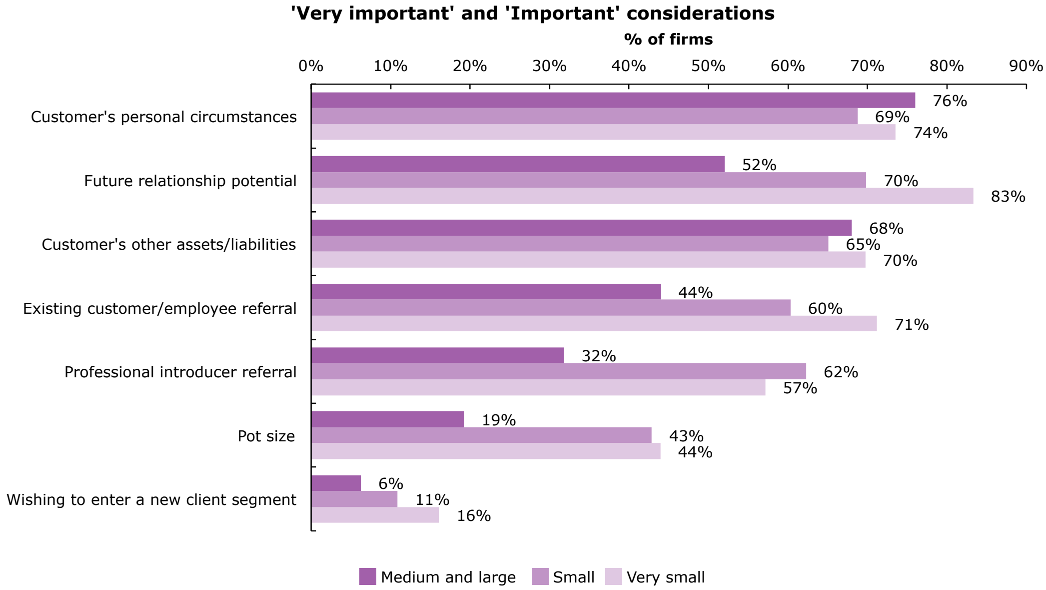
Figure 4.5: Considerations when accepting retirement income customers



Base: 212 responses. 'Please indicate the importance of the following considerations when deciding whether to accept retirement income business.'

4.7 We found that the future relationship potential, referrals, and pot size were more important considerations for the smaller firms than the larger firms when accepting retirement income customers. For example, 44% and 43% of firms in the very small and small segments, respectively, said pot size was a 'very important' or 'important' consideration, compared to 19% of firms in the large and medium segment. There was little difference across firm size segments in terms of the importance of a customer's personal circumstances and their other assets and liabilities.

Figure 4.6: By firm size – considerations when accepting retirement income customers



Base: 26 (Medium and large), 66 (Small) and 121 (Very small) responses. For the relevant survey question, see note to Figure 4.5.

4.8 When asked whether these considerations for accepting new retirement income customers varied depending on the type of retirement income business they were dealing with, the majority of respondents (59%) said that there would be no difference. Of the firms in the sample, 18% said their considerations may be different for DB to DC pension transfers; 10% of firms said their considerations may differ for safeguarded benefits; and 7% of firms said that considerations may differ when accepting new customers for advice on income drawdown or annuities.

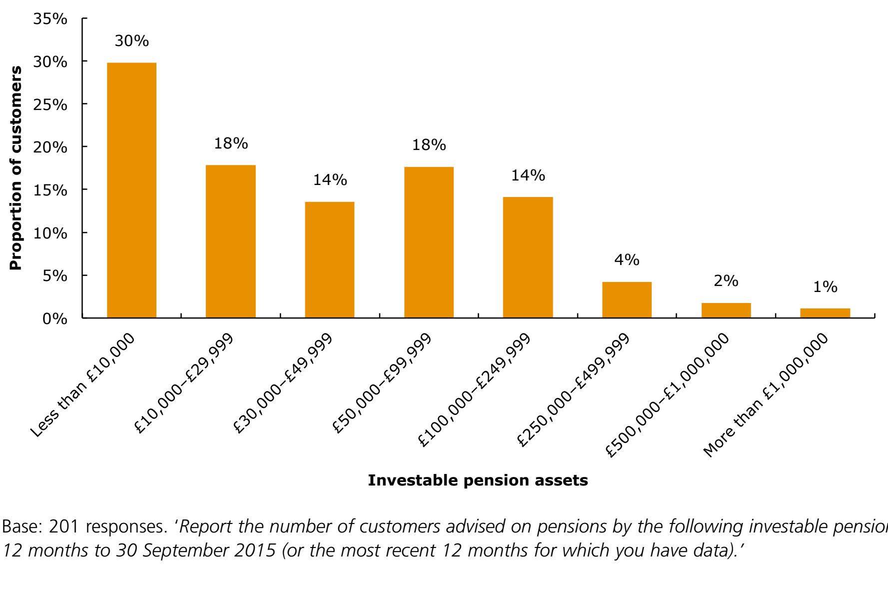
4.9 In response to an open-ended question about the main reasons for these differences, firms explained that the differences may occur because:

- They may not have the regulatory permission to advise on pension transfers, and some firms may prefer to only give DB to DC pension transfers advice to customers with larger pot sizes.
- Advice on annuities may be offered at a lower price or on a transaction-only basis, and an ongoing relationship may therefore be less important when accepting customers for advice on annuities.

Pension accumulation advice

4.10 For advice on pension accumulation, we analysed the distribution of (new and existing) customers advised by investable pension assets and found that 62% of customers 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, which may only account for the contributions to the pension in that year. Both new and existing customers were included in the data provided by firms.

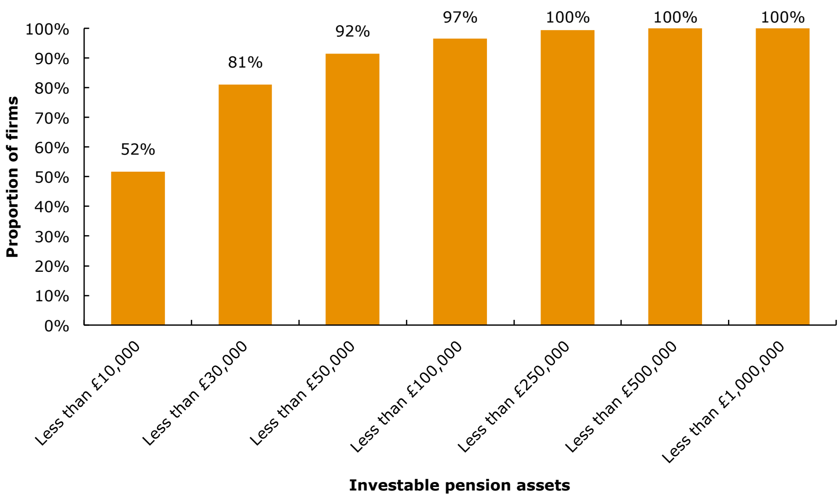
Figure 4.7: Pension accumulation advice customers by investable pension assets



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).'*

4.11 We found that, in 52% of firms, customers with investable pension accumulation assets below £10,000 accounted for at least 5% of the customers to whom they had given pensions advice. This figure rose to 81% for customers with investable pension accumulation assets below £30,000, and 92% for those customers with investable pension accumulation assets below £50,000.

Figure 4.8: Number of firms advising on pension accumulation by investable pension assets



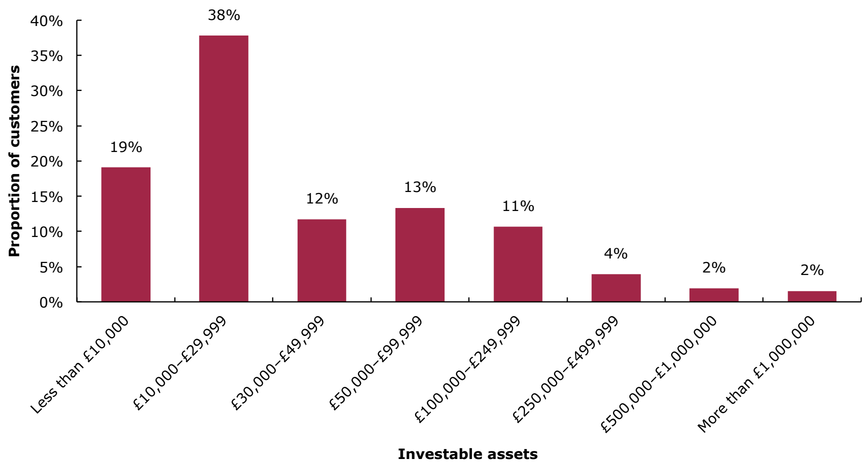
Base: 201 responses. For the relevant survey question, see note to Figure 4.7.

Note: The vertical axis measures the percentage of firms with at least 5% of their retirement income customers within this pot size band.

Investment advice

4.12 We found that 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 held under advice or elsewhere.

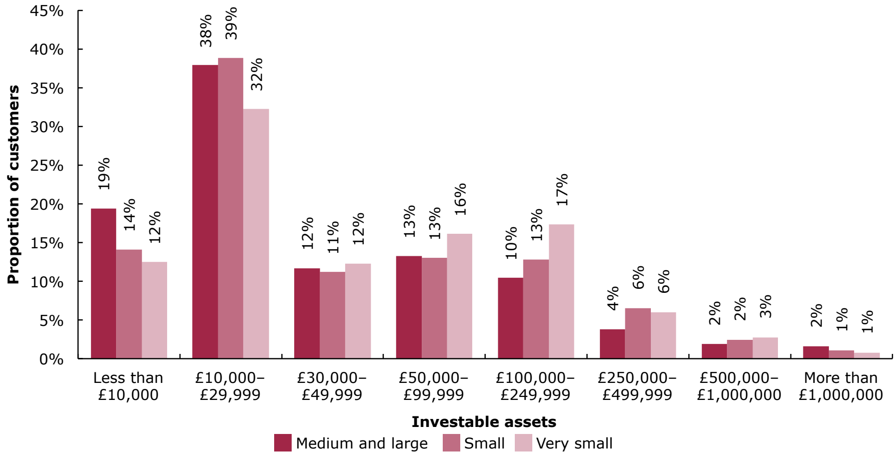
Figure 4.9: Investment advice customers by investable assets



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).'*

4.13 We found that, generally, more customers of large and medium firms had lower levels of investable assets when taking investment advice, compared to customers of very small firms. For example, 19% of customers advised by firms in the medium and large segment had investable assets below £10,000, compared to 12% of very small firms' customers (and 14% of small firms' customers).

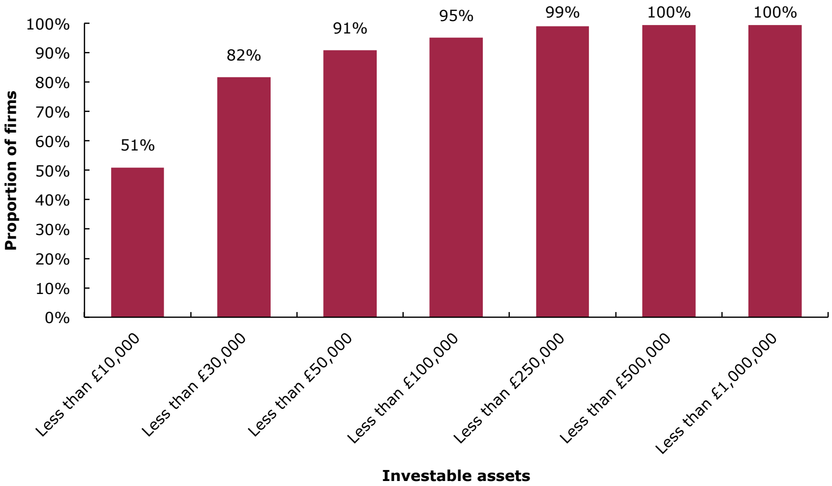
Figure 4.10: By firm size – investment advice customers by investable assets



Base: 32 (Medium and large), 57 (Small) and 119 (Very small) responses. For the relevant survey question, see note to Figure 4.9.

4.14 We found that, in 51% of firms, customers with investable assets below £10,000 accounted for at least 5% of the customers to whom they had given investment advice. The proportion of firms rose to 82% for customers with investable assets of less than £30,000, and to 91% for customers with investable assets of less than £50,000.

Figure 4.11: Number of firms advising on investments by investable assets



Base: 208 responses. For the relevant survey question, see note to Figure 4.9.

Note: The vertical axis measures the percentage of firms with at least 5% of their retirement income customers within this pot size band.

5.
Charging for advice

Observations on advice firms' charges

5.1 Around half of the respondents had a tiered charging structure for advice (depending on the advice area, the proportion ranged from 47% to 51%), and the remainder had a non-tiered structure. We combined data from firms with tiered and non-tiered charging structures in our analysis, assuming that the level of charges provided by firms with non-tiered charging structures applied to all levels of investment.[14]

5.2 We used the following investable asset levels for collecting and analysing the data on advice charges: less than £10,000, £10,000, £30,000, £50,000, £100,000, £250,000, £500,000, and more than £1,000,000. We also asked firms to separately indicate charges applicable to initial advice and charges for ongoing advice services.

5.3 Most firms appear to charge on a percentage basis for initial advice (i.e. a fee as a percentage of investable assets advised on or of assets under advice), but they may also have other charges or minimum charges. Taking charges for investment advice as an example, of the 190 firms that provided details on their charging structures for initial advice, 89% had percentage fees (for at least some levels of investable assets), 44% had fixed fees, and 27% reported hourly charges. Most firms reported more than one type of charges.

5.4 The majority of firms also charged on a percentage basis for ongoing advice services. Taking charges for investment advice as an example, of the 178 firms that provided details on their ongoing adviser charges, nearly all (97%) reported percentage fees[15], while 15% and 17% of firms, respectively, reported fixed charges and hourly charges.

5.5 Our survey enabled firms to provide details of charges to new customers and to existing customers separately. Most firms did not distinguish between new and existing customers in terms of charging for advice; depending on the advice area and the type of charging structure, only 9% to 14% of firms had different charges for existing customers and new customers. In such cases, our analysis focuses on advice charges for new customers.

5.6 Given the considerable complexity and variation in firms' charging structures, our analysis of firms' responses on advice charges should be interpreted and used with the following limitations in mind:

14 It is possible that, in reality, firms' charging structures may depart from this assumption for at least two reasons. First, advisers may have some discretion in deciding on the level of fees (for example, based on the amount of money invested) even if they formally have a non-tiered charging structure. Second, some firms may not serve customers with investable assets below (or above) certain thresholds; hence, the charge assumed for that level of investable assets would not be applicable.

15 A number of firms indicated that they provide basic and premium ongoing services at different prices. In such instances, we used the basic charges in our analysis.

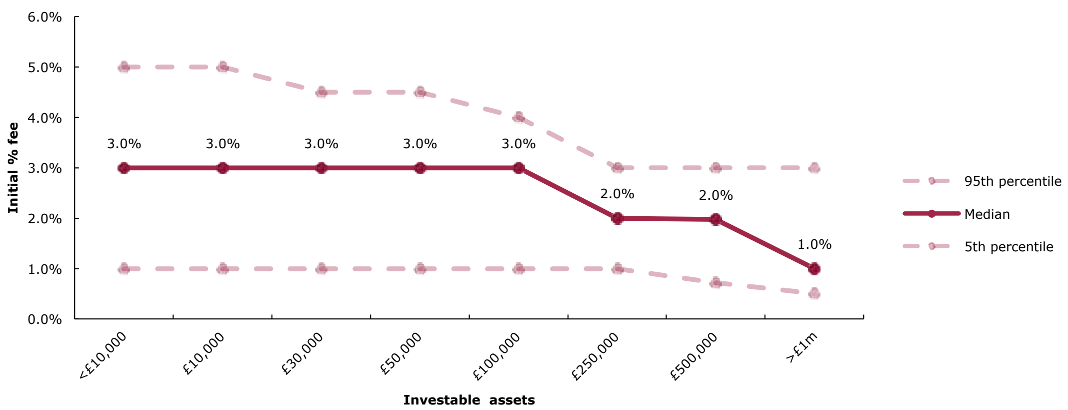
- Firm data on 'standard' advice charges does not necessarily indicate the actual charge all consumers may pay for advice.
- The data may capture charges for advice, for implementation of advice, or for both.
- Where firms provided more than one type of charge, it is possible that only one charge applies (e.g. a percentage charge, subject to a minimum fixed fee) or that these charges apply jointly (e.g. a percentage fee might be applied on top of the fixed fee).
- The number and completeness of responses varied across the investable assets scenarios[16], and across the questions (e.g. questions on tiered and non-tiered charging structures; questions on retirement income advice charges, investment advice charges, pension accumulation advice charges).[17]

Investment advice charges

Initial charges

5.7 The median initial percentage fee for investment advice was 3% for investments up to £100,000. The charge declined to 2% for investments between £250,000 and £500,000, and to 1% for investments above £1m. In terms of the spread of charges, our analysis showed that the 'middle' 90% of firms charged between 1% and 5% for advice on investments of up to £10,000, and between 1% and 4.5% for advice on investments of between £30,000 and £50,000.[18]

Figure 5.1: Initial percentage fees for investment advice – median and spread



Base: 121–169 responses. '*If your firm has a tiered charging structure, please provide details of your standard charges for new customers seeking investments advice, for each of the following amounts of investable assets.*'; '*Non-tiered charging structures. What is your firm's current standard charging structure for new customers seeking investments advice?*'

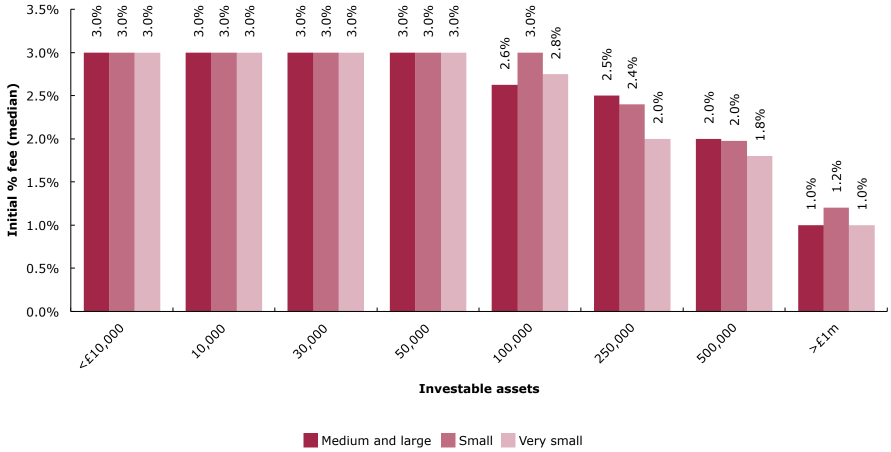
16 The questionnaire did not require firms to provide responses for all investable asset scenarios. By leaving certain fields blank, firms could indicate that they do not normally service customers with those levels of investable assets.

17 As such, any variation between investable asset scenarios and between advice areas could be (at least in part) due to different number of responses, rather than reflecting genuine differences between firms.

18 We focus on median estimates, as they are likely to represent the most common charges. In order to capture the spread of charges, we use the 5th and the 95th percentiles, thus the range between these two represents charges by the 'middle' 90% of respondents.

5.8 The median initial percentage charges were broadly similar across firms, irrespective of their size segment.[19]

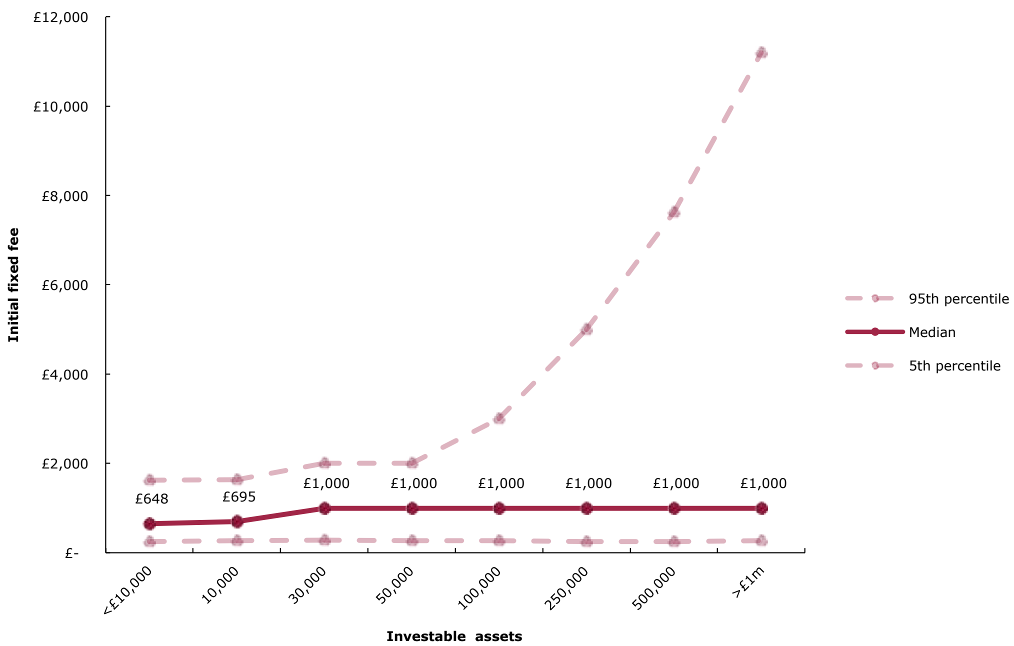
Figure 5.2: By firm size – initial percentage fee for investment advice



Base: 15–19 (Medium and large), 42–58 (Small) and 68–92 (Very small) responses. For the relevant survey question, see note to Figure 5.1.

5.9 The median initial fixed fee for advice on investments up to £10,000 was just under £700. The median initial fixed fee for advice on larger investments (£30,000 or more) was £1,000. Most of the firms in our sample had relatively similar initial fixed fees for investments up to £50,000, but the spread of these charges across firms increased with investable assets.

Figure 5.3: Initial fixed fees for investment advice – median and spread



Base: 40–72 responses. For the relevant survey question, see note to Figure 5.1.

19 Our analysis of fixed and hourly fees by firm-size segment is not presented due to the small base number of responses for some segments (six or less responses in the medium and large segment).

5.10 Firms' responses indicated that initial hourly charges for investment advice were broadly independent of investable assets. Across all the levels of investable assets, the median hourly charge for initial advice on investments was £180 per hour, and, in terms of the spread, the 'middle' 90% of firms in our sample charged between £100 and £300 per hour.

Ongoing charges

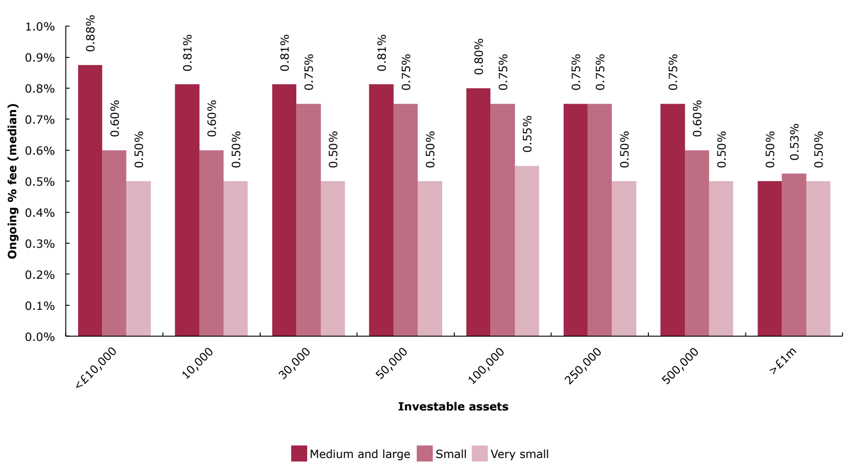
5.11 The median ongoing percentage charge for investment advice was between 0.5% and 0.75%, depending on the amount of investable assets. For investments up to £30,000, ongoing percentage charges ranged from 0.5% to 1.3%, based on the 'middle' 90% of firms in the sample. For investments of £500,000 or more, the range of charges was lower, with the 'middle' 90% of firms charging between 0.3% and 1%.[20]

Figure 5.4: Ongoing percentage fee for investment advice – median and spread

Base: 121–169 responses. For the relevant survey question, see note to Figure 5.1.

5.12 There was some variation in percentage fees for ongoing advice by firm size segment: across all investable assets scenarios (except for investable assets of more than £1m), the median for medium and large firms appeared to be higher than the medians for both small and very small firms.

Figure 5.5: By firm size – ongoing percentage fee for investment advice



Base: 14-15 (Medium and large), 43-55 (Small), 87-105 (Very small) responses. For the relevant survey question, see note to Figure 5.1.

20 Only a small number of firms provided details on fixed fees (11–20 responses) and hourly fees (27–28 responses) for ongoing investment advice; therefore, these are not analysed here.

Retirement income advice charges

5.13 Our analysis of charges for retirement income advice showed that, broadly, they were similar to charges on investment advice, as presented above. Therefore, we present only a brief summary of charges for retirement income advice.

5.14 The median initial percentage fees for advice on retirement income were 3% for pension pots up to £100,000, 2% for £250,000 pots, 1.5% for £500,000 pots, and 1% for pots over £1,000,000. The charges were similar across firm size segments.

5.15 The median fixed initial fees for retirement income advice were £750 for pot sizes of up to £10,000, £960 for a £30,000 pot, and £1,000 for pots worth £50,000 or more. The hourly charges for the 'middle' 90% of firms in our sample were between £100 and £300 per hour, with a median (across pot sizes) of £185 per hour.

5.16 The median percentage fee for ongoing advice on retirement income was around 0.5% across all pot sizes. There was a variation of these charges across firms, with the 'middle' 90% of firms charging between 0.3% and 1%.[21]

Pension accumulation advice charges

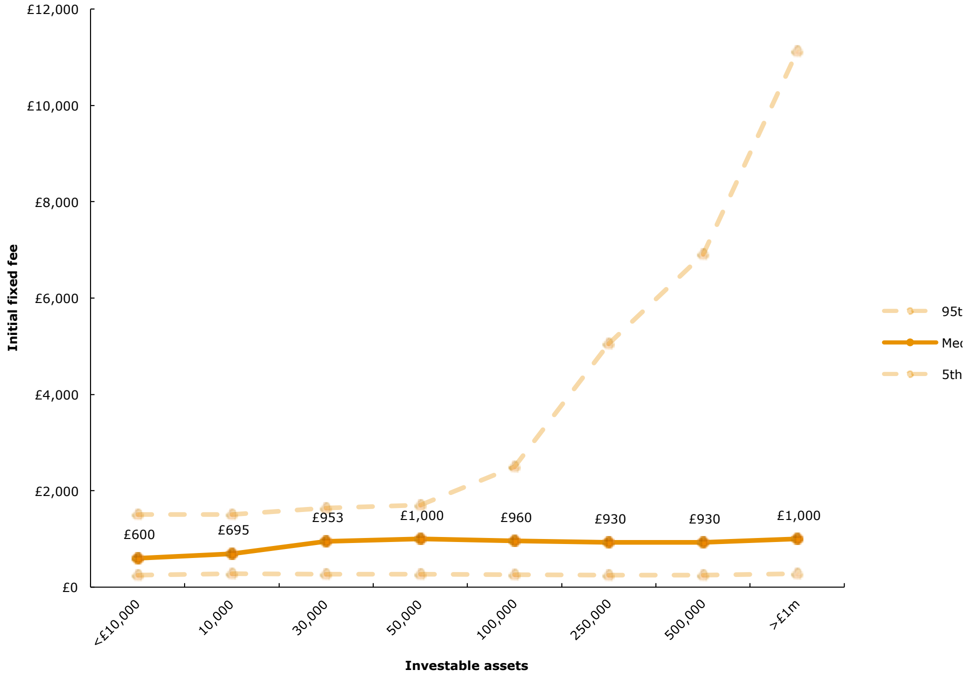
5.17 Pension accumulation advice charges were broadly similar to charges on investment advice, presented above in detail. The initial percentage and hourly fees for pension accumulation advice were very similar to the corresponding charges for investment advice (see Figure 5.1 and Figure 5.2). Initial percentage fees for pension accumulation advice were broadly similar across firm size segments.[22]

5.18 For certain amounts of investable assets, the median fixed fee for initial pension accumulation advice appeared to be slightly lower than for the other two advice areas. However, any variation could be due to differences in the underlying set of respondents.

21 Only a small number of firms provided details on fixed fees (11–22 responses) and hourly fees (24–25 responses) for ongoing retirement income advice; therefore, these are not analysed here.

22 Our analysis of fixed and hourly fees by firm size segment is not presented due to the small base number of responses for some segments (six or less responses in the medium and large segment).

Figure 5.6: Initial fixed fee for pension accumulation advice – median and spread



Base: 40–73 responses. 'If your firm has a tiered charging structure, please provide details of your standard charges for new customers seeking pensions advice, for each of the following amounts of investable pensions assets.'; 'Non-tiered charging structures. What is your firm's current standard charging structure for new customers seeking pensions advice?'

5.19 The ongoing percentage fees for pension accumulation advice were similar to adviser charges for investment advice. Across all levels of investable assets, 90% of firms in our sample charged between 0.25% and 1% for ongoing pension accumulation advice, with the median of 0.55%.[23]

23 Only a small number of firms provided details on fixed fees (11–19 responses) and hourly fees (26 responses) for ongoing pension accumulation advice; therefore, these are not analysed here.

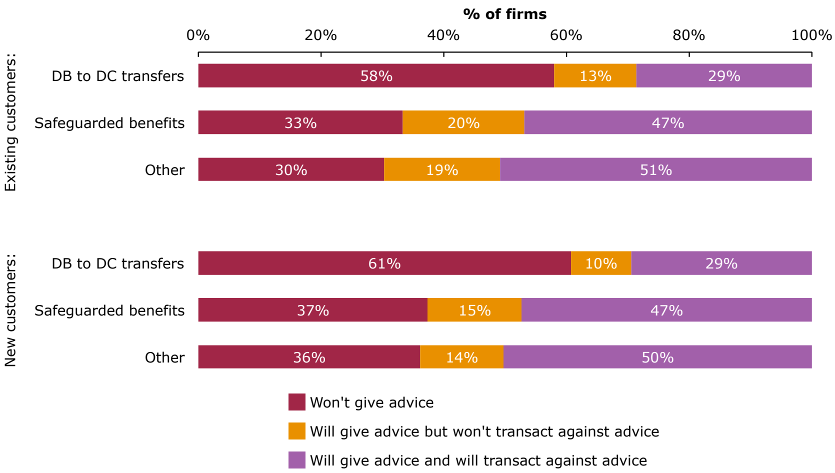
6. Questions specific to retirement income advice

Advice to insistent customers

6.1 We asked firms a number of questions regarding their approach to dealing with insistent customers for retirement income advice, i.e. customers who wish to transact against an adviser's advice.[24] Firms' responses indicated that:

- A slightly higher proportion of respondents said that (where the customer was deemed to be insistent) they would not give advice to new customers compared to existing customers. This applied to advice on DB to DC transfers, safeguarded benefits, and other advice to insistent customers.
- Where a customer was deemed to be insistent, 58% of firms would not give advice on DB to DC transfers to existing customers (61% for new customers). This was higher than the 33% who would not give advice on safeguarded benefits to existing customers (37% for new customers).

Figure 6.1: Firms' approach to dealing with insistent customers

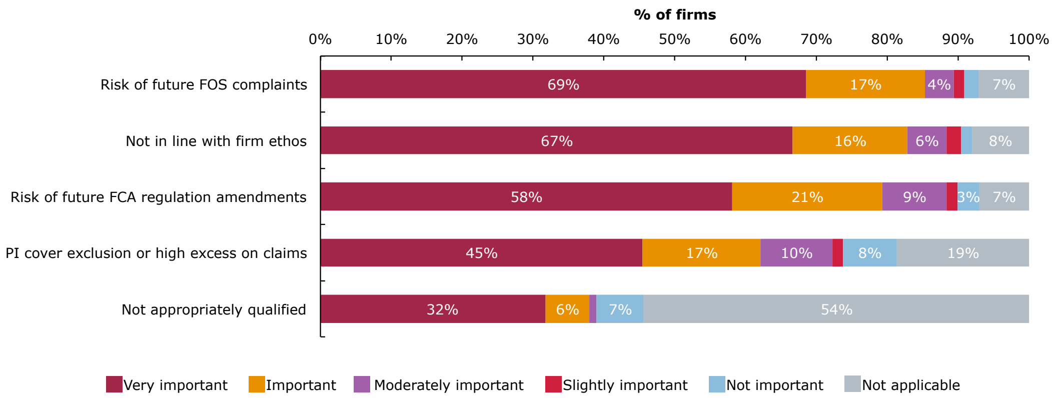


Base: 177–224 responses. 'What is your firm's approach to dealing with insistent customers in the situations described?'

24 See the FCA's Factsheet No.35.

6.2 We asked the firms that said they would not transact business from an insistent customer to indicate the relative importance of a number of potential reasons. Potential liabilities arising from future FOS complaints was seen as the most important reason, with 85% of respondents believing this to be 'very important' or 'important'. Inconsistency with the firm's ethos and risk of future FCA regulation amendments were the other two most important reasons, rated as 'very important' or 'important' by 83% and 79% of respondents, respectively.

Figure 6.2: Relative importance of reasons firms won't transact business from an insistent customer



Base: 198 responses. 'If your firm won't transact business from an insistent customer, are the following reasons relevant? Please indicate the relative importance of the relevant reasons listed below.'

Advice on DB to DC pension transfers

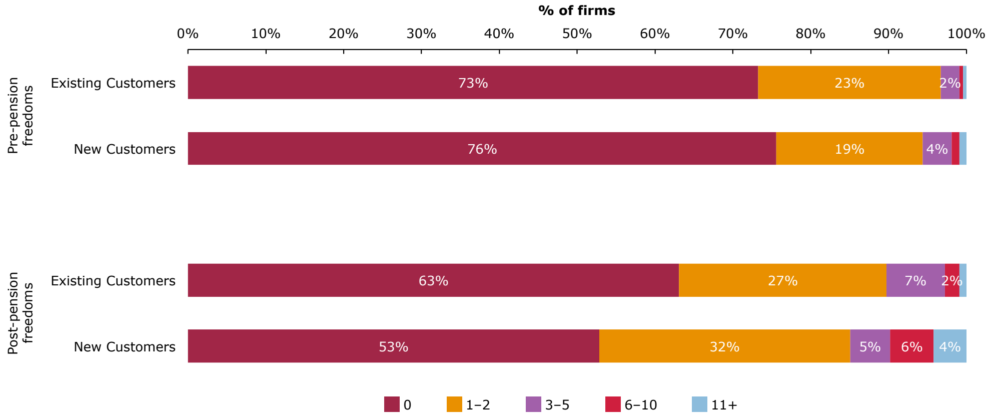
6.3 Our survey asked firms to provide information on the number of requests for DB to DC pension transfers that firms had received pre- and post-pension freedoms.[25] Across our sample, the total number of requests post-pension freedoms had more than doubled (123% increase) from existing customers, and had more than tripled (246% increase) from new customers, compared to pre-pension freedoms. The number of DB to DC pension transfer requests from existing customers was lower in both periods compared to new customers.

6.4 Further analysis of this data was undertaken to ascertain whether this increase was concentrated in a few firms. Our analysis showed that:

- For post-pension freedoms, the majority of firms (63% for existing customers and 53% for new customers) had not received any requests.
- Only 4% of respondents (nine firms) had 11 or more requests from new customers per month, and 1% (two firms) had 11 or more requests from existing customers per month.

25 Refer to glossary for definitions of pre- and post-pension freedoms, as used in this report.

Figure 6.3: Number of requests for DB to DC transfers (average per month)

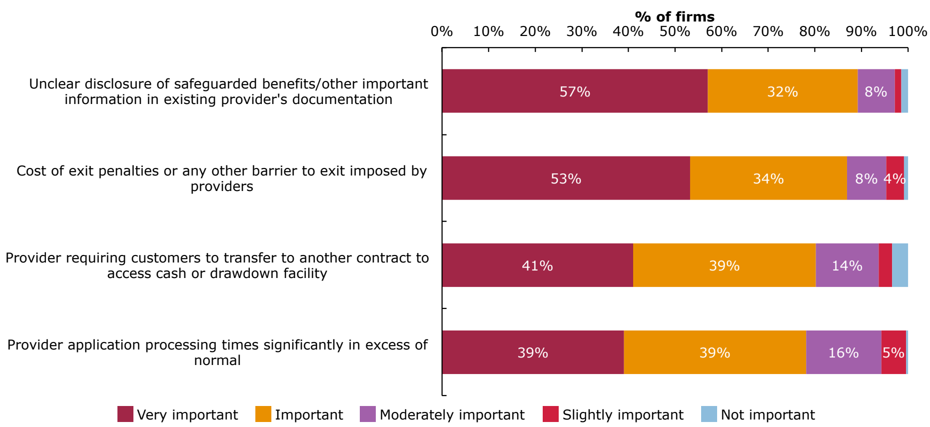


Base: 214 responses. 'Approximately how many requests for DB to DC transfers was/is your firm receiving per month in the periods specified below?'

Challenges from providers

6.5 Firms were asked to indicate the importance of certain challenges they face from product providers in servicing customers. Unclear disclosure of safeguarded benefits or other important information in existing provider's documentation was reported to be the most important challenge faced by advice firms, with 89% of firms rating it as 'important' or 'very important'. A number of firms commented that providers' processing times, in terms of providing accurate information (e.g. valuations, benefit statements) to the customer, significantly exceeded what they considered normal.

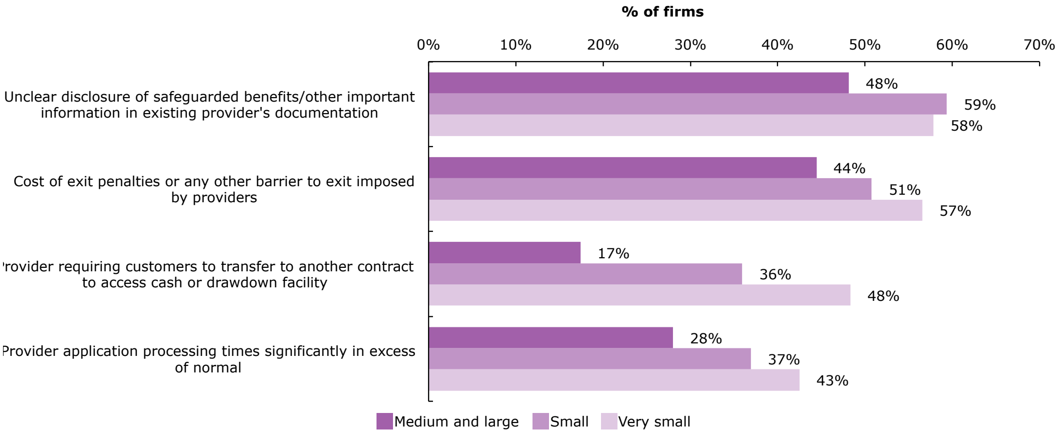
Figure 6.4: The importance of retirement income advice challenges faced by firms from providers



Base: 214 responses. 'Indicate the importance of the following challenges your firm faces from providers in servicing customers, in relation to retirement income advice.'

6.6 Of the sample, 58% of very small firms and 59% of small firms rated unclear disclosure of safeguarded benefits or other important information in existing provider's documentation as a 'very important' issue, compared to 48% of firms in the medium and large segment. Across all reasons, more firms in the small and the very small segments rated these challenges from providers as 'very important', compared to medium and large firms.

Figure 6.5: By firm size – 'Very important' retirement income advice challenges from existing providers



Base: 27 (Medium and large), 67 (Small) and 126 (Very small) responses. For the relevant survey question, see note to Figure 6.4.

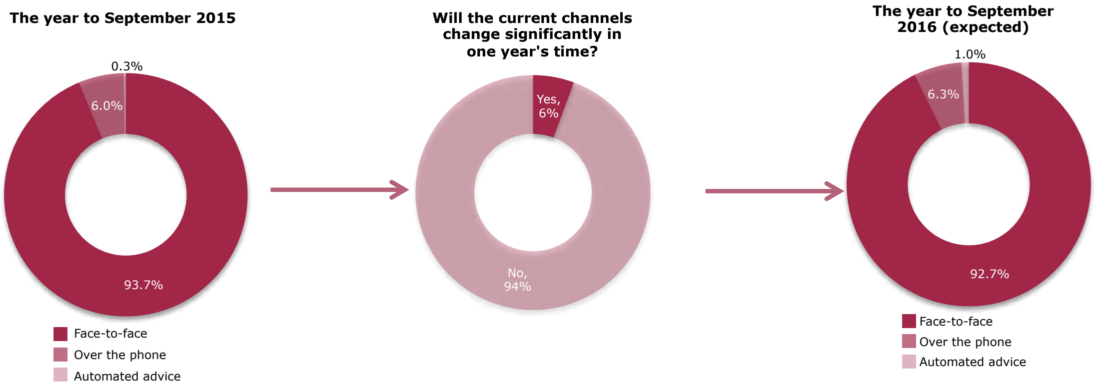
7.
Advice channels and use of technology

Advice channels

7.1 We asked firms about their current and future use of different channels for delivering advice. The responses were very similar across the three advice areas (investments, pension accumulation, and retirement income). For example, in relation to investment advice, firms indicated that:

- 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 majority (94%) of firms did not consider that their use of the different channels would change in one year's time. Of those respondents that considered that the mix of channels would change (6%), seven expected an increase in the use of the telephone channel, and seven expected to increase the use of automated advice.

Figure 7.1: Channels used for investment advice by value – current and future



Base: 230 responses. 'Indicate the approximate proportions of investments regulated advice business (by value) that your firm conducts through the following channels currently. In your response, consider the 12 months preceding 30 September 2015.' 'Does your firm consider that the proportions indicated above will change significantly in one year's time?' '[…] please indicate the approximate percentage proportions of investments regulated advice business (by value) that your firm expects to conduct through the following channels in one year's time.'

Use of technology

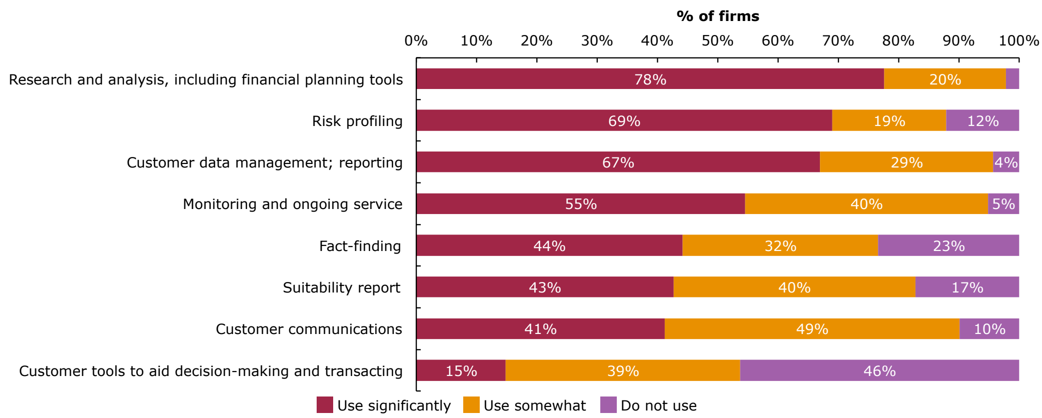
7.2 We asked firms about the extent to which they used technology and automation as part of their advice process.

- 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 providing ongoing advice service (55%).

- Most firms said they used technology, to a greater or lesser degree, for fact-finding (44% used 'significantly', 32% used 'somewhat'), suitability report preparation (43% used 'significantly', 40% used 'somewhat'), and customer communications (41% used 'significantly', 49% used 'somewhat').

- Only 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 use technology at all for these purposes.

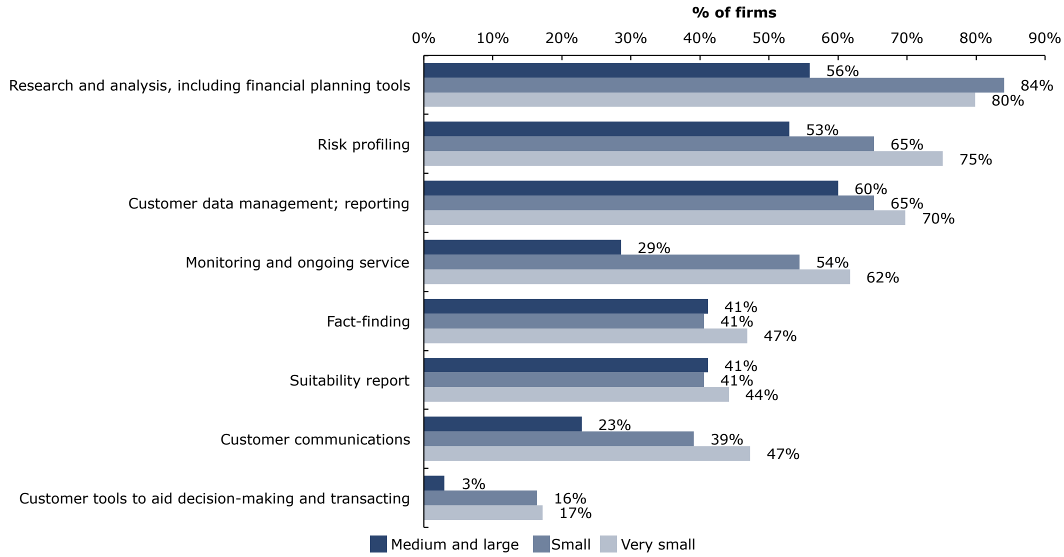
Figure 7.2: Use of technology in the advice process



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.'

7.3 When analysed by firm size segment, firms' responses (irrespective of their size) indicated that the three most significant uses of technology and automation by advice firms were: research, analysis and financial planning, risk profiling, and customer data management and reporting. Small and very small firms reported a greater use of technology across all areas of the advice process when compared to the medium and large firm segment. Differences across firms' self-reported use of technology may be influenced by how firms interpreted the question and by their subjective assessment of their use of technology.

Figure 7.3: By firm size – 'Significant' use of technology in the advice process



Base: 35 (Medium and large), 69 (Small) and 129 (Very small) responses. For the relevant survey question, see note to Figure 7.2.

7.4 Our survey asked firms to describe the rationale for and the effect of using these technological tools to support the advice process, and to indicate whether firms achieved reductions in cost and/or in time spent on delivering advice. Firms' responses revealed that many were using technology to appropriately automate repeatable processes, such as preparing valuations for client meetings and for elements of suitability reports. Firms indicated that online tools and software enabled them to deliver accurate and professional documentation at a fraction of the cost of manually collating information on a recurring basis. A number of firms claimed that technology helped them to serve a larger numbers of clients. On the other hand, a small number of firms emphasised that there were some key tasks of the advice process that firms preferred not to replace with automated solutions in order to maintain control over the process of developing personalised recommendations. There were mixed messages about the actual cost savings of using technology: while some firms said they have seen cost savings as a result of time saved, others thought technology was 'more about quality and consistency than cost savings'.

8.
Advice market future and barriers

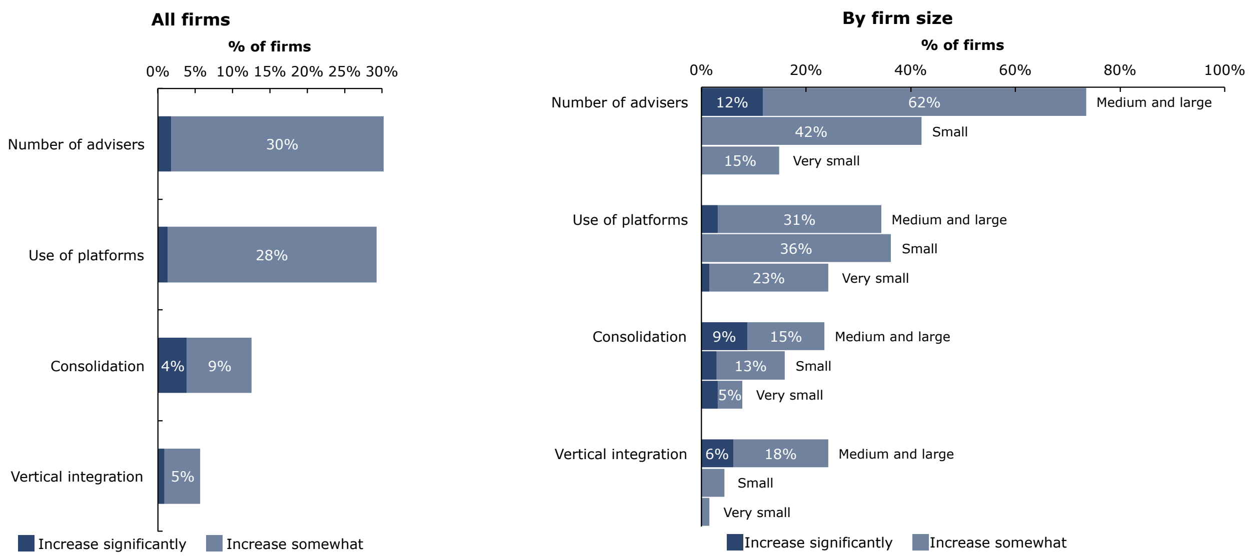
Future changes at advice firms

8.1 We asked firms to indicate what changes were expected or planned for their businesses over the next year, focusing on three areas: structural and business operations, use of technology, and type of advice and target customers.

8.2 In terms of changes in structural and business operations over the next year, firms' responses indicated the following:

- Most firms (66% or more) did not expect any changes in their structure or business operations. Only a very small proportion (less than 2% of firms) anticipated any decreases.
- Around one-third (32%) of firms expected to increase the number of advisers. Around three-quarters (74%) of firms in the medium and large segment planned or expected an increase in the number of advisers, compared to 42% of small firms and 15% of very small firms.
- A number of firms (29%) expected to increase their use of platforms.
- Consolidation and vertical integration was expected by 13% and 6% of firms, respectively, mostly in the medium and large firm segment.

Figure 8.1: Expected or planned increases in structural and business operations

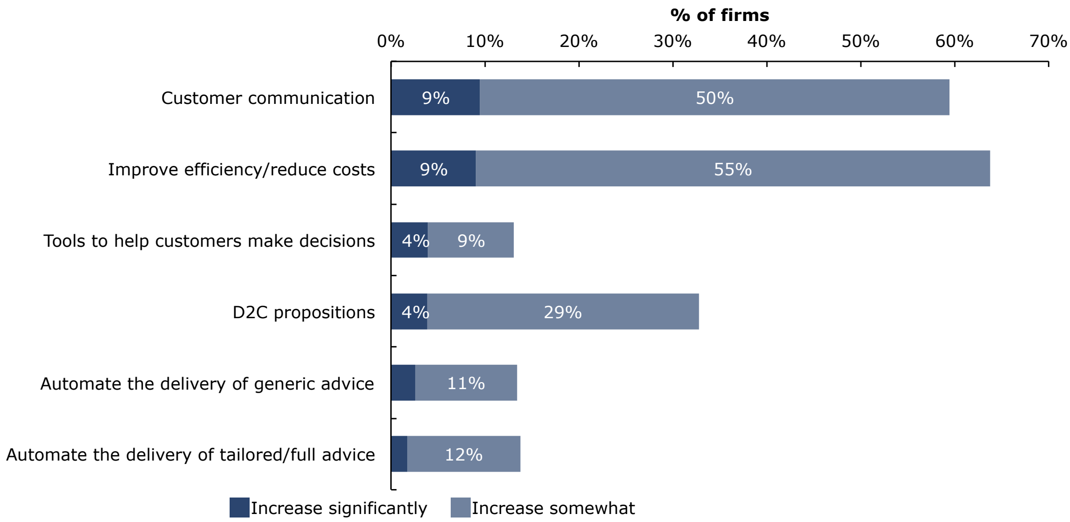


Base: 231 (34 Medium and large, 69 Small and 128 Very small) responses. '*What changes are expected or planned for your firm over the next year? For each area, indicate the extent to which it is expected or planned to change, or if no change is expected or planned. Consider only advice relating to retail investment products (retirement income, pensions, investments).*'

8.3 Firms' responses showed that many of them expected or planned increases in their use of technology to provide advice and ancillary services over the next year:

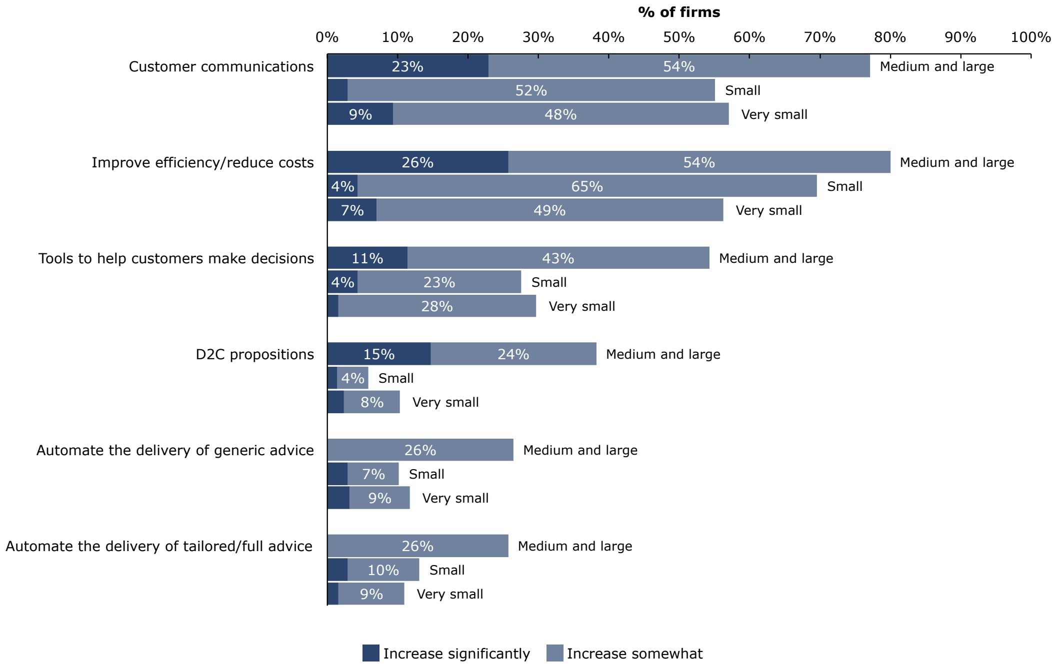
- Over half (59%) of firms intended to increase their use of technology for customer communications, with firms in the medium and large segment expecting more significant increases.
- Almost two-thirds (64%) of firms planned to increase their use of technology for improving efficiency and reducing costs, such as automation of manual tasks. Firms in the medium and large segment expected the most significant increases, with 26% of firms in this segment saying they intended to 'significantly' increase the use of technology for improving efficiency and reducing costs, and a further 54% of firms saying they would increase the use 'somewhat' (that is, 80% of firms in this segment expected to increase their use of technology).
- Only 13–14% of firms intended to increase their use of technology in order to fully or near-fully automate the delivery of advice; 26% of firms in the medium and large segment expected an increase in this area.
- No firms expected or planned decreases in any of these areas.

Figure 8.2: Expected or planned increases in the use of technology



Base: 232 responses. For the relevant survey question, see note to Figure 8.1.

Figure 8.3: By firm size – expected or planned increases in the use of technology



Base: 35 (Medium and large), 69 (Small) and 128 (Very small) responses. For the relevant survey question, see note to Figure 8.1.

8.4 Most firms in the sample (79% or more, depending on the type of advice) said they did not expect any changes in the type of advice they provide and their target customers, but some firms said they expected or planned changes over the next year:

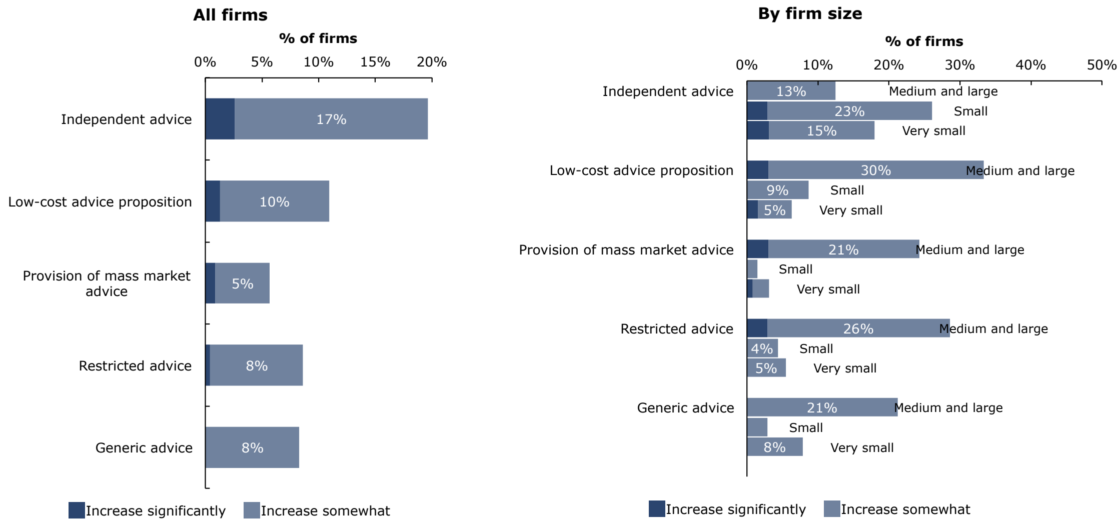
- One-fifth (20%) of firms expected to increase the provision of independent advice. A larger proportion of firms in the small firm segment than in the other segments expected increases in the provision of independent advice.

- Only 11% of firms expected to increase their low-cost advice proposition. This was driven upwards by firms in the medium and large segment – a third of them (33%) expected increases.

- Just 6% of firms considered that their provision of advice or other help to the mass market would increase, but 24% of firms in the medium and large segment expected to increase their proposition for the mass market.

- Less than a third (29%) of medium and large firms expected to increase the provision of restricted advice, and 21% expected to increase the provision of generic advice. Less than 8% of firms in the small and very small segments expect increases for these types of advice.

Figure 8.4: Expected or planned increases in the type of advice and target customers



Base: 232 (35 Medium and large, 69 Small and 128 Very small) responses. For the relevant survey question, see note to Figure 8.1.

Barriers to providing automated solutions

8.5 Our survey asked firms to rate the importance of various potential barriers to providing financial advice or guidance through online or other technological means, such as automated advice[26]:

- Almost three-quarters (72%) of firms in our sample said that customers' preference for personal interaction with an adviser was a 'very important' or 'important' barrier. Only 21% of medium and large firms considered personal interaction to be a 'very important' barrier to providing automated solutions.

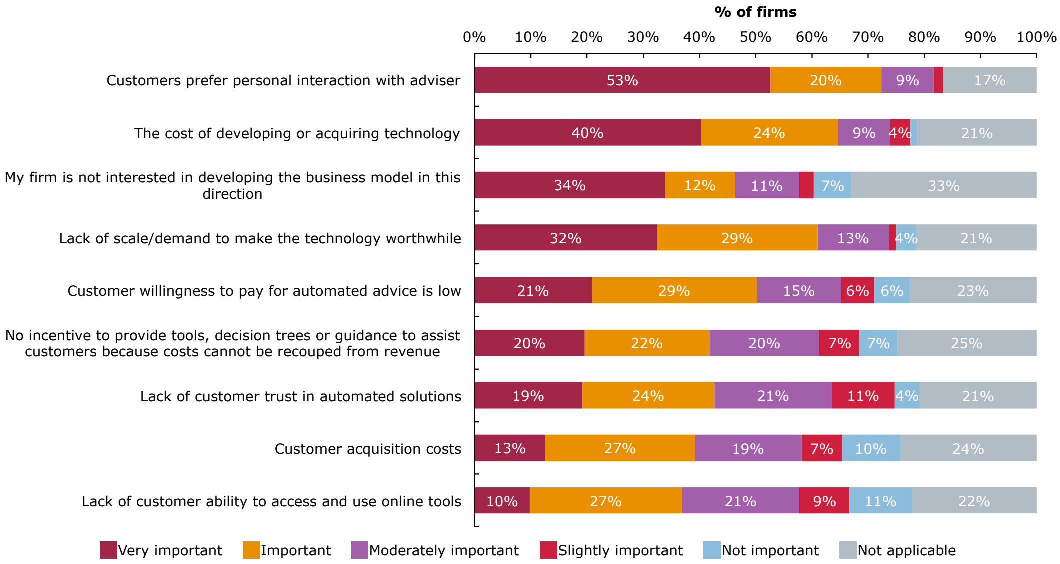
- The cost of developing or acquiring technology was reported by firms in the sample to be the second most important barrier to providing automated solutions, with 65% saying it is 'very important' or 'important'. There were no marked differences by firm size segment.

- Less than a fifth (19% or less) of firms considered lack of customer trust in automated propositions (19%), lack of customer ability to access and use online tools (10%), or customer acquisition costs for automated solutions (13%) to be 'very important' barriers.

- Almost half (46%) of firms believed the fact that they were not intending to develop their business model to provide automated solutions to be a 'very important' or 'important' reason.

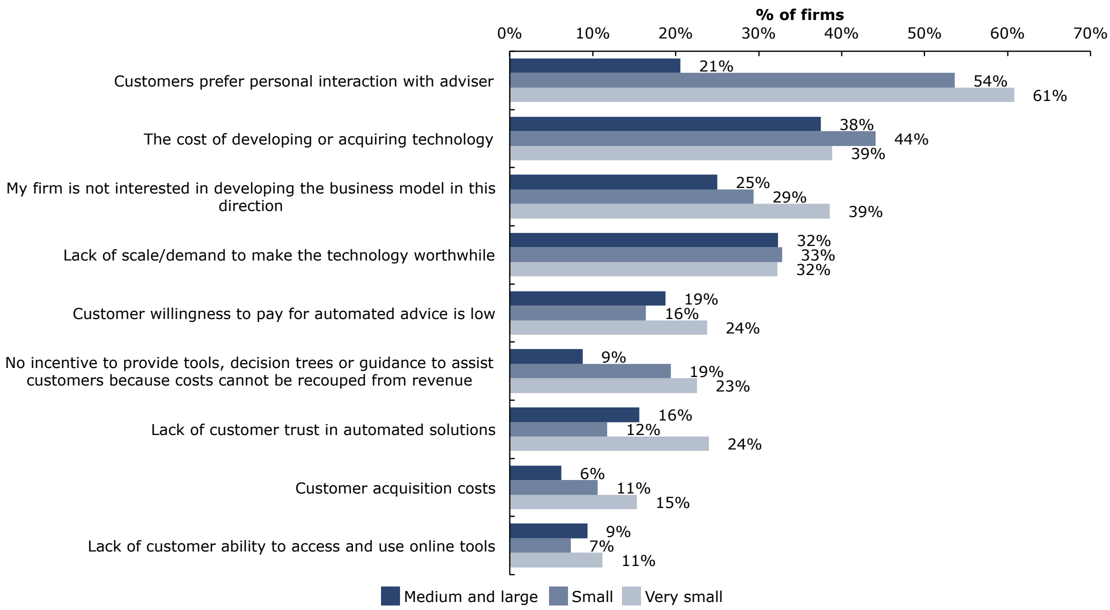
26 In this report, we use 'automated solutions' as shorthand for financial advice or guidance provided through online or other technological means.

Figure 8.5: Barriers to providing automated solutions



Base: 228 responses. *'Please rate the importance of the following barriers in providing financial advice or guidance through online or other technological means, e.g. automated advice. Consider only advice in relation to retail investment products (retirement income, pensions, investments).'*

Figure 8.6: By firm size – 'Very important' barriers to providing automated solutions



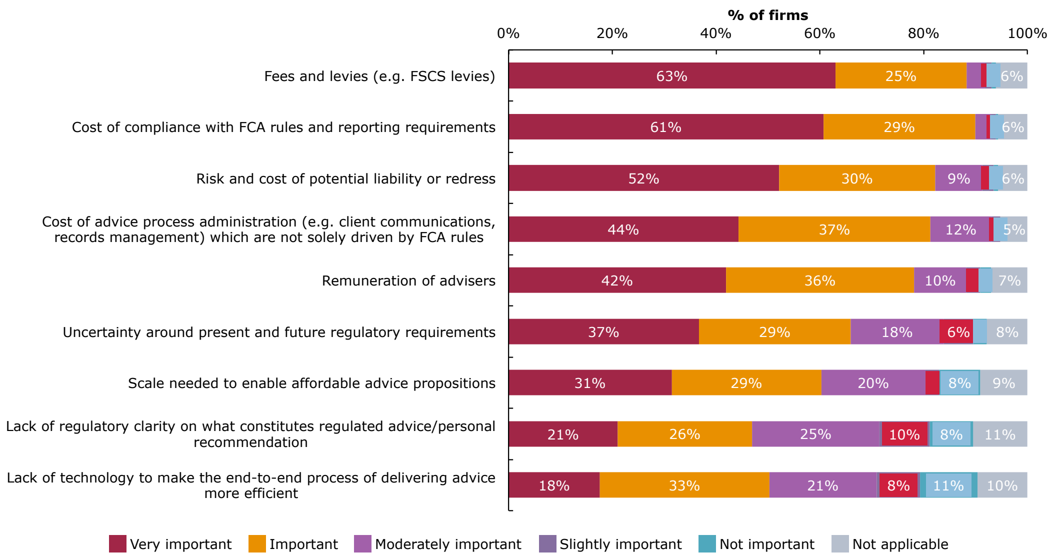
Base: 34 (Medium and large), 69 (Small) and 127 (Very small) responses. For the relevant survey question, see note to Figure 8.5

Barriers to offering mass market advice

8.6 We asked firms to rate the importance of various potential barriers to offering affordable advice propositions for the less affluent and the mass market.

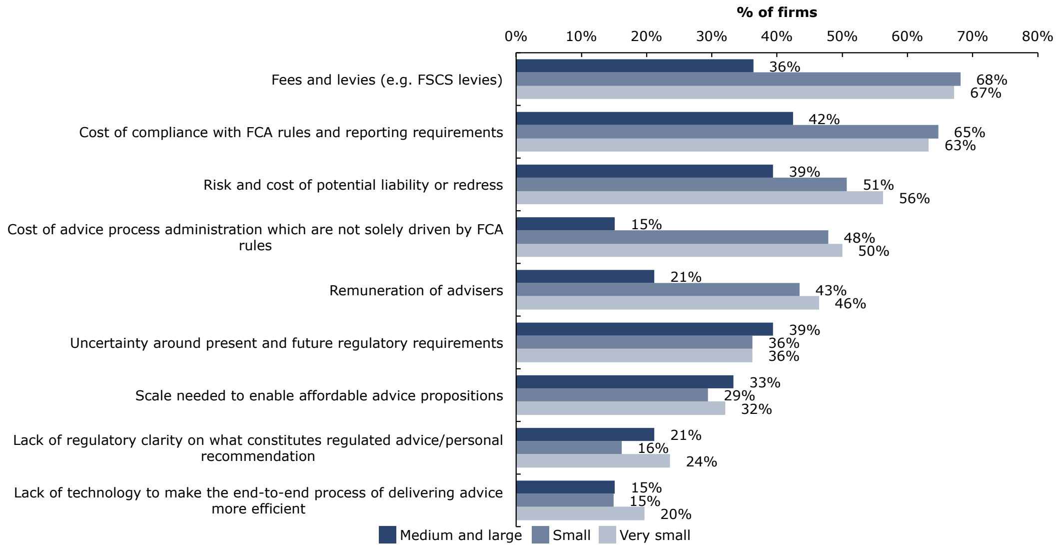
- Most firms rated regulatory factors as the most important barrier to offering mass market advice: 88% said fees and levies were 'very important' or 'important' barriers, while 90% said cost of compliance with FCA rules and reporting requirements were 'very important' or 'important' barriers.
- A large percentage (82%) of firms said that the risk and costs of potential liability or redress 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.
- The 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 it as less of a barrier. For example, 21% of firms in the medium and large segment said adviser remuneration was a 'very important' barrier, compared to 43% and 46% of firms in the small and very small segments, respectively.
- Lack of regulatory clarity on what constitutes regulated advice or personal recommendation were thought to be relatively less important barriers by firms in the sample.

***Figure 8.7: Barriers to offering mass market advic**e*



Base: 230 responses. *'Rate the importance of the following barriers which your firm and/or other firms face when attempting to bring to the market affordable advice propositions for the less affluent/the mass market. Consider only advice in relation to retail investment products (retirement income, pensions, investments).'*

Figure 8.8: By firm size – 'Very important' barriers to providing mass market advice



Base: 33 (Medium and large), 69 (Small) and 128 (Very small) responses. For the relevant survey question, see note to Figure 8.7.

Box A: How do advice firms define 'mass market'?

Our survey asked firms to provide their definition of 'mass market'. Firms responded as follows:

- The majority of firms that responded to this question defined the mass market in terms of the upper boundary of investable assets.
  - The median upper boundary across these was £50,000 (i.e. on average, firms viewed customers with investable assets of less than £50,000 as belonging to the mass market segment).
  - There were large differences in firms' responses: 18 respondents believed the upper boundary for mass market advice to be below £30,000; 24 firms considered it to be between £30,000 and £50,000; 10 firms considered it to be between £50,000 and £100,000, and nine firms considered it to be above £100,000. Some of the respondents also specified the lower boundary for the mass market (ranging between £10,000 and £150,000).
- Thirteen respondents defined the mass market in general terms of clients with limited assets. Of these, six firms defined mass market as clients who are unable to pay for regulated advice. These considerations either referred specifically to being able to pay the minimum fees of the particular firm or, more generally, being able to pay for financial advice in the market.
- Three respondents defined the mass market in terms of type of product advised on (such as an instant savings account (ISA)), type of advice ('generic guidance of how to make informed choices about their money'), and the way of reaching consumers (e.g. sales 'on a large scale, direct to customers with limited advice' or 'workplace pensions, advertising, seminars – anything not face-to-face').

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